Notes to the Consolidated Financial Statements

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

Note 1 The company

ABB Ltd and its subsidiaries (collectively, the "Company") is a leading global company in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. The Company works with customers to engineer and install networks, facilities and plants with particular emphasis on enhancing efficiency and productivity for customers that source, transform, transmit and distribute energy.

Note 2 Significant accounting policies

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

Basis of presentation

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

Scope of consolidation

The Consolidated Financial Statements include 100 percent of the assets, liabilities, revenues, expenses, income, loss and cash flows of ABB Ltd and companies in which ABB Ltd has a controlling interest (subsidiaries), as if ABB Ltd and its subsidiaries were a single company. Intercompany accounts and transactions have been eliminated. Minority interest is calculated for entities fully consolidated but not wholly owned. The components of net income and equity attributable to the minority shareholders are presented in the minority interest line items included in the Consolidated Income Statements and Consolidated Balance Sheets, respectively.

Effective January 31, 2003, variable interest entities (VIEs) are consolidated when the Company is considered the primary beneficiary. Also, effective January 31, 2003, previously consolidated VIEs would be deconsolidated when a triggering event, as defined by Financial Accounting Standards Board Interpretation No. 46(R) (FIN 46R), *Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51,* indicates the Company is no longer the primary beneficiary. For those VIEs where the Company is not the primary beneficiary, existing consolidation policies are applied. See Note 8 for information relating to the impact of adopting FIN 46R.

Investments in joint ventures and affiliated companies in which the Company has significant influence, but not a controlling interest, are accounted for using the equity method. This is generally presumed to exist when the Company owns between 20 percent and 50 percent of the investee. In certain circumstances, the Company's ownership is between 20 percent and 50 percent of the investee but it consolidates the investment because the Company participates in significant operating and financial decisions of the investee.

Under the equity method, the Company's investment in and amounts due to and from an equity investee are included in the Consolidated Balance Sheets; the Company's share of an investee's earnings is included in the Consolidated Income Statements; and the dividends, cash distributions, loans or other cash received from the investee, additional cash investments, loan repayments or other cash paid to the investee, are included in the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows. Additionally, the carrying values of investments accounted for using the equity method of accounting are adjusted downward to reflect any other-than-temporary declines in value.

Investments in non-public companies in which the Company does not have a controlling interest or significant influence are accounted for at cost. This is generally presumed to exist when the Company owns less than 20 percent of the investee. Dividends and other distributions of earnings from these investments are included in income when received. The carrying value of investments accounted for using the cost method of accounting are adjusted downward to reflect any other-than-temporary declines in value.

Reclassifications

Amounts reported for prior years in the Consolidated Financial Statements and Notes have been reclassified to conform to the current year's presentation, primarily as a result of the application of Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets,* in reflecting assets and liabilities held for sale and in discontinued operations.

Operating cycle

A portion of the Company's operating cycle, including long-term construction activities, exceeds one year. For classification of current assets and liabilities related to these types of construction activities, the Company elected to use the duration of the contract as its operating cycle.

Use of estimates

The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

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, as the Company's customer base is comprised of a large number of individual customers. Ongoing credit evaluations of customers' financial positions are performed and, generally, no collateral is required.

Subsequent to the sale of a significant portion of the Company's Structured Finance business during 2002, the Financial Services activities of the Company were substantially reduced. As a consequence of this divestment, the credit risk of the Company's remaining Financial Services activities is primarily concentrated in the remaining lease and loan portfolio. Policies and procedures to control the remaining credit risks include measurements to develop and ensure the maintenance of a diversified portfolio through the active monitoring of counterparty, country and industry exposure.

Note 2 Significant accounting policies, continued

The Company maintains reserves for potential credit losses and such losses, in the aggregate, are in line with the Company's expectations.

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

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

Cash and equivalents

Cash and equivalents include highly liquid investments with original maturities of three months or less. Cash and equivalents does not include restricted cash of $452 million and $433 million at December 31, 2004 and 2003, respectively, which are reflected as long-term assets.

Marketable securities and short-term investments

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 purchased and held principally for the purpose of sale in the near term are classified as trading securities and unrealized gains and losses thereon are included in the determination of earnings. Unrealized gains and losses on available-for-sale securities are excluded from the determination of earnings and are instead recognized in the accumulated other comprehensive loss component of stockholders' equity, net of tax (accumulated other comprehensive loss) until realized. Realized gains and losses on available-for-sale securities are computed based upon the historical cost of these securities applied using the specific identification method. Declines in fair values of available-for-sale securities that are other-than-temporary are included in the determination of earnings.

The Company analyzes its available-for-sale securities for impairment during each reporting period to evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of the investment. The Company records an impairment charge through current period earnings and adjusts the cost basis for such other-than-temporary declines in fair value when the fair value is not anticipated to recover above cost within a three-month period after the measurement date unless there are mitigating factors that indicate an impairment charge through earnings may not be required. If an impairment charge is recorded, subsequent recoveries in fair value are not reflected in earnings until sale of the security.

Revenue recognition

The Company recognizes revenues from the sale of manufactured products when persuasive evidence of an arrangement exists, the price is fixed or determinable, collectibility is reasonably assured and upon transfer of title, including the risks and rewards of ownership to the customer, or upon the rendering of services. If contracts for sale of manufactured products require installation that can only be performed by the Company, revenues are deferred until installation of the products is complete. In accordance with Emerging Issues Task Force No. 00-21, *Revenue Arrangements with Multiple Deliverables,* when multiple elements such as products and services are contained in a single arrangement or in related arrangements with the same customer, the Company allocates revenues to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. Revenues from contracts that contain customer acceptance provisions are deferred until customer acceptance occurs, the Company has tested to the level required to ensure that acceptance will occur or the contractual acceptance period has lapsed.

Revenues under long-term contracts are recognized using the percentage-of-completion method of accounting. The Company principally uses the cost-to-cost or delivery events methods to measure progress towards completion on contracts. Management determines the method to be used by type of contract based on its judgment as to which method best measures actual progress towards completion. Revenues under cost-reimbursement contracts are recognized as costs are incurred.

Product-related expenses and contract loss provisions

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

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.* 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, as evaluated in accordance with the criteria provided in SFAS 140.

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.

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 earnings.

Note 2 Significant accounting policies, continued

The Company, in its normal course of business, sells receivables outside its securitization programs without recourse (see Note 7). Sales or 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 recognized in cost of sales. For inventory relating to long-term contracts, inventoried costs include amounts relating to contracts with long production cycles, a portion of which is not expected to be realized within one year.

Impairment of long-lived assets and accounting for discontinued operations

Long-lived assets that are "held and used" are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the asset's net undiscounted cash flows expected to be generated over its remaining useful life, the carrying amount of the asset is reduced to its estimated fair value, pursuant to the measurement criteria of Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets.* The Company adopted SFAS 144 as of January 1, 2002. In the Consolidated Statements of Cash Flows, the amounts related to businesses with assets and liabilities held for sale and in discontinued operations are not segregated, as permitted by Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows.*

In accordance with SFAS 144, the Company includes in assets and liabilities held for sale and in discontinued operations the assets and liabilities that meet certain criteria with respect to the Company's plans for their sale or abandonment. Depreciation and amortization cease when the asset meets the criteria to be classified as held for sale. If (1) a planned or completed disposal involves a component (disposal group) of the Company whose operations and cash flows can be distinguished operationally and for financial reporting purposes; (2) such operations and cash flows will be (or have been) eliminated from the Company's ongoing operations; and (3) the Company will not have any significant continuing involvement in the disposal group, then the disposal group's results of operations are presented as discontinued operations for all periods. Operating losses from discontinued operations are recognized in the period in which they occur. Long-lived assets (or groups of assets and related liabilities) classified as held for sale, are measured at the lower of carrying amount or fair value less cost to sell.

In addition to the interest expense contained within businesses classified as discontinued operations, a portion of the Company's interest expense is reclassified from interest and other finance expense to loss from discontinued operations, net of tax, in accordance with Emerging Issues Task Force No. 87-24 (EITF 87-24), *Allocation of Interest to Discontinued Operations.* Such amounts were $20 million, $33 million and $41 million in 2004, 2003 and 2002, respectively. These amounts were calculated based upon the ratio of net assets of the discontinued business less debt that is required to be paid as a result of the disposal, divided by the sum of total net assets and total debt (other than the portion of debt directly attributable to other operations of the Company, debt of the discontinued operation that will be assumed by the buyer and debt that is required to be paid as a result of the disposal transaction). This ratio was multiplied by the portion of total interest expense not directly attributable to other operations of the Company to arrive at allocable interest attributable to businesses reflected as discontinued operations.

Goodwill and other intangible assets

The excess of cost over the fair value of net assets of acquired businesses is recorded as goodwill. The Company accounts for its goodwill in accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets.* Under SFAS 142, effective January 1, 2002, the Company ceased amortizing goodwill. In accordance with SFAS 142, goodwill is tested for impairment annually, and also upon the occurrence of a triggering event requiring the re-assessment of a business' carrying value of its goodwill. The Company performs its annual impairment assessment on October 1. A fair value approach is used to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Company uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value.

The cost of acquired intangible assets is amortized on a straight-line basis over their estimated useful lives, typically ranging from 3 to 10 years. Intangible assets are tested for impairment upon the occurrence of certain triggering events.

Capitalized software costs

Capitalized costs of software for internal use are accounted for in accordance with Statement of Position 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 available for general release to customers, at which time capitalization ceases and costs are amortized on a straight-line basis over the estimated life of the product. The Company expenses costs incurred prior to technological feasibility, and thereafter capitalizes costs incurred in developing or obtaining software for internal use and for software products to be sold.

Property, plant and equipment

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

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 its industrial entities hedge their exposure from

Note 2 Significant accounting policies, continued

firm commitments denominated in foreign currencies, as well as at least fifty percent of the anticipated foreign currency denominated sales volume of standard products over the next twelve months. In addition, derivative financial instruments were also used for proprietary trading purposes within the Company's former Financial Services division and within limits determined by the Company's Board of Directors until June 2002, when the Company ceased entering into new positions.

The Company accounts for its derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as subsequently amended (SFAS 133). SFAS 133 requires the Company to recognize all derivatives, other than certain derivatives indexed to the Company's own stock, on the Consolidated Balance Sheets at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. If the derivatives are designated as a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives will either be offset against the change in fair value of the hedged item through earnings or recognized in accumulated other comprehensive loss until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

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 accumulated other comprehensive loss until the hedged item is recognized in earnings. The Company also enters into forward foreign exchange contracts that serve as economic hedges of existing assets and liabilities. 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 translation gain or loss on the foreign currency denominated asset or liability.

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 fair value of the swaps are recognized in earnings, as are the changes in the fair 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 included in earnings. Where interest rate swaps are designated as cash flow hedges, their change in value is recognized in accumulated other comprehensive loss until the hedged item is recognized in earnings.

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

If an underlying hedged transaction is terminated early, the hedging derivative financial instrument is treated as if terminated simultaneously, with any gain or loss on termination of the derivative immediately recognized in earnings. Where derivative financial instruments have been designated as hedges of forecasted transactions, and such forecasted transactions become probable of not occurring, hedge accounting ceases and any derivative gain or loss previously included in accumulated other comprehensive loss is reclassified into earnings.

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

Sale-leasebacks

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

Insurance

The following accounting policies apply specifically to the Reinsurance business. In April 2004, the Company completed the sale of its Reinsurance business and reflected the results of operations in loss from discontinued operations, net of tax, and the assets and liabilities in assets and liabilities held for sale and in discontinued operations for all periods presented.

Premiums and acquisition costs

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

Profit commission

Certain contracts carried terms and conditions that resulted in the payment of profit commissions. Estimates of profit commissions were reviewed based on underwriting experience to date and, as adjustments become necessary, such adjustments were reflected in earnings.

Note 2 Significant accounting policies, continued

Loss and loss adjustment expenses

Loss and loss adjustment expenses were charged to operations as incurred. The liabilities for unpaid loss and loss adjustment expenses were determined on the basis of reports from ceding companies and underwriting associations, as well as estimates by management and in-house actuaries, including those for incurred, but not reported, losses, salvage and subrogation recoveries. Inherent in the estimates of losses were expected trends of frequency, severity and other factors that could vary significantly as claims were settled. The Company estimated expected trends using actuarial methods widely used in the insurance industry, such as the Bornhuetter-Ferguson method, utilizing the Company's historically paid and incurred losses.

Fees

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

Funds withheld

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

Reinsurance

The Company sought to reduce the loss that may have arisen from catastrophes and other events that may have caused unfavorable underwriting results by reinsuring certain levels of risks with other insurance enterprises or reinsurers. Reinsurance contracts were accounted for by reducing premiums earned by amounts paid to the reinsurers. Recoverable amounts were established for paid and unpaid losses and loss adjustment expense ceded to the reinsurer. Amounts recoverable from the reinsurer were estimated in a manner consistent with the claim liability associated with the reinsurance policy. Contracts where it was not reasonably possible that the reinsurer would realize a significant loss from the insurance risk generally did not meet the conditions for reinsurance accounting and were recorded as deposits. The Company assessed probability of risks transferred in significant loss realization based on the terms in the reinsurance contract that impact the timing and amount of reimbursement under the contract and the present value of all cash flows without regard to how cash flows are characterized, in accordance with Statement of Financial Accounting Standards No. 113, *Accounting and Reporting for Reinsurance of Short Duration and Long Duration Contracts.*

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 earnings and are recognized in accumulated other comprehensive loss until the entity is sold, substantially liquidated or being evaluated for impairment in anticipation of disposal.

Foreign currency exchange gains and losses, such as those resulting from foreign currency denominated receivables or payables, are included in the determination of earnings, except as they relate to intra-Company loans that are equity-like in nature with no reasonable expectation of repayment, which are recognized in accumulated 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 resulting from the restatement of balance sheet positions are included in the determination of earnings.

Taxes

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

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

The Company operates in numerous tax jurisdictions and, as a result, is regularly subject to audit by tax authorities. The Company provides for tax contingencies relating to audits by tax authorities based upon its best estimate of the facts and circumstances as of each reporting period. Changes in the facts and circumstances could result in a material change to the tax accruals. The Company provides for contingencies whenever it is deemed probable that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws.

Research and development

Research and development expense was $690 million, $635 million and $572 million in 2004, 2003 and 2002, respectively. These costs are included in selling, general and administrative expenses.

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

Note 2 Significant accounting policies, continued

Earnings per share

Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise: outstanding written call options, if dilutive; the securities issued under the Company's employee incentive plans, if dilutive; and shares issuable in relation to outstanding convertible bonds, if dilutive (see Notes 15, 22 and 24).

Stock-based compensation

The Company has certain employee incentive plans under which it offers stock-based securities to employees. The plans are described more fully in Note 22. The Company accounts for such stock-based securities 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 such securities were issued with exercise prices greater than or equal to the market prices of the stock on the dates of grant. Accordingly, the Company has recorded no compensation expense related to these securities, except in circumstances when a participant receives appreciation rights or ceases to be employed by a consolidated subsidiary, such as after a divestment by the Company. The following table illustrates the effect on net loss and on loss per share (see Note 24) if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation. Fair value of these securities offered to employees was determined on the date of grant by using a dynamic proprietary option-pricing model (see Note 22).

Year ended December 31,	2004	2003	2002
Net loss, as reported	$ (35)	$ (779)	$ (819)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(8)	(11)	(22)
Pro forma net loss	**$ (43)**	**$ (790)**	**$ (841)**
Loss per share:			
Basic – as reported	$ (0.02)	$ (0.64)	$ (0.74)
Basic – pro forma	$ (0.02)	$ (0.65)	$ (0.76)
Diluted – as reported	$ (0.02)	$ (0.64)	$ (0.86)
Diluted – pro forma	$ (0.02)	$ (0.65)	$ (0.88)

New accounting pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51.* FIN 46 requires variable interest entities (VIEs) to be consolidated by their primary beneficiaries. During 2003, the Company adopted the requirements of FIN 46 and applied the guidance to VIEs in which the Company has an interest. See Note 8 for information relating to the impact of adopting FIN 46. FIN 46 was revised in December 2003. The Company adopted the December revision (FIN 46R) effective March 31, 2004. The adoption of FIN 46R did not have a material impact on the Company's financial position or results of operations.

In December 2004, the Financial Accounting Standards Board issued Statement No. 123R (SFAS 123R), *Share-Based Payment,* which replaces SFAS 123 and APB 25 and requires the Company to measure compensation cost for all share-based payments at fair value. The Company plans to adopt SFAS 123R as of July 1, 2005. The Company will recognize share-based employee compensation cost from July 1, 2005, as if the fair-value-based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and for any awards that were not fully vested as of the effective date. Based on currently existing share-based compensation plans, the Company does not expect the adoption of SFAS 123R to have a material impact on its financial position or results of operations.

Note 3 Discontinued operations

In December 2002, the Company's Board of Directors approved management's plans to sell the Company's Oil, Gas and Petrochemicals business. As discussed below, the Company completed the sale of the upstream part of the Oil, Gas and Petrochemicals business (Upstream business) in July 2004. In December 2002 management did not believe the divestment of the remaining Oil, Gas and Petrochemicals business would be contingent on the resolution of the asbestos litigation facing Combustion Engineering, Inc, a subsidiary of the Company, as described in Note 18. Subsequently, after discussions with potential purchasers, management determined the divestment would likely only occur upon a pre-packaged plan of reorganization for Combustion Engineering, Inc becoming effective. Following the U.S. Third Circuit Court's decision in December 2004 that effectively reversed the District Court's confirmation order regarding the reorganization under the U.S. Bankruptcy Code of Combustion Engineering, Inc, the Company determined it no longer met the criteria required to continue to classify the remaining Oil, Gas and Petrochemicals business in discontinued operations. Therefore, as of the fourth quarter of 2004, the results of operations of the remaining Oil, Gas and Petrochemicals business were reclassified to continuing operations for all periods presented. Additionally, the assets and liabilities of the remaining Oil, Gas and Petrochemicals business are no longer included in assets and liabilities held for sale and in discontinued operations but have been reclassified to the appropriate asset and liability lines in the Consolidated Balance Sheet for all periods presented. The remaining Oil, Gas and Petrochemicals business had revenues of $1,076 million, $1,876 million and $2,314 million and losses before interest and taxes of $4 million, $296 million and $142 million in 2004, 2003 and 2002, respectively.

The following are divestments of businesses no longer pursued for strategic reasons and which are in line with the Company's strategy to focus on Power Technologies and Automation Technologies as described in Note 26.

Note 3 Discontinued operations, continued

During the fourth quarter of 2004, the Company reclassified most of its Power Lines business, part of the Power Technologies division, to discontinued operations. The businesses that have been reclassified are in Brazil, which was abandoned in the fourth quarter of 2004, and Nigeria and Italy, whose sales were completed in January and February 2005, respectively. Also reclassified is the business in Germany, which the Company plans to sell during 2005. These reclassified businesses had revenues of $117 million, $187 million and $254 million and net losses of $75 million, $10 million and $17 million for the years ended December 31, 2004, 2003 and 2002, respectively. The net loss related to these businesses in 2004 relates to operational losses of $46 million and costs to sell these businesses of $29 million. Losses recorded in 2003 and 2002 relate to operational losses incurred in such years.

During the fourth quarter of 2004, the Company reclassified its Foundry business, part of the Automation Technologies division, to discontinued operations. The Company plans to sell this business in 2005. The Foundry business had revenues of $41 million, $45 million and $49 million and net losses of $17 million, $0 million and $0 million for the years ended December 31, 2004, 2003 and 2002, respectively. The net loss recorded in 2004 includes $10 million related to costs to sell the Foundry business.

In January 2004, the Company agreed to sell the Upstream business to a consortium of private equity investors consisting of Candover Partners Limited, JP Morgan Partners LLC and 3i Group PLC (collectively, the “Purchasers”). In July 2004, the Company completed the sale of the Upstream business for an initial purchase price of $925 million. Net cash proceeds from the sale were approximately $800 million, reflecting the initial sales price adjusted for unfunded pension liabilities and changes in net working capital. The Upstream business had revenues of $855 million, $1,499 million and $1,535 million in 2004, 2003 and 2002, respectively, and net losses of $70 million and $44 million in 2004 and 2003, respectively, and net income of $14 million in 2002. Included in the $70 million net loss recorded in 2004 is the loss on sale of approximately $26 million which includes goodwill and other intangible assets of approximately $350 million. On February 9, 2005, the Company and the Purchasers entered into a Settlement Agreement and Amendment (Settlement Agreement) finalizing the sales price. The Settlement Agreement also contains provisions to indemnify the Purchasers with respect to certain incomplete projects (see Note 18). The Company believes the provisions recorded for such indemnified projects are adequate.

In April 2004, the Company completed the sale of its Reinsurance business to White Mountains Insurance Group Limited, a Bermuda-based insurance holding company, receiving gross cash proceeds of $415 million and net cash proceeds of approximately $280 million. As a result of the anticipated sale, the Company recorded an impairment charge of $154 million in the fourth quarter of 2003. The Company recorded losses totaling $41 million and $97 million in 2004 and 2003, and net income of $22 million in 2002 and revenues of $139 million, $782 million and $644 million in 2004, 2003 and 2002, respectively. The $41 million net loss related primarily to foreign exchange effects of the business in 2004 through the date of sale. The 2003 net loss of $97 million includes a $154 million impairment charge, income from operations of approximately $72 million and an allocation of interest of $15 million in accordance with EITF 87-24. The impairment charge recorded in 2003 from the anticipated disposal of the Reinsurance business of $154 million was principally comprised of an asset write-down of $48 million, goodwill and other intangible write-offs of $89 million, selling costs of $25 million, deferred tax write-offs of approximately $16 million, offset in part by an accumulated foreign currency translation gain of $24 million.

In November 2002, the Company completed the sale of most of its Structured Finance business to General Electric Capital Corporation (GE) and received cash proceeds of approximately $2.0 billion, including a contingent payment of $20 million to be released to the Company should amounts ultimately collected by GE, from a portfolio transferred by the Company to GE, reach specified targets. The Company received the last portion of the contingent payment amount in August 2004. The Company’s Structured Finance business had revenues of $262 million in 2002, and a net loss of $183 million in 2002. The 2002 net loss of $183 million included a $146 million loss on disposal, loss from operations of $22 million and the allocation of interest expense of $15 million in accordance with EITF 87-24. The loss on disposal of $146 million was principally comprised of asset write-downs of $15 million, goodwill and other intangible write-offs of $2 million, transaction costs of $27 million, the fair value for GE’s right to require the Company to repurchase certain designated assets of $38 million, capital tax expense associated with the disposal of $10 million and an accumulated foreign currency translation loss of $54 million. Upon final settlement in 2004 of a purchase price dispute with GE, the Company recorded a net gain of $14 million.

Pursuant to the sale and purchase agreement, the Company provided GE with cash collateralized letters of credit totaling $202 million as security for certain performance-related obligations retained by the Company, of which approximately $63 million were outstanding at December 31, 2004. The remaining cash collateralized letters of credit will further be reduced as the performance-related obligations of the Company expire.

The sale and purchase agreement provided GE the option to require the Company to repurchase certain designated financial assets transferred to GE upon the occurrence of certain events, but in any event no later than February 1, 2004. In January 2004, the Company repurchased the financial assets for approximately $28 million. No further obligation exists for the Company to repurchase any assets under the sale and purchase agreement with GE.

As a continuation of the Company’s divestment of its Structured Finance business, the Company completed the sale of ABB Export Bank in December 2003 for approximately $50 million. ABB Export Bank had revenues of $9 million and $17 million in 2003 and 2002, respectively, and a net loss of $9 million in 2003 and net income of $10 million in 2002. The 2003 net loss of $9 million in loss from discontinued operations, net of tax, includes a $12 million loss on disposal, income from operations of $6 million and the allocation of interest expense of $3 million in accordance with EITF 87-24. The loss on disposal of $12 million was principally comprised of an asset write-down of $20 million, transaction costs of $1 million, capital tax expense associated with the disposal of $4 million offset by an accumulated foreign currency translation gain of approximately $13 million.

In December 2002, the Company completed the sale of its Metering business to Ruhrgas Industries GmbH of Essen, Germany, for $223 million, including $15 million held in escrow until certain disputed items were resolved. The cash held in escrow was released after the resolution of these items in 2003. The Metering business sold to Ruhrgas Industries GmbH had revenues of $372 million and a net loss of $54 million in 2002. The 2002 net loss of $54 million included a $48 million loss on disposal, loss from operations of $3 million and the allocation of interest expense of $3 million in accordance with EITF 87-24. The loss on disposal of $48 million for the sold business was principally comprised of goodwill and other intangible write-offs of $65 million, transaction costs and other provisions of $46 million, tax expense associated with the disposal of $21 million and an accumulated foreign currency translation loss of $35 million, offset in part by a gain of $119 million, being the difference between the proceeds received and net assets of the business. Upon final settlement in 2004 of a purchase price dispute with Ruhrgas Industries GmbH, the Company recorded a net gain of $12 million.

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

Note 3 Discontinued operations, continued

During the fourth quarter of 2002, the Company reclassified its Wind Energy business to discontinued operations. In December 2003, the Company sold a portion of its Wind Energy business in Germany to GI Ventures AG of Munich, Germany, for proceeds of approximately $35 million including a vendor note of approximately $10 million. The Wind Energy business had revenues of $0 million, $16 million and $48 million and net losses of $25 million, $42 million and $1 million in 2004, 2003 and 2002, respectively. The 2003 net loss of $42 million was comprised principally of a $25 million loss from disposal (net of a tax benefit of $10 million), asset write-downs of $9 million and a loss from operations of $8 million. The 2004 net loss of $25 million consisted of an additional impairment charge related to a portion of the unsold Wind Energy business.

In January 2004, the Company completed the sale of its MDCV cable business based in Germany to the Wilms Group of Menden, Germany. This business was part of the Power Technologies division. It had revenues of $74 million and $78 million and net losses of $24 million and $1 million in 2003 and 2002, respectively. The 2003 net loss of $24 million was comprised principally of asset write-downs of $10 million and a loss from operations of $14 million.

Loss from discontinued operations, net of tax, also includes costs related to the Company's potential asbestos obligation of the Company's U.S. subsidiary, Combustion Engineering Inc., of approximately $262 million, $142 million and $395 million in 2004, 2003 and 2002, respectively (see Note 18).

Operating results of the discontinued businesses are summarized as follows:

Year ended December 31,	2004	2003	2002
Revenues	$ 1,165	$ 2,641	$ 3,379
Costs and expenses, finance loss	(1,569)	(2,963)	(3,818)
Loss before taxes	**(404)**	**(322)**	**(439)**
Tax expense	(16)	(48)	(60)
Net loss from discontinued operations	**(420)**	**(370)**	**(499)**
Loss from dispositions, net of a tax benefit (expense) of $(25) million, $6 million and $(31) million in 2004, 2003 and 2002, respectively	(63)	(38)	(194)
Loss from discontinued operations, net of tax	**$ (483)**	**$ (408)**	**$ (693)**

The components of assets and liabilities held for sale and in discontinued operations are summarized as follows:

December 31,	2004	2003
Cash and equivalents	$ 9	$ 317
Marketable securities and short-term investments	–	1,625
Receivables, net	59	1,904
Inventories, net	16	283
Prepaid expenses and other	11	148
Financing receivables, non-current	–	10
Goodwill and Other intangible assets	6	360
Property, plant and equipment, net	50	223
Other assets	4	111
Assets held for sale and in discontinued operations	**$ 155**	**$ 4,981**
Accounts payable	$ 49	$ 1,060
Short-term borrowings and current maturities of long-term borrowings	2	14
Accrued liabilities and other	112	2,425
Long-term borrowings	18	47
Other liabilities, non-current	109	444
Liabilities held for sale and in discontinued operations	**$ 290**	**$ 3,990**

Included in the table above are the assets and the liabilities held for sale of the Building Systems businesses of approximately $81 million and $42 million, respectively, at December 31, 2003. In accordance with SFAS 144, certain Building Systems businesses met the criteria for the classification of assets and liabilities as held for sale, but did not meet the additional criteria for its results of operations to be classified as discontinued operations (see Note 4).

At December 31, 2004 and 2003, the Consolidated Balance Sheets included $18 million and $79 million of pledged cash balances, respectively. Approximately $0 million and $44 million related to the Company's Reinsurance business and $0 million and $8 million related to the Upstream business and, as such, were included in assets held for sale and in discontinued operations in 2004 and 2003, respectively.

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

Note 4 Business combinations and other divestments

Acquisitions and investments

During 2004, 2003, and 2002, the Company invested $24 million, $55 million and $154 million, in 24, 24 and 32 new businesses, joint ventures or affiliated companies, respectively. The aggregate excess of the purchase price over the fair value of the net assets acquired totaled $15 million, $2 million and $93 million, in 2004, 2003 and 2002, 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 Income Statements for those years would not have materially differed from reported amounts either on an individual or an aggregate basis.

Other divestitures

In addition to the sold businesses described under discontinued operations, the Company periodically divests businesses and investments not considered by management to be aligned with its focus on Power Technologies and Automation Technologies as described in Note 26. The results of operations of these divested businesses are included in the Company's Consolidated Income Statements in the respective line items of income from continuing operations, through the date of disposition.

Divestment of Building Systems businesses

In April 2002, the Company decided to dispose of its Building Systems businesses. The gradual disposal process was envisaged to extend over a non-defined period of time preceded by restructurings in several locations. The disposal of the Building Systems businesses contemplated that the Company would retain an involvement in the disposed operations through a combination of technology license agreements, supplier relationships, retention of certain orders and participation on the Board of Directors of some of the disposed companies. As a result of these factors, the Company concluded that classification of the Building Systems businesses as discontinued operations in accordance with SFAS 144 was not appropriate.

In August 2003, the Company completed the sale of its Building Systems businesses located in Sweden, Norway, Denmark, Finland, Russia and the Baltics to YIT Corporation of Helsinki, Finland, for consideration of approximately $213 million. The Company recognized a net gain on disposal of $124 million, which is included in other income (expense), net.

During 2003, the Company completed, in a series of transactions, the sale of its Building Systems businesses located in several other countries, principally Belgium, the Netherlands, Austria, and the UK for aggregate proceeds of approximately $21 million. The Company recognized a net loss on disposal of $41 million, which is included in other income (expense), net.

In February 2004, the Company completed the sale of its Building Systems business located in Switzerland to CapVis Equity Partners AG, a Swiss private equity company, for a purchase price of approximately $39 million. The Company retained a 10 percent ownership interest in the sold business and recognized a net gain on disposal of $12 million, which is included in other income (expense), net.

Divestment of Air Handling business

In January 2002, the Company sold its Air Handling business to Global Air Movement (Luxembourg) Sarl for proceeds of $147 million, including a vendor note of 39 million euro principal value, issued by the purchaser. The Company recognized a net gain on disposal of $74 million, which is included in other income (expense), net.

Other divestitures

In June 2003, the Company sold its interests in certain equity investees in Australia for approximately $90 million, resulting in a gain on disposal of $28 million recorded in other income (expense), net.

In June 2003, the Company sold its entire 35 percent interest in Swedish Export Credit Corporation to the Government of Sweden for 1,240 million Swedish krona ($159 million), resulting in net proceeds of approximately $149 million and a loss on disposal of $80 million recorded in other income (expense), net.

In June 2004, the Company sold a business in Sweden, formerly part of the automation technologies division, for $11 million, resulting in a gain on disposal of $7 million recorded in other income (expense), net.

In December 2004, the Company sold its entire 15.7 percent interest in IXYS Corporation, Santa Clara, California, mainly to institutional investors, for approximately $42 million and recorded a gain on disposal of $20 million in other income (expense), net.

During 2004, 2003 and 2002, the Company sold several operating units and investments, excluding the divestments disclosed above, for total proceeds of $39 million, $31 million and $209 million, respectively, and recognized net gains on disposal of $13 million, $12 million and $24 million, respectively, which are included in other income (expense), net. Revenues and net income from these businesses and investments were not significant in 2004, 2003 and 2002.

Note 5 Marketable securities and short-term investments

Marketable securities and short-term investments consist of the following:

December 31,	2004	2003
Available-for-sale securities	$ 263	$ 314
Time deposits	247	142
Securities serving as hedges of the Company's management incentive plan (see Note 22)	14	17
Total	**$ 524**	**$ 473**

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

Note 5 Marketable securities and short-term investments, continued

To hedge its exposure to fluctuations in fair value of the Company's warrant appreciation rights (WARs) issued under the Company's management incentive plan, the Company purchases cash-settled call options, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. In accordance with Emerging Issues Task Force No. 00-19 (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.

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

At December 31, 2004:	Cost	Unrealized gains	Unrealized losses	Fair value
Equity securities	**$ 28**	**$ 9**	**$ –**	**$ 37**
Debt securities:				
U.S. government obligations	99	–	–	99
European government obligations	30	–	(1)	29
Corporate	59	1	(1)	59
Other	33	6	–	39
Total debt securities	**221**	**7**	**(2)**	**226**
Total	**$ 249**	**$ 16**	**$ (2)**	**$ 263**

At December 31, 2003:	Cost	Unrealized gains	Unrealized losses	Fair value
Equity securities	**$ 76**	**$ 25**	**$ (1)**	**$ 100**
Debt securities:				
U.S. government obligations	71	2	(1)	72
European government obligations	29	1	(1)	29
Corporate	5	–	–	5
Other	87	21	–	108
Total debt securities	**192**	**24**	**(2)**	**214**
Total	**$ 268**	**$ 49**	**$ (3)**	**$ 314**

At December 31, 2004, contractual maturities of the above available-for-sale debt securities consist of the following:

	Cost	Fair value
Less than one year	$ 37	$ 36
One to five years	99	99
Six to ten years	56	57
Due after ten years	29	34
Total	**$ 221**	**$ 226**

Gross realized gains on available-for-sale securities were $85 million, $8 million and $11 million in 2004, 2003 and 2002, respectively. The $85 million gain included a realized gain of $43 million relating to the non-cash contribution of $549 million of marketable securities to the Company's German pension plans as described in Note 21. Gross realized losses on available-for-sale securities were $5 million, $2 million and $9 million in 2004, 2003 and 2002, respectively. Additionally, in 2004, 2003 and 2002, the Company recorded charges of $0 million, $36 million and $6 million, respectively, related to the impairment of available-for-sale securities. The charges recorded in 2003 and 2002 are included in interest and other finance expense and other income (expense), net, respectively. In 2003, the Company sold available-for-sale securities in a strategic investment included in investments and other resulting in realized loss of $40 million, which was recorded in interest and other finance expense.

The following table reflects gross unrealized losses and the fair value of those available-for-sale securities, aggregated by investment category, that at December 31, 2004, have been in a continuous unrealized loss position.

	Securities with unrealized losses for a period less than 12 months		**Securities with unrealized losses for a period greater than 12 months**	
Description of securities:	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Corporate obligations	$ 29	$ (1)	$ –	$ –
European government obligations	–	–	27	(1)
	$ 29	**$ (1)**	**$ 27**	**$ (1)**

Unrealized losses on equity and debt securities held and classified as available-for-sale are judged to be only temporary based on the creditworthiness of the obligors as it relates to debt securities and as it relates to all corporate securities held, the financial position of the underlying companies, the significance of the unrealized losses relative to the asset cost and the duration that the securities have been in an unrealized loss position.

The net change in unrealized gains and losses in fair values of trading securities was not significant in 2004, 2003 or 2002.

At December 31, 2004 and 2003, the Company pledged $51 million and $41 million, respectively, of marketable securities as collateral for issued letters of credit and other security arrangements.

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

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 accumulated other comprehensive loss, until the hedged item is recognized in earnings. At such time, the respective amount in accumulated other comprehensive loss is released to earnings and is shown in either revenues or cost of sales consistent with the classification of the earnings impact of the underlying transaction being hedged. Any hedge ineffectiveness is included in revenues and cost of sales but was not significant for 2004 or 2003.

The amount of derivative financial instrument net gains or losses reclassified from accumulated other comprehensive loss to earnings was a net gain of $31 million (excluding the $14 million loss described below) and $58 million in 2004 and 2003, respectively. It is anticipated that during 2005, $30 million of net gains included in accumulated other comprehensive loss at December 31, 2004, will be reclassified to earnings when the underlying hedged transactions impact earnings. Derivative financial instrument gains and losses reclassified to earnings offset the losses and gains on the items being hedged.

While the Company's cash flow hedges are primarily hedges of exposures over the next twelve months, the amount included in accumulated other comprehensive loss at December 31, 2004 includes hedges of certain exposures maturing up to 2009.

During 2004, the Company reclassified losses of $14 million from accumulated other comprehensive loss to earnings as a result of the discontinuance of certain cash flow hedges as it became probable that the original forecasted transactions related to these hedges would not occur within the forecasted time period.

Fair value hedges

To reduce its interest rate and foreign currency exposures arising primarily from its funding activities, the Company uses interest rate and cross-currency swaps. Where such instruments are designated as fair value hedges, the changes in fair value of these instruments, as well as the changes in fair value of the underlying liabilities, are recorded as offsetting gains and losses in the determination of earnings. The hedge ineffectiveness in both 2004 and 2003 resulted in a gain of $11 million.

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 approximate the fair values.

Marketable securities and short-term investments: Fair values of marketable securities 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. The carrying amounts of short-term investments approximate the fair values.

Financing receivables and loans (non-current portion): Fair values are determined using a 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, 2004 were $337 million and $337 million, respectively, and at December 31, 2003 were $437 million and $424 million, respectively.

Long-term borrowings (non-current portion): Fair values are based on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments or in the case of bond or note issuances, using the relevant borrowing rates derived from interest rate swap curves. Such swap curves are composed of interest rates quoted by market participants for the relevant maturities, excluding any component associated with the credit risk of counterparties. As these bonds or note issuances reflect liabilities of the Company, if the Company's credit rating were reflected in these discount rates, the present value calculation would result in a lower fair value liability. The carrying values and estimated fair values of long-term borrowings at December 31, 2004, were $4,901 million and $5,533 million, respectively, and at December 31, 2003, were $6,290 million and $6,936 million, respectively.

Derivative financial instruments: Fair values are the amounts by which the contracts could be settled. These fair values are estimated by using a discounted cash flow methodology based on available market data, option pricing models or by obtaining quotes from brokers. At December 31, 2004 and 2003, the carrying values equal fair values. Current derivative assets are recorded in prepaid expenses and other, and non-current derivative assets are recorded in investments and other. Current derivative liabilities are recorded in accrued liabilities and other, and non-current derivative liabilities are recorded in other liabilities. Current derivative assets and current derivative liabilities in 2003 have been reclassified to conform with the current year's presentation. The fair values are:

December 31,	2004	2003
Derivative assets, current	$ 374	$ 398
Derivative assets, non-current	251	287
Total	**$ 625**	**$ 685**
Derivative liabilities, current	$ 324	$ 180
Derivative liabilities, non-current	53	40
Total	**$ 377**	**$ 220**

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

Note 7 Receivables

Receivables consist of the following:

December 31,	2004	2003
Trade receivables	$ 4,022	$ 3,647
Other receivables	1,289	1,263
Allowance	(317)	(245)
	4,994	**4,665**
Unbilled receivables, net:		
Costs and estimated profits in excess of billings	2,257	2,233
Advance payments received	(921)	(849)
	1,336	**1,384**
Total	**$ 6,330**	**$ 6,049**

Trade receivables include contractual retention amounts billed to customers of $124 million and $101 million at December 31, 2004 and 2003, 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 value added tax, claims, employee and customer related advances, the current portion of direct finance and sales-type leases and other non-trade receivables, including the retained interests on sold receivables under the Company's securitization programs.

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 2004 and 2003, the Company sold trade receivables to two separate 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 interests). 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 significantly 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 interests are denominated in the original currencies underlying the sold receivables. While such remeasurements are recognized in earnings, the impact has historically not been significant due to the short-term nature of the receivables and economic hedges in place relating to foreign currency movement risk.

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 up to the amount of its retained interest relating to the relevant securitization program. 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. An increase in delinquency rates compared to historic levels would cause an increase in the retained interest. Ultimately, if the customer defaults, the Company will be responsible for absorbing the amount. The fair value of the retained interests at December 31, 2004 and 2003, was approximately $349 million and $367 million, respectively.

In accordance with SFAS 140, the Company has not recorded a servicing asset or liability as management 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 are not readily obtainable nor reliably estimable for the multiple geographic markets in which the entities selling receivables operate.

During 2004, 2003 and 2002, the following cash flows were received from and paid to QSPEs:

December 31,	2004	2003	2002
Gross trade receivables sold to QSPEs ($25, $505 and $832) (1)	$ 5,846	$ 5,661	$ 5,972
Collections made on behalf of and paid to QSPEs ($(23), $(696) and $(753)) (1)	(5,713)	(5,883)	(6,074)
Purchaser, liquidity and program fees ($0, $(2) and $(5)) (1)	(20)	(21)	(37)
Decrease (increase) in retained interests ($0, $117 and $(87)) (1)	17	124	(245)
Net cash received from (paid to) QSPEs during the year ($2, $(76) and $(13)) (1)	**$ 130**	**$ (119)**	**$ (384)**

(1) Related to assets held for sale and in discontinued operations for 2004, 2003 and 2002, respectively

Net cash settlements on the Company's programs take place twice per month. However, in one of the programs there is, in addition, the daily transfer of collections of sold receivables. Under the terms of the latter program, if the Company's rating falls below BB+ (Standard & Poor's) or Ba3 (Moody's) then the Company may be required to relinquish its right to collect the sold receivables on behalf of the QSPE, and instead the cash collection of such sold receivables would be made directly to the account of the QSPE.

The Company records a loss on sale at the time of sale of the receivables to the QSPEs and subsequently records purchaser's, liquidity and program fees. The total cost of $20 million, $21 million and $37 million in 2004, 2003 and 2002, respectively, related to the securitization of trade receivables, is included in interest and other finance expense.

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

Note 7 Receivables, continued

The increase in gross trade receivables sold in 2004 compared to 2003 is due primarily to an increase in the programs' size, a change in the definition of receivables eligible to be sold in one program and the addition of new sellers to one of the programs. The decrease in gross receivables sold in 2003 compared to 2002 is due primarily to the fact that businesses which were either classified as discontinued operations or which were sold by the Company were phased out of the securitization programs during the year.

The following table reconciles total gross receivables to the amounts in the Consolidated Balance Sheets after the effects of securitization at December 31, 2004 and 2003:

December 31,	2004	2003
Total trade receivables	$ 5,132	$ 4,784
Portion derecognized	(710)	(508)
Retained interests included in other receivables	(373)	(390)
Trade receivables	**4,049**	**3,886**
Less: Trade receivables included in assets held for sale and in discontinued operations	(27)	(239)
Trade receivables – continuing operations	**$ 4,022**	**$ 3,647**

The increase in the portion derecognized at December 31, 2004, compared to December 31, 2003, is due primarily to an increase in the programs' size, a change in the definition of receivables eligible to be sold in one program and the addition of new sellers to one of the programs.

At December 31, 2004 and 2003, of the gross trade receivables sold, the total trade receivables for which cash has not been collected at those dates amounted to $1,083 million and $898 million, respectively. At December 31, 2004 and 2003, an amount of $54 million and $34 million, respectively, was more than 90 days past due which is considered delinquent pursuant to the terms of the programs.

In addition, the Company transfers receivables outside of the above described securitization programs. These transfers were sales, made without recourse, directly to banks and/or sales pursuant to factoring or similar type arrangements. Total sold receivables included in these transactions during 2004 and 2003 were approximately $902 million and $1,400 million, respectively, of which sales of $159 million and $594 million, respectively, related to assets held for sale and in discontinued operations. During 2004 and 2003, the related costs, including the associated gains and losses, were $10 million and $12 million, respectively, of which costs of $1 million and $3 million, respectively, related to assets held for sale and in discontinued operations.

Note 8 Variable interest entities

The following VIEs are consolidated, as the Company is the primary beneficiary as defined by FIN 46R.
In March 2003, the Company sold its aircraft-leasing portfolio in Sweden to a third party. Subsequent to divestment, the Company continued its involvement in this business by providing significant financial support in the form of mezzanine and subordinated financing of approximately $90 million to the VIE formed by the buyer upon acquisition, exclusively for the purpose of servicing the aircraft leasing portfolio. As the primary beneficiary of the VIE, the Company retained approximately $148 million of assets and acquired approximately $84 million of third party long-term borrowings provided to the VIE at December 31, 2004. All of the VIE's assets serve as collateral for the senior debt provided by third parties. The Company has no ownership interest and there is no recourse to the general credit of the Company.

The Company also has interests in other VIEs which are consolidated as the Company is considered the primary beneficiary. These VIEs are immaterial both individually and in the aggregate.

The following VIEs are not consolidated, as the Company is not the primary beneficiary as defined by FIN 46R.
The Company maintains a combined equity and financing interest of approximately $354 million in six VIEs that were established as joint ventures to develop power plants in various countries. The Company's involvement with these VIEs began between 1995 and 2000 at the dates of inception of the VIEs. The purpose of the VIEs is to contract the engineering, procurement, commissioning and financing of the power plants. At and for the year ended December 31, 2004, these VIEs have combined total assets of approximately $2,920 million and reported combined total revenues and earnings before interest and taxes of $749 million and $308 million, respectively. The exposure to loss as a result of involvement with the VIEs is limited to the Company's equity and financing interests.

The Company maintains a 50 percent equity interest in two VIEs that were established to build four transmission power lines and 22 substations in Mexico. The equity interests are not significant in value. The Company's involvement with these VIEs began in September and November 1997, respectively, when the VIEs were formed. The purpose of the VIEs is to contract the engineering, procurement, commissioning and financing of these projects. At and for the year ended December 31, 2004, these VIEs have total assets of approximately $85 million, and reported insignificant combined total revenues and earnings before interest and taxes. The exposure to loss as a result of involvement with the VIEs is limited to the Company's equity interest.

The Company maintains a combined equity and financing interest of $8 million in two VIEs that were established to execute a project in London, England. One VIE was established to serve as a consortium among two third parties and the Company. The purpose of this VIE is to operate, maintain and finance the power distribution project. The second VIE is the financing vehicle for the project. The Company's involvement began at the inception of these VIEs in August 1998. At and for the year ended December 31, 2004, these VIEs have total assets of approximately $449 million and reported combined total revenues and earnings before interest and taxes of $125 million and $18 million, respectively. The Company's exposure to loss as a result of involvement with the VIEs is limited to the Company's equity and financing interest.

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

Note 8 Variable interest entities, continued

The Company has an equity interest of approximately $0.4 million in four VIEs that were established for developing, holding and leasing real estate in Germany. The Company's involvement with these VIEs began when they were established in 1993 and 1995, respectively. At and for the year ended December 31, 2004, these VIEs have total assets of approximately $102 million and earnings before interest and taxes of the VIEs is approximately break-even. The Company's exposure to loss as a result of involvement with the VIEs is limited to the Company's equity interest.

The Company also has interests in other VIEs which are not consolidated as the Company is not considered the primary beneficiary. These VIEs are immaterial both individually and in the aggregate.

Note 9 Inventories

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

December 31,	2004	2003
Commercial inventories, net:		
Raw materials	$ 1,260	$ 1,082
Work in process	1,215	1,129
Finished goods	395	371
	2,870	**2,582**
Contract inventories, net:		
Inventoried costs	395	426
Contract costs subject to future negotiation	20	29
Advance payments received related to contracts	(308)	(366)
	107	**89**
Total	**$ 2,977**	**$ 2,671**

Contract costs subject to future negotiation are deemed probable of recovery through changes in the contract price and are deferred until the parties have agreed on these changes.

Note 10 Prepaid expenses and other

Prepaid expenses and other current assets consist of the following:

December 31,	2004	2003
Prepaid expenses	$ 194	$ 209
Interest receivable	143	224
Deferred taxes	670	579
Advances to suppliers and contractors	227	226
Derivatives	374	398
Income tax receivable	80	158
Total	**$ 1,688**	**$ 1,794**

Note 11 Financing receivables

Financing receivables consist of the following:

December 31,	2004	2003
Loans receivable	$ 337	$ 437
Finance leases (see Note 17)	362	425
Other	534	510
Total	**$ 1,233**	**$ 1,372**

Loans receivable primarily represent financing arrangements provided to customers under long-term construction contracts and other activities, including financing relating to a divestment in 2002 as described in Note 4.

Included in finance leases at December 31, 2004 and 2003, are $7 million and $8 million, respectively, of assets pledged as security for other liabilities. Additionally, $204 million and $246 million of finance lease receivables were pledged as security for long-term borrowings at December 31, 2004 and 2003, respectively.

Other financing receivables at December 31, 2004 and 2003, include $314 million and $312 million, respectively, of assets pledged as security for other liabilities. Of these amounts, $58 million and $54 million, respectively, are marketable securities.

During 2004 and 2003, the Company sold or transferred to financial institutions various portfolios and individual financing receivables (see Note 17). These transfers included sales of finance lease receivables and loan receivables. Financing receivables sold or transferred and derecognized from the Consolidated Balance Sheets in accordance with SFAS 140 totaled $57 million and $338 million in 2004 and 2003, respectively.

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

Note 12 Property, plant and equipment

Property, plant and equipment consist of the following:

December 31,	2004	2003
Land and buildings	$ 2,684	$ 2,518
Machinery and equipment	4,946	4,627
Construction in progress	121	105
	7,751	**7,250**
Accumulated depreciation	(4,770)	(4,392)
Total	**$ 2,981**	**$ 2,858**

At December 31, 2004 and 2003, the Company had $85 million and $150 million, respectively, of property, plant and equipment pledged as security or collateral for certain liabilities or other obligations of the Company.

Note 13 Goodwill and other intangible assets

The changes in the carrying amount of goodwill for the year ended December 31, 2004, are as follows:

	Automation Technologies	Power Technologies	Non-core activities	Corporate/ Other	Total
Balance at January 1, 2004	$ 1,816	$ 439	$ 201	$ 72	$ 2,528
Goodwill acquired during the year	15	–	–	–	15
Goodwill written off related to sale of businesses	(3)	(2)	(4)	(12)	(21)
Other	–	(4)	10	–	6
Reallocations	(86)	116	9	(39)	–
Foreign currency translation	53	12	9	–	74
Balance at December 31, 2004	**$ 1,795**	**$ 561**	**$ 225**	**$ 21**	**$ 2,602**

The changes in the carrying amount of goodwill for the year ended December 31, 2003, are as follows:

	Automation Technologies	Power Technologies	Non-core activities	Corporate/ Other	Total
Balance at January 1, 2003	$ 1,732	$ 427	$ 180	$ 58	$ 2,397
Goodwill acquired during the year	1	1	–	–	2
Impairment losses	–	–	–	(2)	(2)
Goodwill written off related to sale of businesses	–	–	(2)	(1)	(3)
Other	(4)	–	–	–	(4)
Reallocations	1	–	(10)	9	–
Foreign currency translation	86	11	33	8	138
Balance at December 31, 2003	**$ 1,816**	**$ 439**	**$ 201**	**$ 72**	**$ 2,528**

The Company's presentation of goodwill by division has been corrected and restated for all periods presented to adjust amounts of goodwill related to Automation Technologies previously reflected under Non-core activities. Such goodwill was tested for impairment in 2004, 2003 and 2002, as a component of the Company's Automation Technologies division. At December 31, 2004 and 2003, the $225 million and the $201 million of goodwill, respectively, in Non-core activities was principally related to the Company's remaining Oil, Gas and Petrochemicals business. The reallocations in the table above relate to Company internal reorganizations. During 2004, the reallocations are principally due to the Substation Automation business formerly in the Automation Technologies division that was integrated in to the Power Technologies division. The goodwill reallocated for the Substation Automation business was $107 million based on fair value. During 2004, the Company also reallocated goodwill from the Corporate/Other division to the Automation Technologies and Power Technologies division as the expected benefit of goodwill resides in these divisions.

Other intangible assets consist of the following:

December 31,	2004			2003		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Capitalized software	$ 818	$ (537)	$ 281	$ 804	$ (454)	$ 350
Other	595	(383)	212	586	(335)	251
Total	**$ 1,413**	**$ (920)**	**$ 493**	**$ 1,390**	**$ (789)**	**$ 601**

Amortization expense of intangible assets for 2004 and 2003 amounted to $212 million and $177 million, respectively.

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

Note 13 Goodwill and other intangible assets, continued

Amortization expense of intangible assets is estimated to be as follows: (1)

2005	$ 138
2006	$ 123
2007	$ 114
2008	$ 76
2009	$ 18
Thereafter	$ 13

(1) The estimated amortization expense is calculated as if no future expenditures would be made.

In 2004 and 2003, the Company did not identify any intangible assets not subject to amortization with the exception of $11 million and $2 million, respectively, related to an intangible pension asset (see Note 21).

Other intangible assets primarily include intangibles created through acquisitions, such as trademarks and patents.

For the years ended December 31, 2004 and 2003, the Company acquired intangible assets of $75 million ($65 million of software and $10 million of other intangible assets) and $92 million ($85 million of software and $7 million of other intangible assets), respectively. For items capitalized in 2004 and 2003, amortization expense is calculated using a weighted-average life of 4 years for capitalized software and of 5 years for other intangible assets.

The Company recorded impairment charges to intangible assets of $3 million, $11 million and $25 million, in 2004, 2003 and 2002, respectively, related to software developed for internal use. These charges are included in other income (expense), net, in the Consolidated Income Statements.

Note 14 Equity accounted companies

The Company recorded earnings of $87 million, $96 million and $220 million in 2004, 2003 and 2002, respectively, in investments and other, and other income (expense), net, representing the Company's share of the pre-tax earnings of investees accounted for under the equity method of accounting. The Company has recorded, at December 31, 2004, and 2003, $596 million and $642 million, respectively, in investments and other, representing the Company's investment in these equity investees. Significant companies accounted for using the equity method of accounting included: Jorf Lasfar Energy Company S.C.A. (JLEC), Morocco (the Company owns 50 percent) and Swedish Export Credit Corporation (SECC), Sweden (the Company owned 35.4 percent). In June 2003, the Company sold its entire interest in SECC to the Government of Sweden.

	Investment balance 2004	Investment balance 2003	The Company's share of the pre-tax earnings of equity-accounted investees 2004	2003	2002
JLEC	$ 356	$ 372	$ 68	$ 62	$ 73
SECC	–	–	–	13	125
Other(1)	240	270	19	21	22
Total	**$ 596**	**$ 642**	**$ 87**	**$ 96**	**$220**
Less: Current income tax expense			(8)	(7)	(49)
The Company's share of earnings of equity-accounted investees			**$ 79**	**$ 89**	**$171**

(1) Encompasses additional investments, none of which are individually significant

As reflected in its audited financial statements, SECC's total net income for the year ended December 31, 2002, was $254 million.

The following table represents selected financial information for JLEC and not the Company's share in this equity accounted company.

	2004	**2003**	**2002**
Total current assets	$ 316	$ 281	$ 239
Total non-current assets	$ 1,147	$ 1,162	$ 1,124
Total current liabilities	$ 274	$ 317	$ 262
Total non-current liabilities	$ 572	$ 613	$ 622
Total shareholders' equity	$ 617	$ 513	$ 479
Revenues	$ 462	$ 369	$ 364
Income before taxes	$ 133	$ 122	$ 143
Net income	$ 125	$ 120	$ 132

As security for repayment by JLEC of certain of its loans, the Company, JLEC and the other 50 percent shareholder in JLEC have entered into various pledge agreements with several banks and other secured parties. The Company has pledged all of its shares, claims, rights and interest in JLEC in accordance with the pledge agreements. Such security shall continue in effect until the repayment in full of all outstanding principal and interest and other fees, which is scheduled to occur in February 2013.

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

Note 14 Equity accounted companies, continued

The Company has entered into other similar pledge agreements for certain other equity accounted for companies. The Company has also granted lines of credit and has committed to provide additional capital for certain equity accounted companies. At December 31, 2004, the total unused lines of credit amounted to $78 million and the capital commitments amounted to $24 million.

The Company's 2004 Consolidated Financial Statements include the following aggregate amounts related to transactions with equity accounted investees and other related parties, including related party transactions that are recorded in loss from discontinued operations, net of tax, and assets and liabilities held for sale and in discontinued operations:

	2004	2003
Revenues	$ 57	$ 99
Receivables	$ 11	$ 105
Other current assets	$ 13	$ 23
Financing receivables, non-current	$ 45	$ 22
Payables	$ 1	$ 6
Other current liabilities	$ 1	$ 4
Short-term borrowings	$ 18	$ 32
Non-current liabilities	$ 4	$ 2
Long-term borrowings	$ –	$ 48

Note 15 Borrowings

The Company's total borrowings at December 31, 2004 and 2003, were $5,534 million and $7,934 million, respectively.

Short-term borrowings

The Company's short-term borrowings consist of the following:

December 31,	2004	2003
Other short-term borrowings (weighted-average interest rate of 6.6% and 3.7%)	$ 184	$ 293
Current portion of long-term borrowings (weighted-average interest rate of 3.9% and 4.9%)	449	1,351
Total	**$ 633**	**$ 1,644**

Other short-term borrowings primarily represent short-term loans from various banks.

On November 17, 2003, the Company entered into an unsecured syndicated $1.0 billion three-year revolving credit facility, which became available in December 2003 after the fulfillment of certain conditions, including the repayment and cancellation of the previous facility and the raising of a specified minimum level of gross proceeds from the rights issue (see Note 23) and from the euro denominated bonds issued in November 2003.

In November 2004, the facility was amended. The amendments included a reduction in the level of commitment fees and the removal of restrictions on the Company to redeem early capital market instruments, such as bonds, having a maturity date beyond that of the facility.

No amount was drawn under the facility at December 31, 2004 and 2003. The interest costs of borrowings under the facility are LIBOR (or EURIBOR in the case of drawings in euro) plus 0.8 percent to 2.25 percent, depending on the Company's senior unsecured long-term debt rating. Commitment fees are paid on the unused portion of the facility and a utilization fee is payable when borrowings are equal to or greater than 33 percent of the facility; the level of these fees is linked to the ratings of the Company's senior unsecured long-term debt.

The facility contains certain financial covenants in respect of minimum interest coverage, maximum net leverage and a minimum level of consolidated net worth. The Company is required to meet these covenants on a quarterly basis. Should the Company's senior unsecured long-term debt ratings reach certain defined levels, these covenants will only have to be calculated at June and December of each year. The facility also contains provisions for the mandatory prepayment and cancellation of the facility upon a change of control of the Company.

The facility imposes restrictions on the amount of third party indebtedness in subsidiaries other than in the obligors under the facility, subject to certain exceptions. The facility also contains certain other undertakings including limitations on disposals of assets, restrictions on mergers and acquisitions and negative pledges.

The facility contains cross-default clauses whereby an event of default would occur if the Company were to default on indebtedness, as defined in the facility, at or above a specified threshold.

Long-term 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 required by SFAS 133, borrowings designated as being hedged by fair value hedges are stated at their fair values.

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

Note 15 Borrowings, continued

The following table summarizes the Company's long-term borrowings considering the effect of interest rate and currency swaps. Consequently, a fixed rate borrowing subject to a fixed-to-floating interest rate swap is included as a floating rate borrowing in the table below:

	December 31, 2004			December 31, 2003		
	Balance	Nominal rate	Effective rate	Balance	Nominal rate	Effective rate
Floating rate	$ 1,950	8.2%	5.8%	$ 4,241	5.9%	3.2%
Fixed rate	1,625	5.1%	5.5%	1,754	5.8%	5.8%
Convertible bonds	1,775	4.1%	4.1%	1,646	4.1%	4.1%
	5,350			**7,641**		
Current portion of long-term borrowings	(449)	3.9%	1.6%	(1,351)	4.9%	1.8%
Total	**$ 4,901**			**$ 6,290**		

At December 31, 2004, maturities of long-term borrowings were as follows:

Due in 2005	$ 449
Due in 2006	92
Due in 2007	948
Due in 2008	986
Due in 2009	868
Thereafter	2,007
Total	**$ 5,350**

Bond repurchases

During the first six months of 2004, through open market repurchases, the Company repurchased a portion of its public bonds with a total equivalent face value of $458 million. These repurchases included 107 million euro (approximately $131 million) of the 475 million euro 5.125 percent bonds due 2006, and 26,500 million Japanese yen (approximately $243 million) of the 50,000 million Japanese yen 0.5 percent bonds due 2005. The 26,500 million Japanese yen bonds and the 107 million euro bonds were subsequently cancelled at the end of July 2004 and mid-September 2004, respectively. During the second half of 2004, a further 6,075 million Japanese yen 0.5 percent bonds (approximately $55 million) were repurchased on the open market and were not cancelled. As a result of the repurchases of these Japanese yen bonds, the total principal amount outstanding at December 31, 2004, was 17,425 million Japanese yen (approximately $171 million), which is included in floating rate borrowings in the table of long-term borrowings above. The open market repurchases resulted in a gain on extinguishments of debt of approximately $6 million. During 2003, the Company repurchased outstanding bonds with a face value of $94 million and recorded an insignificant gain on extinguishments of debt in connection with the repurchases.

On July 29, 2004, the Company announced tender offers to repurchase all of the outstanding 300 million euro 5.375 percent bonds due 2005 and 475 million euro 5.125 percent bonds due 2006, being approximately 275 million euro and approximately 368 million euro, respectively. In conjunction with the tender offers, the Company convened bondholders' meetings to vote on amendments to these bonds to allow the Company to call and redeem those bonds that were not tendered under the respective tender offer. Bonds validly tendered and accepted under the tender offers were settled on September 14, 2004. On September 9, 2004, bondholders approved the resolutions, which gave the Company the option to redeem the outstanding instruments. The Company exercised its option to redeem early the remaining outstanding 2005 and 2006 bonds that were not tendered and set the redemption date as September 29, 2004. The open market repurchases, combined with the tender offers and calls, resulted in a decrease in total borrowings during 2004 of $1,330 million. At December 31, 2003, the bonds tendered and called in 2004 were included as floating rate borrowings in the table of long-term borrowings above.

Bond issuances

The Company did not issue any bonds during 2004.

In November 2003, the Company issued bonds of an aggregate principal amount of 650 million euro, or approximately $769 million at issuance, due 2011. These bonds pay interest semi-annually in arrears at a fixed annual rate of 6.5 percent and are included as fixed rate borrowings in the table of long-term borrowings above. In the event of a change of control of the Company, the terms of the bonds require the Company to offer to repurchase the bonds at 101 percent of the principal amount thereof, plus any accrued interest.

In September 2003, the Company issued convertible unsubordinated bonds of an aggregate principal amount of 1,000 million Swiss francs, or approximately $722 million at issuance, due 2010. The bonds pay interest annually in arrears at a fixed annual rate of 3.5 percent. On issuance, each 5,000 Swiss francs of principal amount of bonds was convertible into 418.41004 fully paid ordinary shares of the Company at an initial conversion price of 11.95 Swiss francs. The conversion price is subject to adjustment provisions to protect against dilution or change in control. As a result of the decision at the extraordinary general meeting of shareholders on November 20, 2003, to increase the share capital of the Company by issuing a further 840,006,602 shares, the conversion price and conversion ratio of the bonds were adjusted to 9.53 Swiss francs and 524.65897 shares respectively, effective December 12, 2003, representing a total of 104,931,794 shares if the bonds were fully converted.

Note 15 Borrowings, continued

The bonds are convertible at the option of the bondholder at any time from October 21, 2003 up to and including the tenth business day prior to September 10, 2010. The Company may at any time on or after September 10, 2007 redeem the outstanding bonds at par plus accrued interest if, for a certain number of days during a specified period of time, the official closing price of the Company's ordinary shares on the relevant exchange has been at least 150 percent of the conversion price. In addition, at any time prior to maturity, the Company can redeem the outstanding bonds at par plus accrued interest, if at least 85 percent in aggregate of the principal amount of bonds originally issued have been redeemed, converted or purchased and cancelled. The Company has the option to redeem the bonds when due in cash, ordinary shares or any combination thereof.

In May 2002, the Company issued $968 million aggregate principal amount of convertible unsubordinated bonds due 2007. The bonds pay interest semi-annually in arrears at a fixed annual rate of 4.625 percent. The bonds were initially convertible into 84,940,935 fully paid ordinary shares of the Company at an initial conversion price of 18.48 Swiss francs (converted into U.S. dollars at a fixed conversion rate of 1.6216 Swiss francs per U.S. dollar). The conversion price is subject to adjustment provisions to protect against dilution or change in control. As a result of the rights issue and resulting increase in the share capital of the Company, the conversion price of the bonds was adjusted, effective November 21, 2003, to 14.64 Swiss francs (converted into U.S. dollars at the fixed exchange rate of 1.6216 Swiss francs per U.S. dollar), representing a total of 107,220,546 shares if the bonds were fully converted. As a result of an amendment to the bonds in May 2004, described below, the conversion price of the bonds was amended to $9.03, representing a total of 107,198,228 shares if the bonds were fully converted.

The $968 million bonds are convertible at the option of the bondholder at any time from June 26, 2002 up to and including May 2, 2007. The Company may, at any time on or after May 16, 2005, redeem the outstanding bonds at par plus accrued interest if (1) for a certain number of days during a specified period of time, the official closing price of the Company's American Depositary Shares on the New York Stock Exchange exceeds 170 percent of the conversion price, or (2) at least 85 percent in aggregate principal amount of bonds originally issued have been exchanged, redeemed or purchased and cancelled. The Company has the option to redeem the bonds when due in cash, American Depositary Shares or any combination thereof.

Under SFAS 133, a component of these convertible bonds had to be accounted for as an embedded derivative as the shares to be issued upon conversion were denominated in Swiss francs, while the bonds are denominated in U.S. dollars. A portion of the issuance proceeds was deemed to relate to the value of the derivative on issuance and subsequent changes in value of the derivative were recorded through earnings and as an adjustment to the carrying value of the bonds. The allocation of a portion of the proceeds to the derivative created a discount on issuance, which was being amortized to earnings over the life of the bonds. On May 28, 2004, bondholders voted in favor of the Company's proposed amendment to the terms of the bonds whereby, if the bonds are converted, the Company will deliver U.S. dollar-denominated American Depositary Shares rather than Swiss franc-denominated ordinary shares. The conversion price was set at $9.03. As a result of the amendment, the Company was no longer required to account for a portion of the bonds as a derivative. Consequently, on May 28, 2004, the value of the derivative was fixed and the amount previously accounted for separately as an embedded derivative was considered to be a component of the carrying value of the bonds at that date. This carrying value is being accreted to the $968 million par value of the bonds as an expense in interest and other finance expense over the remaining life of the bonds.

As to the embedded derivative, the Company recorded an expense of $16 million from the increase in fair value of the derivative from January 1, 2004, up to the date of the bond amendment, related among other factors, to the increase in the Company's share price since December 31, 2003. When added to the accretion of the discount on the bonds for 2004 of $36 million, this resulted in aggregate expense of $52 million in 2004, reflected in interest and other finance expense and a corresponding increase in borrowings when compared to December 31, 2003. As a result of an increase in fair value of the derivative (related among other factors, to the increase in the Company's share price since December 31, 2002), combined with the accretion of the discount on issuance, there was a charge to interest and other finance expense of $84 million in 2003, and a corresponding increase in long-term borrowings at December 31, 2003, when compared to December 31, 2002. Through December 31, 2002, primarily as a result of the decline in the Company's share price since issuance of the bonds, the Company recorded a gain from the change in fair value of the derivative, partially offset by amortization of effective discount, resulting in a net decrease to interest and other finance expense of $215 million.

In May 2002, the Company issued bonds due in 2009 with an aggregate principal amount of 200 million pounds sterling, or approximately $292 million at the time of issuance, which pay interest semi-annually in arrears at 10 percent per annum. The Company also issued in May 2002 bonds due in 2008 with an aggregate principal amount of 500 million euro, or approximately $466 million at the time of issuance, which pay interest annually in arrears at 9.5 percent per annum.

The 200 million pounds sterling bonds and the 500 million euro bonds contain certain clauses linking the interest paid on the bonds to the credit rating assigned to the bonds. If the rating assigned to these bonds by both Moody's and Standard & Poor's remains at or above Baa3 and BBB-, respectively, then the interest rate on the bonds remains at the level at issuance, that is 10 percent and 9.5 percent for the sterling and euro bonds, respectively. If the rating assigned by either Moody's or Standard & Poor's decreases below Baa3 or BBB-, respectively, then the annual interest rate on the bonds increases by 1.5 percent per annum to 11.5 percent and 11 percent for the sterling and euro bonds, respectively. If after such a rating decrease, the rating assigned by both Moody's and Standard & Poor's returns to a level at or above Baa3 and BBB-, respectively, then the interest rates on the bonds return to the interest level at issuance. As a result of the downgrade of the Company's long-term credit rating by Moody's to Ba2 on October 31, 2002, this step-up clause in interest was triggered on both bonds. The increase in interest costs is effective for interest periods beginning after the payment of the coupon accruing at the date of the downgrade.

In line with the Company's policy of reducing its interest and currency exposure, a cross-currency swap has been used to modify the characteristics of the 200 million pounds sterling bonds and an interest rate swap has been used to modify the 500 million euro bonds. After considering the impact of the cross-currency and interest rate swaps, the 200 million pounds sterling bonds effectively became a floating rate U.S. dollar obligation, while the 500 million euro bonds became a floating rate euro obligation. In both cases, the floating rate resets every three months. Accordingly, both the 200 million pounds sterling bonds and the 500 million euro bonds are included as "floating rate" in the table of long-term borrowings above.

In September 1999, the Company issued bonds of an aggregate principal amount of 500 million Swiss francs, or approximately $334 million at issuance, due 2009. These bonds pay interest annually in arrears at a fixed annual rate of 3.75 percent and are included in fixed rate borrowings in the table of long-term borrowings above.

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

Note 15 Borrowings, continued

Almost all of the Company's publicly traded bonds contain cross-default clauses which would allow the bondholders to demand repayment if the Company were to default on any borrowing at or above a specified threshold.

In addition to the publicly issued bonds described above, included in long-term borrowings at December 31, 2004 and 2003, are private placements, lease obligations, bank borrowings of subsidiaries, obligations in the Company's remaining Structured Finance business and other long-term borrowings.

Note 16 Accrued liabilities and other

Accrued liabilities and other consists of the following:

December 31,	2004	2003
Asbestos and related costs (see Note 18)	$ 1,023	$ 815
Contract related reserves	460	531
Provisions for restructuring	169	276
Provisions for warranties and contract penalties	741	580
Derivatives	324	180
Employee benefit costs	77	112
Taxes payable	369	434
Deferred taxes	200	188
Accrued personnel costs	750	723
Interest	177	306
Advances from customers	931	729
Other liabilities	1,215	1,083
Total	**$ 6,436**	**$ 5,957**

Advance from customers in 2003 have been reclassified from other liabilities to conform with the current year's presentation.

Note 17 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 included in the income from continuing operations was $371 million, $392 million and $340 million in 2004, 2003 and 2002, respectively. The sub-lease income received by the Company was $33 million, $18 million and $14 million in 2004, 2003 and 2002, respectively.

At December 31, 2004, 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:

2005	$ 347
2006	299
2007	237
2008	206
2009	183
Thereafter	652
	1,924
Sublease income	(128)
Total	**$ 1,796**

Investments in leases

The Company retained some leasing assets including investments in sales-type leases, leveraged leases and direct financing leases that are included in financing receivables (see Note 11), subsequent to the divestment of most of its Structured Finance business to GE in November 2002 (see Note 3).

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

Note 17 Leases, continued

The Company's non-current investments in direct financing, sales-type and leveraged leases, including $37 million and $54 million in 2004 and 2003, respectively, of net investments in an aircraft leasing portfolio, reported by a VIE in Sweden (see Note 8), consist of the following:

December 31,	2004	2003
Minimum lease payments receivable	$ 388	$ 464
Unearned income	(54)	(64)
	334	**400**
Leveraged leases	64	61
	398	**461**
Current portion	(36)	(36)
Total	**$ 362**	**$ 425**

At December 31, 2004, minimum lease payments under direct financing and sales-type leases are scheduled to be received as follows:

2005	$ 45
2006	23
2007	22
2008	50
2009	18
Thereafter	230
Total	**$ 388**

Note 18 Commitments and contingencies

Earnings overstatement in an Italian subsidiary

During the second quarter of 2004, the Company received information regarding earnings overstatements by the medium-voltage business unit of the Company's Power Technologies division (the "PT-MV BAU") in Italy. An investigation performed by the Company, with the assistance of outside counsel and forensic accountants, has shown that from the first quarter of 1998 through the first quarter of 2004, the PT-MV BAU overstated its earnings before interest and taxes and net income through the early recognition of certain revenue from incomplete projects, improper capitalization of costs on certain projects, unrecorded liabilities and borrowings, and other improper journal entries.

The cumulative effect of these overstatements on the Company's earnings before interest and taxes and net income was approximately $70 million and $87 million, respectively, from the first quarter of 1998 through the end of 2003. The negative impact on income tax expense results from the inability to claim tax benefits under Italian tax law for adjustments made to improperly filed tax returns for the years 1998 through 2002, as well as a reassessment of the realizability of the Company's deferred tax assets due to a cumulative loss position after the adjustment for the overstatements. The Company restated its financial statements for all prior periods as a result of these overstatements. The restated presentation forms the basis for the 2004 financial statements before reclassifications as described in Note 3. The impact of the restatement in 2003 and 2002 was to increase net loss by $12 million and $36 million, respectively. The cumulative impact on stockholders' equity as a result of the restatement was $106 million at December 31, 2004.

The Company has undertaken measures, including termination of employment, with respect to the personnel involved in the earnings overstatement to address the matters identified by the Company's investigation. Additional remedial measures may be considered by the Company in light of this investigation. In addition, the Company's investigation revealed that certain employees of ABB Power Technologies S.p.A. participated in arranging improper payments to an employee of an Italian power generation company in order to obtain a contract. The Company has reported this matter to the Italian Public Prosecutor's Office, which is conducting its own investigation, as well as to the United States Securities and Exchange Commission. The Company cannot be certain as to the outcome of the Italian Public Prosecutor's Office investigation. The Company has terminated employees determined to be involved in arranging such improper payments.

Gas Insulated Switchgear business

In May 2004, the Company announced that it had undertaken an internal investigation which uncovered that certain of its employees – together with employees of other companies active in the gas insulated switchgear business – were involved in anti-competitive practices. The Company has reported promptly such practices to the appropriate authorities including the European Commission. The Company has received an amnesty decision from the European Commission and is cooperating with it in the investigation that the European Commission has launched.

Vetco Gray

During 2003 and 2002 the Company undertook an investigation of potentially improper business conduct within the Company's Oil, Gas and Petrochemical business which the Company had voluntarily disclosed to the U.S. Department of Justice and the U.S. Securities and Exchange Commission. The investigation uncovered a limited number of improper payments in certain countries in the Company's Upstream business.

Note 18 Commitments and contingencies, continued

ABB Vetco Gray Inc. and ABB Vetco Gray UK Ltd., two of the Company's subsidiaries that were sold in 2004 as part of the Upstream business pleaded guilty in July 2004 to violation of the Foreign Corrupt Practices Act (FCPA) and paid an aggregate fine to the U.S Department of Justice totaling $10.5 million. In addition, in July 2004, the Company agreed with the United States Securities and Exchange Commission to resolve civil charges relating to the FCPA, including the payment of $5.9 million to disgorge allegedly unlawful profits and to retain an independent consultant to review the Company's FCPA compliance policies and procedures.

IBM Outsourcing Agreement

In 2003, the Company entered into a 10-year global framework agreement with International Business Machines Corporation (IBM) to outsource the Company's information systems infrastructure services to IBM. This global framework agreement forms the basis for country agreements entered into between the Company and IBM in 15 countries in which the Company operates as well as Company headquarters. Pursuant to these agreements, the Company's information technology (IT) personnel were transferred and certain IT equipment was sold to IBM. Costs associated with the transfer of employees have been recognized in 2003 and were not significant. The IT equipment was sold to IBM at its net book value resulting in no gain or loss on disposal.

Pursuant to the global framework agreement, the Company is permitted to terminate an individual country agreement, upon providing to IBM three months notice. Upon termination, charges which are within standard commercial terms are payable to IBM. Such termination charges decline over the term of the global framework agreement and are based on the preceding 12-month period's costs and the number of years remaining on the agreement.

The global framework agreement also includes an obligation for IBM to lease new personal computers and other IT equipment to the Company as older equipment is retired. The Company accounts for these items as capital leases or operating leases based on the terms of the leases.

Further, pursuant to the global framework agreement, IBM will receive monthly payments from the Company's subsidiaries in the respective countries related to information systems infrastructure services. Expected annual costs during the 10-year term of the global framework agreement approximate $223 million based on the current level of usage of the services.

While the above agreement was negotiated and transacted at arms-length between IBM and the Company, it should be noted that Jürgen Dormann, the Company's Chairman, was a member of the Board of Directors of IBM until April 29, 2003, and has been elected again to the Board of Directors of IBM effective February 22, 2005, and Hans-Ulrich Märki, a director on the Company's Board of Directors, is chairman and general manager of IBM Europe/Middle East/Africa.

Contingencies – general

The Company is subject to various legal proceedings and claims that 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 and on advice of external counsel, that it is unlikely that any such liability, to the extent not provided for through insurance or otherwise, would have a material adverse effect on the Company's financial position, results of operations or cash flows.

Contingencies – 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. While the Company cannot estimate the impact of future regulations affecting these actions, management believes that the ultimate resolution of these matters will not have a material impact on the Company's financial position, results of operations or cash flows.

Provisions are recorded when it is probable that losses will result from these actions and the amounts of losses can be reasonably estimated. Estimated losses for environmental remediation obligations are not discounted to their present value. In respect to these matters, the Company may be able to recover a portion of the costs from insurers or other third parties. Receivables are recorded when it is probable that recoveries will be collected.

Guarantees – general

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

The following table provides quantitative data regarding the Company's third-party guarantees. The maximum potential payments represent a "worst-case scenario," and do not reflect the Company's expected results.

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

Note 18 Commitments and contingencies, continued

The carrying amount of liabilities recorded in the Consolidated Balance Sheets reflects the Company's best estimate of future payments it may incur as part of fulfilling its guarantee obligations.

December 31,	2004		2003	
	Maximum potential payments	Carrying amount of liabilities	Maximum potential payments	Carrying amount of liabilities
Third-party performance guarantees	$ 1,525	$ 2	$ 1,200	$ –
Financial guarantees	253	1	207	–
Indemnification guarantees	198	16	–	–
Total	**$ 1,976**	**$ 19**	**$ 1,407**	**$ –**

Guarantees-third-party performance

Performance guarantees represent obligations where the Company guarantees the performance of a third party's product or service according to the terms of a contract. Such guarantees may include guarantees that a project will be completed within a specified time. If the third party does not fulfill the obligation, the Company will compensate the guaranteed party in cash or in kind. Performance guarantees include surety bonds, advance payment guarantees, and performance standby letters of credit.

The Company retained obligations for guarantees related to the Power Generation business contributed in mid-1999 to the former ABB ALSTOM POWER NV joint venture. The guarantees primarily consist of performance guarantees, advance payment guarantees and other miscellaneous guarantees under certain contracts such as indemnification for personal injuries and property damages, taxes, and compliance with labor laws, environmental laws and patents. The guarantees are related to projects which are expected to be completed by 2015 but in some cases have no definite expiration. In May 2000, the Company sold its interest in the ABB ALSTOM POWER NV joint venture to ALSTOM SA (ALSTOM). As a result, ALSTOM and its subsidiaries have primary responsibility for performing the obligations that are the subject of the guarantees. Further, ALSTOM, the parent company, and ALSTOM POWER NV, formerly ABB ALSTOM POWER NV, have undertaken jointly and severally to fully indemnify and hold harmless the Company against any claims arising under such guarantees. Management's best estimate of the total maximum potential exposure of quantifiable guarantees issued by the Company on behalf of its former Power Generation business is approximately $875 million and $1,200 million at December 31, 2004 and 2003, respectively. The Company has not experienced any losses related to guarantees issued on behalf of the former Power Generation business.

The Company retained obligations for guarantees related to the Upstream business sold in July 2004. The guarantees primarily consist of third-party performance guarantees, advance payment guarantees and other miscellaneous guarantees. The guarantees have maturity dates ranging from one to five years. The maximum amount payable under the guarantees is approximately $650 million at December 31, 2004. The Company has the ability to recover potential payments under these guarantees through certain backstop guarantees. The maximum potential recovery under these backstop guarantees is approximately $146 million at December 31, 2004.

Guarantees – financial

Financial guarantees represent irrevocable assurances that the Company will make payment to a beneficiary in the event that a third party fails to fulfill its financial obligations and the beneficiary under the guarantee incurs a loss due to that failure.

At December 31, 2004 and 2003, the Company had $253 million and $207 million, respectively, of financial guarantees outstanding. Of those amounts, $123 million and $189 million, respectively, were issued on behalf of companies in which the Company currently has or formerly had an equity interest. The guarantees have original maturity dates ranging from one to thirteen years. Also included in the $253 million of financial guarantees is approximately $101 million related to the Upstream business sold in July 2004. These guarantees have original maturity dates ranging from one to six years and in some cases have no time-related expiry as they are contingent on future events.

Guarantees – indemnification

The Company delivered to the purchasers of the Upstream business and Reinsurance business guarantees related to assets and liabilities divested in 2004. The maximum liability at December 31, 2004, of approximately $49 million and $149 million, relating to the Upstream business and Reinsurance business, respectively, will reduce over time, pursuant to the agreements. The fair values of these guarantees are not material.

The Company has indemnified certain purchasers of divested businesses for potential claims arising from the operations of the divested businesses. Such indemnifications have not been fair valued to the extent they were issued prior to the effective date of FIN 45. Additionally, to the extent the maximum loss related to such indemnifications could not be calculated, no amounts have been included under maximum potential payments in the table above. Indemnifications for which maximum losses could not be calculated include indemnifications for legal claims.

Product and order related contingencies

The Company calculates its provision for product warranties based on historical claims experience and specific review of certain contracts. The provision for warranties and contract penalties in Note 16 includes penalties resulting from delays in contract fulfillment, which is not included in the amounts below.

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

Note 18 Commitments and contingencies, continued

Reconciliation of the provision for warranties, including guarantees of product performance is as follows:

December 31,	2004	2003
Balance at the beginning of year	$ 513	$ 349
Claims paid in cash or in kind	(72)	(37)
Net increase to provision for changes in estimates, warranties issued and warranties expired	178	162
Exchange rate differences	58	39
Balance at the end of year	**$ 677**	**$ 513**

Asbestos liability

Summary

The Company's Combustion Engineering subsidiary has been a co-defendant in a large number of lawsuits claiming damage for personal injury resulting from exposure to asbestos. A smaller number of claims have also been brought against two other subsidiaries, ABB Lummus Global Inc. ("Lummus") (which is part of the Company's Oil, Gas and Petrochemicals business and was formerly a subsidiary of Combustion Engineering) and Basic Incorporated ("Basic") (which was a subsidiary of Combustion Engineering and of Asea Brown Boveri Inc. ("Asea Brown Boveri") and is now a subsidiary of ABB Holdings Inc. ("Holdings") following the merger in December 2004 of Asea Brown Boveri into Holdings), as well as against other entities of the Company. In late 2002, taking into consideration the growing number and cost of asbestos-related claims, Combustion Engineering and the Company determined that Combustion Engineering's asbestos-related liability should be resolved through a comprehensive settlement that included a plan of reorganization for Combustion Engineering under Chapter 11 of the U.S. Bankruptcy Code.

In November 2002, Combustion Engineering and the representatives of various asbestos claimants entered into a Master Settlement Agreement which settled the value of approximately 154,000 open asbestos-related claims against Combustion Engineering. Under that agreement, Combustion Engineering established and funded a trust (the "CE Settlement Trust") to provide for partial payment on such settled claims.

In January 2003, Combustion Engineering reached agreement with various creditors (including representatives of the asbestos claimants who participated in the Master Settlement Agreement and a representative of future claimants) on the terms of a proposed "Pre-Packaged Plan of Reorganization for Combustion Engineering" under Chapter 11 of the U.S. Bankruptcy Code (as amended through June 4, 2003, the "CE Plan"). The CE Plan provided for a "channeling injunction" to be issued, under which asbestos-related claims related to the operations of Combustion Engineering, Lummus and Basic could only be brought against a trust (separate from the CE Settlement Trust established under the Master Settlement Agreement) to be established and funded by Combustion Engineering, ABB Ltd and other entities of the Company. This channeling injunction was intended to free Combustion Engineering, ABB Ltd and its affiliates, as well as certain former direct or indirect owners, joint venture partners and affiliates of Combustion Engineering, including ALSTOM and ABB ALSTOM POWER NV, from further liability for such claims.

The CE Plan was filed with the U.S. Bankruptcy Court on February 17, 2003, and confirmed by the District Court on August 8, 2003. However on December 2, 2004, the Court of Appeals for the Third Circuit effectively reversed the District Court's confirmation order. The Court of Appeals remanded the CE Plan to the District Court for a determination of whether, in light of the pre-petition payments made by Combustion Engineering to the CE Settlement Trust under the Master Settlement Agreement and the fact that claimants who received partial payments of their claims under the Master Settlement Agreement participated in the approval of the plan, the treatment of asbestos-related personal injury claims against Combustion Engineering under the CE Plan was consistent with the requirements of the Bankruptcy Code. Combustion Engineering and the Company have been reviewing the Court of Appeals' decision and considering various options to resolve the asbestos-related liability of Combustion Engineering, Lummus and Basic.

In March 2005, following extensive discussions with certain representatives of various parties, including the Creditors Committee and the Future Claimants Representatives appointed in the Combustion Engineering case, the Company reached an agreement on certain "settlement points" for modifying the CE Plan with a view to bringing it into conformity with the Court of Appeals' decision and for providing a mechanism for resolving finally Lummus' potential asbestos liability. The settlement points contemplate that the modified plan will continue to reflect the CE Plan's fundamental approach of channeling asbestos-related claims against Combustion Engineering to a trust funded in part by other entities of the Company. The settlement points provide for the Company to make an additional contribution of approximately $232 million to pay present and future asbestos claimants of Combustion Engineering and Lummus. In addition, the settlement points provide that the Company will pay directly or indirectly up to $8 million in respect of certain approved legal fees in the Chapter 11 case of Combustion Engineering. The settlement points contemplate that the modified CE Plan will become effective under the Bankruptcy Code concurrently with a separate Chapter 11 plan of reorganization for Lummus. The parties are now working to reach agreement on other issues relating to, and details of, the proposed modified plan and related proceedings involving Lummus and to prepare the related documentation. Each of the proposed plans will require approval of creditors and be subject to court review.

One of the holdings of the Court of Appeals was that the asbestos-related claims against Basic that are not related to Combustion Engineering's operations could not be "channeled" to the proposed trust under the CE Plan. The proposed plans do not address Basic, and the Company expects that Basic's asbestos-related liabilities will have to be resolved through its own bankruptcy or similar U.S. state court liquidation proceeding, or through the tort system.

Background

When the Company sold its 50 percent interest in the former ABB ALSTOM POWER NV joint venture to ALSTOM in May 2000, it retained ownership of Combustion Engineering, a subsidiary that had conducted part of its former power generation business and that now owns commercial real estate that it leases to third parties. Combustion Engineering is a co-defendant, together with other third parties, in numerous lawsuits in the United States in which the plaintiffs claim damages for personal injury arising from exposure to asbestos in equipment or materials that Combustion Engineering allegedly supplied or was responsible for, primarily during the early 1970s and before.

Note 18 Commitments and contingencies, continued

From 1989 through February 17, 2003 (the date that Combustion Engineering filed for Chapter 11 as described below), approximately 438,000 asbestos-related claims were filed against Combustion Engineering. On February 17, 2003, there were approximately 164,000 asbestos related personal injury claims pending against Combustion Engineering. There were approximately 138,000 such claims pending against Combustion Engineering on December 31, 2002, and approximately 94,000 such claims were pending on December 31, 2001. Of the approximately 164,000 claims that were pending on February 17, 2003, approximately 154,000 are claims by asbestos claimants who participated in the Master Settlement Agreement. Approximately 29,000 new claims were made in the period from January 1, 2003, to February 17, 2003 (all but 111 of which agreed to participate in the Master Settlement Agreement). Approximately 34,500 claims were resolved in 2002 and approximately 27,000 claims were resolved in 2001.

Other entities of the Company have sometimes been named as defendants in asbestos-related claims, including Lummus and Basic. At December 31, 2004 and 2003, there were approximately 11,000 claims pending against Lummus and 4,300 and 4,200 claims, respectively, pending against Basic.

Additionally, at December 31, 2004 and 2003, there were approximately 12,400 and 8,700 asbestos-related claims pending against entities of the Company other than Combustion Engineering, Lummus and Basic. These claims are unrelated to Combustion Engineering and will not be resolved in the Combustion Engineering bankruptcy case. Of the 12,400 claims outstanding at December 31, 2004, approximately 3,660 are claims that were brought in the state of Mississippi in the United States, in 7 cases that include multiple plaintiffs and hundreds of co-defendants and make no specific allegations of any relationship between any entity of the Company and the plaintiffs. Approximately 4,240 of such claims have been brought in the state of Ohio in the United States by claimants represented by a single law firm in cases that typically name 50 to 60 co-defendants and do not allege any specific linkage between the plaintiffs and any entity of the Company. Approximately 2,700 such claims are pending in the state of West Virginia in the United States. The remaining such claims are pending in various jurisdictions. The Company generally seeks dismissals from claims where there is no apparent linkage between the plaintiffs and any entity of the Company. To date, resolving claims against the Company's entities other than Combustion Engineering, Lummus and Basic has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

Negotiations with representatives of asbestos claimants and pre-packaged Chapter 11 filing

During 2001 and 2002, Combustion Engineering experienced a significant increase in the level of new claims and higher total and per-claim settlement costs as compared to prior years. In October 2002, Combustion Engineering and the Company determined that it was likely that the expected asbestos-related costs of Combustion Engineering would exceed the value of its assets ($812 million at September 30, 2002 and $828 million at December 31, 2002) if its historical settlement patterns continued into the future. In October 2002, Combustion Engineering and the Company determined to resolve the asbestos-related liability of Combustion Engineering and its affiliates by reorganizing Combustion Engineering under Chapter 11, the principal business reorganization chapter of the U.S. Bankruptcy Code. Combustion Engineering and the Company determined to structure the Chapter 11 reorganization as a "pre-packaged plan," in which Combustion Engineering would solicit votes from asbestos claimants to approve the plan before the Chapter 11 case was filed with the Bankruptcy Court.

Beginning in October 2002, Combustion Engineering and the Company conducted extensive negotiations with representatives of certain asbestos claimants with respect to a pre-packaged plan. On November 22, 2002, Combustion Engineering and the asbestos claimants' representatives entered into a Master Settlement Agreement for settling open asbestos-related personal injury claims that had been filed against Combustion Engineering prior to November 15, 2002. Combustion Engineering also agreed, pursuant to the Master Settlement Agreement, to form and fund the CE Settlement Trust to administer and pay the asbestos-related personal injury claims settled under the Master Settlement Agreement. Under the terms of the Master Settlement Agreement, eligible claimants who met all criteria to qualify for payment were entitled to receive a percentage of the value of their claim from the CE Settlement Trust and retain a claim against Combustion Engineering for the unpaid balance (the "stub claim"). The Master Settlement Agreement divides claims into three categories based on the status of the claim at November 14, 2002, the status of the documentation relating to the claim and whether or not the documentation establishes a valid claim eligible for settlement and payment by Combustion Engineering. The Master Settlement Agreement was supplemented in January 2003 to clarify the rights of certain claimants whose right to participate in a particular payment category was disputed. The Master Settlement Agreement, as supplemented, settles the value of and provides for the partial payment on approximately 154,000 open asbestos-related personal injury claims that had been lodged against Combustion Engineering.

The Master Settlement Agreement, as supplemented, provided that the CE Settlement Trust was to be funded by:

- cash contributions from Combustion Engineering in the amount of $5 million;
- cash contributions from ABB Inc., a subsidiary of ABB Ltd, in the amount of $30 million;
- a promissory note from Combustion Engineering in the principal amount of approximately $101 million (guaranteed by Asea Brown Boveri, now merged into Holdings); and
- an assignment by Combustion Engineering of the $311 million unpaid balance of principal and interest due to Combustion Engineering from Asea Brown Boveri, now merged into Holdings, under a loan agreement dated May 12, 2000 (guaranteed by ABB Ltd).

Approximately 154,000 eligible claimants have entered into the Master Settlement Agreement or adoption agreements with Combustion Engineering and the CE Settlement Trust and have received partial payment on their claims.

Pre-packaged plan of reorganization

On January 17, 2003, the Company announced that Combustion Engineering and the Company had reached an agreement on a proposed Pre-Packaged Plan of Reorganization for Combustion Engineering under Chapter 11 of the U.S. Bankruptcy Code. The agreement was reached with representatives of certain asbestos claimants with existing asbestos-related personal injury claims against Combustion Engineering (encompassing both claimants who had lodged claims prior to November 15, 2002, and claimants who had filed claims on or after that date and were not eligible to participate in the Master Settlement Agreement) and with the proposed representative of persons who may be entitled to bring asbestos-related personal injury claims in the future.

Note 18 Commitments and contingencies, continued

As proposed, the CE Plan provided for the creation of the Asbestos PI Trust, an independent trust separate and distinct from the CE Settlement Trust, and addressed Asbestos PI Trust Claims, which consist of present and future asbestos-related personal injury claims (including the stub claims of claimants who previously settled pursuant to the Master Settlement Agreement) that arise directly or indirectly from any act, omission, products, or operations of Combustion Engineering, Lummus or Basic. The CE Plan provided that, if it were to become effective, a channeling injunction would be issued under Section 105 of the U.S. Bankruptcy Code pursuant to which the Asbestos PI Trust Claims against ABB Ltd and certain of its affiliates (including Combustion Engineering, Lummus and Basic) would be channeled to the Asbestos PI Trust. The effect of the channeling injunction contemplated by the CE Plan would be that the sole recourse of a holder of an Asbestos PI Trust Claim would be to the Asbestos PI Trust and such holder would be barred from asserting such a claim against ABB Ltd and the affiliates covered by the injunction (including Combustion Engineering and, under the CE Plan as proposed, Lummus and Basic).

As proposed, the CE Plan provided that on its effective date, the Asbestos PI Trust would be funded with the following:

- a $20 million 5 percent term note (the "CE Convertible Note") with a maximum term of ten years from the effective date of the CE Plan, to be issued by Combustion Engineering and secured by its Windsor, Connecticut, real estate and real estate leases (under certain specified contingencies, the Asbestos PI Trust may have the right to convert the term note into ownership of 80 percent of the voting securities of the reorganized Combustion Engineering);
- excess cash held by Combustion Engineering on the effective date of the CE Plan (the "Excess CE Cash");
- a non-interest bearing promissory note (the "ABB Promissory Note") to be issued by ABB Inc. and ABB Ltd, and guaranteed by certain ABB Ltd subsidiaries, in an aggregate amount of up to $350 million payable in installments (including two $25 million payments contingent upon ABB Ltd generating an earning before interest and taxes margin of 12 percent in 2007 and 2008);
- a non-interest bearing promissory note to be issued on behalf of Lummus (the "Lummus Note") in the amount of $28 million payable in relatively equal annual installments over 12 years;
- a non-interest bearing promissory note (the "Basic Note") to be issued on behalf of Basic in the aggregate amount of $10 million payable in relatively equal annual installments over 12 years;
- 30,298,913 shares of ABB Ltd (the "CE Settlement Shares"), which had a fair value of $170 million, $154 million and $86 million at December 31, 2004, 2003 and 2002, respectively; and
- an assignment by Combustion Engineering, Lummus, and Basic to the Asbestos PI Trust of any proceeds under certain insurance policies. As of December 31, 2004, aggregate unexhausted product liability limits under such policies were approximately $200 million for Combustion Engineering, approximately $43 million for Lummus and approximately $28 million for Basic, although amounts ultimately recovered by the Asbestos PI Trust under these policies may be substantially different from the policy limits. In addition, Combustion Engineering would assign to the Asbestos PI Trust scheduled payments under certain of its insurance settlement agreements ($78 million at December 31, 2004). (The proceeds and payments to be assigned are together referred to as "Certain Insurance Amounts".)

In addition, the CE Plan as proposed provided that if Lummus is sold within 18 months after the CE Plan's effective date, ABB Inc. would contribute $5 million to the CE Settlement Trust and $5 million to the Asbestos PI Trust (together, these payments are referred to as the "Lummus Sale Payments"). If the CE Settlement Trust has ceased to exist at that time, both $5 million payments would be made to the Asbestos PI Trust, but in no event would this contribution exceed the net proceeds from the sale of Lummus.

Upon the effective date under the CE Plan, ABB Inc. would indemnify the Combustion Engineering estate against up to $5 million of liability on account of certain contingent claims held by certain indemnified insurers. Further, on the effective date, Asea Brown Boveri (now merged into Holdings) would provide for the benefit of Combustion Engineering a nuclear and environmental indemnity with regard to obligations arising out of Combustion Engineering's Windsor, Connecticut, site. The two indemnities described in this paragraph are referred to as the "Related Indemnities".

Judicial review process

The solicitation of votes to approve the CE Plan began on January 19, 2003. Combustion Engineering filed for Chapter 11 in the U.S. Bankruptcy Court in Delaware on February 17, 2003, based on the terms previously negotiated in connection with the CE Plan. On June 23, 2003, the Bankruptcy Court issued its Order Approving the Disclosure Statement but Recommending Withholding of Confirmation of the Plan of Reorganization for Combustion Engineering for Ten Days (the "Initial Ruling") and related findings of fact. The Initial Ruling approved the disclosure statement that was the document used as the basis for soliciting approval of the CE Plan from asbestos claimants and verified the voting results that approved the CE Plan and indicated that the Bankruptcy Court would recommend that the CE Plan be confirmed if Combustion Engineering and the Company could establish to the court's satisfaction certain specified information. The Company then submitted the additional information for the court's consideration.

On July 10, 2003, the Bankruptcy Court issued a Supplemental and Amendatory Order Making Additional Findings and Recommending Confirmation of Plan of Reorganization (the "Supplemental Ruling"). The Supplemental Ruling recommended to the U.S. District Court, among other things, that the CE Plan be confirmed.

Following the issuance of the Supplemental Ruling, interested parties had a period during which they could appeal the Initial Ruling and the Supplemental Ruling. This appeal period expired on July 24, 2003. A number of interested parties, including a small number of asbestos claimants and certain insurance companies which historically have provided insurance coverage to Combustion Engineering, Lummus and Basic filed appeals based on various objections to the CE Plan. The District Court held a hearing on July 31, 2003, with respect to the appeals and entered its confirmation order on August 8, 2003.

Various parties appealed the District Court's confirmation order to The United States Court of Appeals for the Third Circuit, which granted a motion for expedition of appeals and ordered that all briefs were to be filed by October 7, 2003. On June 3, 2004, the Court of Appeals held a hearing with respect to the appeals of the confirmation order of the District Court. On December 2, 2004, the Court of Appeals issued its decision (the "Third Circuit Decision").

Note 18 Commitments and contingencies, continued

The effect of the Third Circuit Decision was to reverse the District Court's confirmation order in respect of the CE Plan. The Third Circuit Decision focused on three issues raised by the appealing parties which relate to the ultimate terms of the CE Plan: (i) whether the Bankruptcy Court had "related to" jurisdiction over the claims against the non-debtors, Lummus and Basic, that do not arise from any products or operations of Combustion Engineering (the "non-derivative claims"); (ii) whether the non-debtors, Lummus and Basic, could avail themselves of the protection of the channeling injunction by invoking Section 105 of the Bankruptcy Code and contributing assets to the Asbestos PI Trust; and (iii) whether the two-trust structure and use of stub claims in the voting process comply with the Bankruptcy Code. The Court of Appeals held that there were insufficient factual findings to support "related-to" jurisdiction and that Section 105 of the Bankruptcy Code could not be employed to extend the channeling injunction to the non-derivative claims against nondebtors, such as Lummus and Basic. With regard to the two-trust structure, the Court of Appeals remanded the CE Plan to the District Court to determine whether creditors received fair treatment in light of the pre-petition payments made to the CE Settlement Trust participants and the use of stub claims in the voting process. Among other things, the Court of Appeals instructed the lower courts to consider whether payments under the CE Settlement Trust constituted voidable preferences that were inconsistent with the fair distribution scheme of the Bankruptcy Code.

On December 15, 2004, Combustion Engineering filed a petition seeking a rehearing en banc by the Court of Appeals. Specifically, Combustion Engineering and its immediate parent, Asea Brown Boveri, now merged into Holdings, challenged the holding in the Third Circuit Decision that the Bankruptcy and District Courts did not have "related to" jurisdiction over the non-derivative claims against Lummus and Basic and that Section 105 of the Bankruptcy Code could not be used to extend the channeling injunction to such claims. On January 19, 2005, the Court of Appeals denied the petition for rehearing en banc.

Notwithstanding the Third Circuit Decision, the Master Settlement Agreement, which settles the amount of and provides for partial payment on approximately 154,000 asbestos-related claims, remains effective. Early in the Combustion Engineering bankruptcy case, an asbestos claimant commenced an action against the trustee of the CE Settlement Trust and individuals who had received distributions from such trust, asserting that further distributions by the CE Settlement Trust should be enjoined because the transaction that created the CE Settlement Trust was a voidable preference. The Bankruptcy Court ruled that it would not dismiss that action for lack of standing. On October 22, 2004, the trustee of the CE Settlement Trust moved to dismiss the complaint in that action. This matter is pending and no decision has been rendered by the Court.

Following the Third Circuit Decision, the lower courts assumed jurisdiction over further confirmation proceedings in respect of the CE Plan. On January 27, 2005, the Bankruptcy Court authorized the Future Claimants Representative and the Creditors Committee to file any available bankruptcy-related and similar claims against third parties, including preference claims against certain claimants that did not participate in the CE Settlement Trust, and any potential bankruptcy related claims against the Company. The Bankruptcy Court further stated that if Combustion Engineering and the Company cannot agree on modifications to the CE Plan with the Future Claimants Representatives and Creditors Committee, and the representative of Combustion Engineering claimants who opposed the confirmation order, the Bankruptcy Court would appoint an independent representative to prosecute all of the foregoing preference claims and bankruptcy related claims asserted against the Company. The Company also entered into a tolling agreement to extend the time period within which bankruptcy related claims against it could be brought.

Since February 17, 2003, a stay and preliminary injunction have barred the commencement and prosecution of certain asbestos-related claims against Combustion Engineering, Lummus, Basic, certain other entities of the Company and certain other parties, including parties indemnified by the Company. The barred claims include, among others, claims arising from asbestos exposure caused by Combustion Engineering, Lummus or Basic and claims alleging fraudulent conveyance, successor liability and veil piercing. The Company does not know the number or nature of claims that would now be pending against the protected entities if those legal measures had not been in place.

Modified CE Plan

In March 2005, following extensive discussions with certain representatives of various claimants, the Creditors Committee and the Future Claimants Representative, the Company reached an agreement on certain "settlement points" for modifying the CE Plan with a view to bringing it into conformity with the Third Circuit Decision and for providing a mechanism for resolving finally Lummus' potential asbestos liability.

The settlement points contemplate the following elements for finally resolving both Combustion Engineering's and Lummus' potential asbestos liability:

- The modified plan for Combustion Engineering (the "Modified CE Plan") would continue to reflect the CE Plan's fundamental approach of channeling claims against Combustion Engineering to a trust funded, in part, by other entities of the Company.
- Confirmation and effectiveness of the Modified CE Plan would be obtained concurrently with a Chapter 11 Plan for Lummus (the "Lummus Plan"), acceptances to which would be obtained from voting Lummus asbestos claimants prior to Lummus commencing a Chapter 11 case.
- The Company would contribute to the Asbestos PI Trust the CE Convertible Note, the ABB Promissory Note, the Excess CE Cash and the CE Settlement Shares and would provide the Related Indemnities and assign the Certain Insurance Amounts, as contemplated by the CE Plan, subject to any modifications that may be agreed.
- The Company would make an additional contribution (the "Additional Contribution") of $232 million. The Additional Contribution will be used as follows: (i) up to $28 million will be used to fund payment of all current and future asbestos claims against Lummus by a trust created under §524(g) of the Bankruptcy Code pursuant to the Lummus Plan; and (ii) the remaining amount will be used to provide additional funding under the Modified CE Plan to pay CE's asbestos creditors through the Asbestos PI Trust. Under the Modified CE Plan, the Lummus Sale Payments would not be required and the Lummus Note would be replaced by contributions to a separate Lummus § 524(g) trust as discussed below.
- Lummus has retained a person to act as a representative for future Lummus asbestos personal injury claimants (the "Lummus FCR"). The parties to the settlement points have agreed that the Lummus FCR will have determined by April 15, 2005, the appropriate funding to pay in full all current and future Lummus asbestos claims. In the event the Lummus FCR concludes that such amount exceeds $28 million, the Company will increase the amount of its contributions for the benefit of such Lummus claims by the amount in excess of $28 million, up to an additional $5 million. If the Lummus FCR concludes that such amount exceeds $ 33 million, the Company will have the option to terminate the settlement with no further obligations under the settlement points.

Note 18 Commitments and contingencies, continued

- The Company will directly or indirectly pay up to $8 million in respect of certain approved legal fees in the Chapter 11 case of Combustion Engineering.
- The Modified CE Plan would provide for a settlement of all pending preference claims and related claims, including any claims against the Company, its affiliates, and the officers of the Company and the affiliates, directors and employees, being asserted in the CE case.
- The scope of the channeling injunction to be issued under the Modified CE Plan would be the same as under the CE Plan, except that non-derivative claims against Basic would not be subject to the injunction.
- Basic would not be addressed in the Modified CE Plan and would therefore not contribute the Basic Note.
- The Modified CE Plan would also involve certain other adjustments, including certain changes in the relative amounts to be paid by the CE Asbestos PI Trust to different categories of claimants and changes in the administration of the trust.

In a status conference on April 5, 2005, the Bankruptcy Court instructed the Company to submit the documentation relating to the Modified CE Plan and the Lummus Plan to the Bankruptcy Court within 60 days. The Company and various other interested parties are now working to reach agreement on open issues, details relating to the Modified CE Plan and the Lummus Plan and the form and substance of the operative documents and related Bankruptcy Court motions and other pleadings. The Company cannot be certain when those negotiations will be concluded or on what terms the parties will resolve outstanding issues. The Modified CE Plan and the Lummus Plan will become effective only if different classes of their respective creditors vote in favor of the respective plans. The Modified CE Plan and the Lummus Plan will be subject to the approval of the Bankruptcy and District Courts, as well as to further judicial review if appeals are made. While the Company believes that the Modified CE Plan and the Lummus Plan are consistent with the Third Circuit Decision and other applicable laws and precedents, it cannot be certain whether the courts will approve the plans, nor can it predict whether the plans will receive the needed creditor votes.

The Company does not know whether any plan of reorganization for Combustion Engineering or Lummus will ultimately be confirmed or whether asbestos-related liabilities of any other entities of the Company would be resolved by any such plan. If for any reason a Chapter 11 plan relating to Combustion Engineering is not eventually confirmed, Combustion Engineering could be required to enter a Chapter 7 proceeding. If for any reason a Chapter 11 plan relating to Lummus is not eventually confirmed, the Company expects that Lummus' asbestos-related liabilities will have to be resolved through the tort system.

Because the Third Circuit Decision held that non-derivative claims cannot be subject to the CE Plan's proposed channeling injunction, Basic will not be included in the Modified CE Plan. The Company expects that Basic's asbestos-related liabilities will have to be resolved through its own bankruptcy or similar U.S. state court liquidation proceeding or through the tort system.

If any entities of the Company are not included in the protection offered by the channeling injunction entered pursuant to any Combustion Engineering plan that is confirmed, such entities could be required to resolve in the tort system, or otherwise, current and future asbestos-related claims that are asserted against such entities. Such events would be subject to numerous uncertainties, risk and expense.

If U.S. federal legislation addressing asbestos personal injury claims is passed, which is speculative at this time, such legislation may affect the amount that will be required to resolve the asbestos-related claims against entities of the Company.

Effect on the Company's financial position

Expenses. The Company recorded expenses related to asbestos of $262 million, $142 million and $395 million in loss from discontinued operations, net of tax, and $1 million, $3 million and $25 million in income from continuing operations, net of tax, for 2004, 2003 and 2002, respectively. Loss from discontinued operations, net of tax, for 2004 reflects a charge of $232 million taken in connection with the agreement the Company reached in March 2005 on the basic terms of the Modified CE Plan, $17 million resulting from the mark-to-market adjustment relating to the CE Settlement Shares, a credit of $6 million resulting from adjustment of the provision for the estimated liability of Basic as described below, and other costs of $19 million. Loss from discontinued operations, net of tax, for 2003 includes a charge of $68 million, net of tax, resulting from the mark-to-market adjustment relating to the CE Settlement Shares, a provision of $41 million, representing the present value of the first two $25 million payments under the ABB Promissory Note, which were previously considered contingent, as well as $33 million of other costs. The 2002 amount reflected the Company's estimate of incremental total costs to be incurred based upon the terms of the CE Plan.

Cash Payments. Cash payments, before insurance recoveries, related to Combustion Engineering's asbestos-related claims were $56 million (including $49 million contributed to the CE Settlement Trust, described above), $391 million (including $365 million contributed to the CE Settlement Trust), and $236 million (including $30 million contributed into the CE Settlement Trust), in 2004, 2003 and 2002, respectively. Administration and defense costs were $10 million, $36 million and $32 million in 2004, 2003 and 2002, respectively.

Cash payments related to asbestos-related claims against Lummus and Basic made through December 31, 2004 were approximately $3 million and $3 million, respectively. Cash payments to resolve asbestos-related claims against entities other than Combustion Engineering, Lummus and Basic have been immaterial to date, totaling less than $1 million in the aggregate. The Company has not maintained a reserve for the claims pending against entities other than Combustion Engineering, Lummus and Basic.

Provisions. At December 31, 2004, 2003 and 2002, the Company recorded total provisions on a consolidated basis of $1,023 million, $815 million and $1,095 million in respect of asbestos-related claims and defense costs related to Combustion Engineering, Lummus and Basic. The Company's provisions in continuing operations for asbestos-related liabilities at December 31, 2003 and 2002, now include $2 million and $4 million, respectively, previously classified in liabilities held for sale and in discontinued operations. Based upon the expected implementation of the Modified CE Plan and the Lummus Plan, the Company recorded provisions of $985 million and $33 million, respectively, at December 31, 2004, in accrued liabilities and other. If the Modified CE Plan and Lummus Plan become effective, certain amounts will be reclassified as of the effective date to other long-term liabilities based on the timing of the future cash payments to the Asbestos PI Trust or any similar trust created under the Lummus Plan. Future earnings will be affected by mark-to-market adjustments relating to the CE Settlement Shares through the effective date of the Plan, as well as contingent payments when they become probable of payment. The provisions at December 31, 2003 and 2002, were based on the Company's obligations under the CE Plan and assumed that the CE Plan would be confirmed and become effective as proposed.

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

Note 18 Commitments and contingencies, continued

In light of the decision of the Court of Appeals, the Company has made a separate provision at December 31, 2004, with respect to Basic in accordance with Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies,* and Financial Accounting Standards Board Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss: an interpretation of FASB Statement No. 5.* With respect to Basic, the Company has established a provision of $5 million relating to its asbestos-related liabilities based on analysis of historical claims statistics and related settlement costs and a projection of such claims activity over the next several years.

Management believes that it is probable that the full amount of the relevant provisions will be required to settle the respective asbestos-related liabilities of Combustion Engineering, Lummus and Basic. The Company may incur liability greater than the existing provisions, whether in connection with a modified plan of bankruptcy or otherwise, but management does not believe that the amount of any such incremental liability can be reasonably estimated or that there is a better estimate of these liabilities than the amounts that are provided for.

The Company's provisions in respect of asbestos-related claims include, as stated above, amounts for each of Combustion Engineering, Lummus and Basic. The assets of Combustion Engineering include amounts receivable of approximately $221 million, $232 million and $241 million at December 31, 2004, 2003 and 2002, respectively, for probable insurance recoveries, which were established with respect to asbestos-related claims.

The ultimate outcome of the Company's efforts to resolve the asbestos-related personal injury claims against Combustion Engineering and other entities of the Company (including any such claims against third parties indemnified by entities of the Company) remains uncertain. The related costs may be higher than the Company's provisions reflect and could have a material adverse impact on its consolidated financial position, results of operations and cash flows. In the event the Modified CE Plan or Lummus Plan do not become effective, the ultimate cost for the resolution of asbestos-related personal injury claims against Combustion Engineering and Lummus may be significantly higher and could have a material adverse impact on the Company's consolidated financial position, results of operations and cash flows.

Contingencies related to former Nuclear Technology business

The Company retained liabilities for certain specific environmental remediation costs at two sites in the U.S. that were operated by its Nuclear Technology business, which was sold to British Nuclear Fuels PLC (BNFL) in April 2000. Pursuant to the sale agreement with BNFL, 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 C-E Nuclear Power Inc. subsidiary's Hematite, Missouri facility. The primary environmental liabilities associated with these sites relate to the costs of remediating radiological and chemical contamination at these 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 BNFL has made publicly available, the Company believes that it may take until 2013 to remediate the Hematite site. With respect to the Windsor site, the Company believes the remediation may take until 2010. At the Windsor site, a significant portion of the contamination is related to activities that were formerly conducted by or for the U.S. government. The Company believes that a significant portion of the remediation costs will be covered by the U.S. government under the U.S. government's Formerly Utilized Sites Remedial Action Program. The Company has estimated the total contingent liability in a range of loss from $266 million to $447 million on an undiscounted basis. The Company has recorded in other liabilities a reserve of $266 million, net of payments from inception of $34 million, at December 31, 2004. Payments for remediation were $10 million, $6 million and $12 million during 2004, 2003 and 2002, respectively. The Company does not expect the majority of the remaining costs to be paid during 2005.

Note 19 Taxes

Provision for taxes consists of the following:

Year ended December 31,	2004	2003	2002
Current taxes on income	$ 333	$ 217	$ 255
Deferred taxes	(22)	28	(174)
Tax expense from continuing operations	**311**	**245**	**81**
Tax expense from discontinued operations	41	42	91

The weighted-average tax rate is the tax rate that results from applying each subsidiary's statutory income tax rate to the income from continuing operations before taxes and minority interest. The Company operates in countries that have differing tax laws and rates. Consequently, the consolidated weighted-average effective rate will vary from year to year according to the source of earnings or losses by country.

Year ended December 31,	2004	2003	2002
Reconciliation of taxes:			
Income (loss) from continuing operations before taxes and minority interest	$ 861	$ (60)	$ 66
Weighted-average tax rate	38.8%	(13.3)%	40.9%
Taxes at weighted-average tax rate	**334**	**8**	**27**
Items taxed at rates other than the weighted-average tax rate	(36)	15	(126)
Changes in valuation allowance	107	266	167
Changes in enacted tax rates	(18)	4	1
Other, net	(76)	(48)	12
Tax expense from continuing operations	**$ 311**	**$ 245**	**$ 81**
Effective tax rate for the year	**36.1%**	**(408.3)%**	**122.7%**

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

Note 19 Taxes, continued

In 2003, items taxed at rates other than the weighted-average tax rate included the tax effect of an $84 million expense comprising the change in fair value of the embedded derivative contained in the Company's $968 million convertible bonds combined with the continued amortization of the discount on issuance of these bonds (see Note 15), partially offset by earnings recognized in relation to certain of the Company's equity accounted investments. In 2002, items taxed at rates other than the weighted-average tax rate included a $215 million gain, reflecting the change in fair value of the embedded derivative contained in the Company's $968 million convertible bonds, partially offset by amortization of the discount on issuance of these bonds, as well as earnings recognized in relation to certain of the Company's equity accounted investments.

The reconciliation of taxes for 2004, 2003 and 2002 included changes in the valuation allowance recorded in certain jurisdictions in respect of deferred tax assets that were recognized for net operating losses incurred in those jurisdictions. The change in valuation allowance was required as the Company determined it was more likely than not that such deferred tax assets would no longer be realized. In 2004, the change in valuation allowance is predominately related to the Company's operations in certain countries including Canada and France. In 2003, the change in valuation allowance included an allowance of approximately $258 million on deferred tax assets as a result of the Company's determination that it was more likely than not that such deferred tax assets would no longer be realized within the Company's remaining Oil, Gas and Petrochemicals business. In 2002, the change in valuation allowance included an allowance of $17 million on deferred tax assets as a result of the overstatement within the Company's Power Technologies division in Italy (see Note 18). The change in valuation allowance in 2002 also included an allowance of approximately $33 million on deferred tax assets as a result of the Company's determination that it was more likely than not that such deferred tax assets would no longer be realized within the Company's remaining Oil, Gas and Petrochemicals business.

In 2004 and 2003, the reconciling item "Other, net" included a benefit of approximately $39 million and approximately $56 million, respectively, relating to the favorable resolution of certain prior year tax matters, including the release of a $38 million tax provision related to a tax case ruled in favor of the Company in 2003. Furthermore, 2004 included the one-time benefit of approximately $45 million from the losses of a post divestment reorganization and 2003 included the expense of approximately $16 million related to a tax claim filed in Central Europe. Additionally, in 2003 and 2002, "Other, net" included $5 million and $7 million, respectively, related to expenses that are no longer deductible under the Italian tax law as a result of the overstatement within the Company's Power Technologies division in Italy.

In 2003, the loss from continuing operations before taxes and minority interest of $60 million included an $84 million expense comprising the change in fair value of the embedded derivative contained in the Company's $968 million convertible bonds combined with the continued amortization of the discount on issuance of these bonds. Furthermore, the tax expense from continuing operations included the release of a $38 million tax provision related to a tax case ruled in favor of the Company, offset by expense of approximately $16 million related to a tax claim filed in Central Europe. In addition, the tax expense from continuing operations included a valuation allowance of approximately $258 million on deferred tax assets as a result of the determination that it was more likely than not that such deferred tax assets would no longer be realized within the Company's remaining Oil, Gas and Petrochemicals business. The effective tax rate applicable to income from continuing operations excluding the tax effect of these items would be 37.5 percent.

In 2002, the tax expense from continuing operations included an allowance of approximately $33 million on deferred tax assets as a result of the determination that it was more likely than not that such deferred tax assets would no longer be realized within the Company's remaining Oil, Gas and Petrochemicals business as well as an allowance of $17 million on deferred tax assets and $7 million related to non-deductible expenses under Italian tax law both as a result of the overstatement within the Company's Power Technologies division in Italy. The effective tax rate applicable to income from continuing operations excluding the tax effect of these items would have been 36.4 percent.

Deferred income tax assets and liabilities consist of the following:

December 31,	2004	2003
Deferred tax liabilities:		
Financing receivables	$ (236)	$ (244)
Property, plant and equipment	(290)	(464)
Pension and other accrued liabilities	(479)	(371)
Other	(148)	(131)
Total deferred tax liability	**(1,153)**	**(1,210)**
Deferred tax assets:		
Investments and other	36	20
Property, plant and equipment	77	172
Pension and other accrued liabilities	833	692
Unused tax losses and credits	1,694	1,713
Other	553	444
Total deferred tax asset	**3,193**	**3,041**
Valuation allowance	(2,017)	(1,872)
Deferred tax asset, net of valuation allowance	**1,176**	**1,169**
Net deferred tax asset (liability)	**$ 23**	**$ (41)**

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

Note 19 Taxes, continued

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

December 31,	2004		2003	
	Current	Non-current	Current	Non-current
Deferred tax liability	$ (200)	$ (953)	$ (188)	$ (1,022)
Deferred tax asset, net of valuation allowance	670	506	579	590
Net deferred tax asset (liability)	**$ 470**	**$ (447)**	**$ 391**	**$ (432)**

The non-current deferred tax asset, net of valuation allowance, is included in investments and other.

Certain entities have deferred tax assets related to net operating loss carry-forwards and other items. Because recognition of these assets is uncertain, valuation allowances of $2,017 million and $1,872 million have been established at December 31, 2004 and 2003, respectively.

At December 31, 2004, net operating loss carry-forwards of $4,291 million and tax credits of $141 million are available to reduce future taxes of certain subsidiaries, of which $2,241 million loss carry-forwards and $92 million tax credits expire in varying amounts through 2024 and the remainder does not expire. These carry-forwards are predominantly related to the Company's U.S. and German operations.

The provision for tax contingencies was approximately $295 million and $300 million at December 31, 2004 and 2003, respectively. A significant part of these provisions has been accrued for pending court cases in Northern Europe relating to certain sale and leaseback transactions.

The Company had no income tax expense impact from the repatriation provision of the American Jobs Creation Act of 2004 regarding the one time dividend tax rate reduction.

Note 20 Other liabilities

The Company's other liabilities amount to $1,083 million and $1,077 million at December 31, 2004 and 2003, respectively.

Other liabilities include non-current provisions of $439 million and $441 million, deferred income of $143 million and $158 million and non-current derivative liabilities of $53 million and $40 million at December 31, 2004 and 2003, respectively. Included in non-current provisions are amounts accrued for the Company's estimated environmental remediation costs related to its former Nuclear Technology business (see Note 18) of $266 million and $276 million at December 31, 2004 and 2003, 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 $314 million and $312 million at December 31, 2004 and 2003, respectively, and have been recorded as deposit liabilities. Net gains on these transactions are being recognized over the lease terms.

Note 21 Employee benefits

The Company operates several pension plans, including defined benefit, defined contribution and termination indemnity plans, 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. The Company also operates postretirement benefit plans in certain countries.

Some of these plans require employees to make contributions and enable employees to earn matching or other contributions from the Company. The funding policies of the Company's plans are consistent with the local government and tax requirements. The Company has several pension plans that are not required to be funded pursuant to local government and tax requirements.

The Company uses a December 31 measurement date for its plans.

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

Note 21 Employee benefits, continued

Obligations and funded status

The following tables set forth the change in benefit obligations, the change in plan assets and the funded status recognized in the Consolidated Financial Statements at December 31, 2004 and 2003, for the Company's benefit plans:

	Pension benefits		Other benefits	
	2004	2003	2004	2003
Benefit obligation at the beginning of year	$ 7,721	$ 7,250	$ 397	$ 444
Service cost	190	204	3	3
Interest cost	375	369	23	26
Contributions from plan participants	46	50	10	7
Benefit payments	(523)	(528)	(39)	(38)
Benefit obligations of businesses acquired	38	–	–	–
Benefit obligations of businesses disposed	(118)	(131)	–	–
Actuarial (gain) loss	366	(371)	(23)	42
Plan amendments and other	(14)	(16)	(3)	(88)
Exchange rate differences	632	894	1	1
Benefit obligation at the end of year	**8,713**	**7,721**	**369**	**397**
Fair value of plan assets at the beginning of year	6,041	5,319	–	–
Actual return on plan assets	476	407	–	–
Contributions from employer	753	309	29	31
Contributions from plan participants	46	50	10	7
Benefit payments	(523)	(528)	(39)	(38)
Plan assets of businesses acquired	34	–	–	–
Plan assets of businesses disposed	(92)	(127)	–	–
Plan amendments and other	(8)	–	–	–
Exchange rate differences	535	611	–	–
Fair value of plan assets at the end of year	**7,262**	**6,041**	**–**	**–**
Unfunded amount	**1,451**	**1,680**	**369**	**397**
Unrecognized transition liability	–	–	(11)	(14)
Unrecognized actuarial loss	(1,019)	(782)	(141)	(174)
Unrecognized prior service cost	(22)	(38)	16	15
Net amount recognized	**$ 410**	**$ 860**	**$ 233**	**$ 224**

In May 2003, the Emerging Issues Task Force of the Financial Accounting Standards Board reached a consensus on Emerging Issues Task Force No. 03-4 (EITF 03-4), *Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan.* EITF 03-4 clarifies that a cash balance plan, as defined by the guidance, should be accounted for as a defined benefit plan using the traditional unit credit attribution method. The Company adopted EITF 03-4 in May 2003. As a result, the Company accounts for certain of its plans in Switzerland as cash balance plans in accordance with EITF 03-4. The adoption of EITF 03-4 resulted in an actuarial gain of $406 million during 2003.

The following amounts have been recognized in the Company's Consolidated Balance Sheet at December 31, 2004 and 2003:

	Pension benefits		Other benefits	
	2004	2003	2004	2003
Prepaid pension cost	$ (536)	$ (569)	$ –	$ –
Accrued pension cost	1,272	1,613	233	224
Intangible assets	(11)	(2)	–	–
Accumulated other comprehensive loss	(315)	(182)	–	–
Net amount recognized	**$ 410**	**$ 860**	**$ 233**	**$ 224**

Included in the $1,551 million of pension and other employee benefits at December 31, 2004, are $46 million of long-term employee-related obligations not accounted for under Statement of Financial Accounting Standards No. 87 (SFAS 87), *Employers' Accounting for Pensions* or Statement of Financial Accounting Standards No. 106 (SFAS 106), *Employers' Accounting for Postretirement Benefits Other Than Pensions.* Additionally, accrued liabilities and other (see Note 16), contains an accrual of $77 million and $112 million at December 31, 2004 and 2003, respectively, for short-term employee benefits that do not meet the criteria of SFAS 87 or SFAS 106.

The pension and other employee benefits liability reported in the Consolidated Balance Sheets includes $326 million and $216 million at December 31, 2004 and 2003, respectively, to record a minimum pension liability. The $216 million of minimum pension liability at December 31, 2003, included liabilities related to discontinued operations of $32 million.

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

Note 21 Employee benefits, continued

The accumulated benefit obligation (ABO) for all defined benefit pension plans was $8,228 million and $7,414 million at December 31, 2004 and 2003, respectively.

The projected benefit obligation (PBO) and fair value of plan assets for pension plans with benefit obligations in excess of plan assets were:

December 31,	2004			2003		
	PBO	Assets	Difference	PBO	Assets	Difference
PBO exceeds assets	$ 8,294	$ 6,810	$ 1,484	$ 4,432	$ 2,624	$ 1,808
Assets exceed PBO	419	452	(33)	3,289	3,417	(128)
Total	**$ 8,713**	**$ 7,262**	**$ 1,451**	**$ 7,721**	**$ 6,041**	**$ 1,680**

The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were:

December 31,	2004			2003		
	ABO	Assets	Difference	ABO	Assets	Difference
ABO exceeds assets	$ 5,008	$ 3,910	$ 1,098	$ 2,233	$ 667	$ 1,566
Assets exceed ABO	3,220	3,352	(132)	5,181	5,374	(193)
Total	**$ 8,228**	**$ 7,262**	**$ 966**	**$ 7,414**	**$ 6,041**	**$ 1,373**

Components of net periodic benefit cost

For the years ended December 31, 2004, 2003 and 2002, net periodic benefit cost consists of the following:

	Pension benefits			Other benefits		
	2004	2003	2002	2004	2003	2002
Service cost	$ 190	$ 204	$ 193	$ 3	$ 3	$ 6
Interest cost	375	369	328	23	26	30
Expected return on plan assets	(330)	(325)	(292)	–	–	–
Amortization transition liability	5	1	13	2	6	7
Amortization prior service cost	4	9	15	(2)	–	–
Amortization of net actuarial loss	37	45	23	9	9	6
Other	4	8	9	2	–	–
Net periodic benefit cost	**$ 285**	**$ 311**	**$ 289**	**$ 37**	**$ 44**	**$ 49**

Assumptions

The following weighted-average assumptions were used to determine benefit obligations at December 31, 2004 and 2003:

	Pension benefits		Other benefits	
	2004	2003	2004	2003
Discount rate	4.60%	5.00%	5.75%	6.25%
Rate of compensation increase	2.23%	2.31%	–	–

The following weighted-average assumptions were used to determine net periodic benefit cost for years ended December 31, 2004, 2003 and 2002:

	Pension benefits			Other benefits		
	2004	2003	2002	2004	2003	2002
Discount rate	4.97%	5.10%	5.10%	6.25%	6.74%	7.24%
Expected long-term return on plan assets	5.57%	6.06%	6.21%	–	–	–
Rate of compensation increase	2.28%	3.07%	3.07%	–	–	–

The expected long-term rate of return on assets assumption is derived from the current and projected asset allocation, the current and projected types of investments in each asset category and the long-term historical returns for each investment type.

The Company has multiple non-pension postretirement benefit plans. The Company's health care plans are generally contributory with participants' contributions adjusted annually.

	2004	2003
Health care cost trend rate assumed for next year	11.76%	11.81%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	6.24%	5.96%
Year that the rate reaches the ultimate trend rate	2013	2013

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

Note 21 Employee benefits, continued

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, 2004:

	1-percentage-point increase	1-percentage-point decrease
Effect on total of service and interest cost	$ 2	$ (1)
Effect on postretirement benefit obligation	$ 25	$ (22)

As of July 1, 2004, the Company adopted Financial Accounting Standards Board Staff Position (FSP) No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (which superceded FAS FSP No. 106-1). This FSP provides authoritative guidance on the accounting for the U.S. subsidy and other provisions of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The effects of these provisions resulted in a reduction of $24 million in ABO with an offset to unrecognized net actuarial loss in other benefits. The U.S. government will begin making the subsidy payments for employers in 2006. The effect of the Act on the foreign net periodic benefit costs at December 31, 2004, is $2 million.

Plan assets

The Company's pension plan weighted-average asset allocations at December 31, 2004 and 2003, and approximate target allocation at December 31, 2004 is as follows:

	Plan assets		Target allocation
Asset category:	**2004**	**2003**	**2004**
Equity securities	33%	37%	30%
Debt securities	54%	49%	51%
Real estate	9%	10%	12%
Other	4%	4%	7%
Total	**100%**	**100%**	**100%**

The pension plan assets are invested in accordance with statutory regulations, pension plan rules, and recommendations of the pension fund trustees. The investment allocation strategy is expected to remain consistent with historical averages.

At December 31, 2004 and 2003, plan assets included approximately $5 million (approximately 1 million shares) of the Company's capital stock.

Contributions

During 2004, the Company made a non-cash contribution of $549 million of available-for-sale debt securities to certain of the Company's pension plans in Germany.

The Company expects to contribute approximately $150 million to its pension plans and $29 million to its other postretirement benefit plans in 2005.

The Company also maintains several defined contribution plans. The expense for these plans was $71 million, $86 million and $90 million in 2004, 2003 and 2002, respectively. The Company also contributed $74 million, $80 million and $74 million to multi-employer plans in 2004, 2003 and 2002, respectively.

Estimated future benefit payments

The following table reflects the total pension benefits expected to be paid from the plans or from the Company's assets, including both the Company's share of the benefit cost and the participants' share of the cost, which is funded by participant contributions. Additionally, the Medicare subsidies column represents payments estimated to be received from the U.S. government as part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

		Other postretirement benefits	
	Pension benefits	Benefit payments	Medicare subsidies
2005	$ 495	$ 29	$ –
2006	509	30	(2)
2007	529	31	(2)
2008	545	30	(2)
2009	565	30	(2)
Years 2010–2014	2,980	152	(11)

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

Note 22 Employee incentive plans

Management incentive plan

The Company maintains 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.

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 certain circumstances such as death or disability. All warrants and WARs expire six years from the date of grant. 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. Accordingly, exercise prices are presented below in Swiss francs. 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 25 as permitted by SFAS123. All warrants were issued with exercise prices greater than the market prices of the stock on the dates of grant. Accordingly, the Company records 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 Financial Accounting Standards Board Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation,* the Company records 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.

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

	Number of warrants	Number of shares (1)	Weighted-average exercise price (Swiss francs) (2)
Outstanding at January 1, 2002	76,496,150	25,240,463	26.55
Forfeited	(8,105,090)	(2,043,264)	24.03
Outstanding at December 31, 2002	**68,391,060**	**23,197,199**	**26.77**
Granted (3)	27,254,250	5,450,850	7.00
Forfeited	(1,435,000)	(361,758)	19.66
Outstanding at December 31, 2003	**94,210,310**	**28,286,291**	**23.05**
Granted (4)	14,475,000	2,895,000	7.50
Forfeited	(3,000,000)	(661,864)	9.94
Expired	(10,538,000)	(8,612,664)	22.17
Outstanding at December 31, 2004	**95,147,310**	**21,906,763**	**21.74**
Exercisable at December 31, 2002	29,751,060	13,456,203	25.71
Exercisable at December 31, 2003	49,381,060	18,404,851	30.11
Exercisable at December 31, 2004	**55,230,560**	**13,923,413**	**30.08**

(1) All warrants granted prior to 1999 require the exercise of 100 warrants for 81.73 registered shares of ABB Ltd. Warrants granted in 1999, 2000 and 2001 require the exercise of 100 warrants for 25.21 registered shares of ABB Ltd. No warrants were granted in 2002. Warrants granted in 2003 and 2004 required the exercise of five warrants for one registered share of ABB Ltd. Information presented reflects the number of registered shares of ABB Ltd that warrant holders can receive upon exercise.

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

(3) The aggregate fair value at date of grant of warrants issued in 2003 was $12 million, assuming a zero percent dividend yield, expected volatility of 44 percent, risk-free interest rate of 2.41 percent, and an expected life of six years.

(4) The aggregate fair value at date of grant of warrants issued in 2004 was $4 million, assuming dividend yield of 1.53 percent, expected volatility of 28.5 percent, risk-free interest rate of 1.98 percent, and an expected life of six years.

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

Note 22 Employee incentive plans, continued

Presented below is a summary of warrants outstanding at December 31, 2004:

Exercise price (in Swiss francs) [1]	Number of warrants	Number of shares [2]	Weighted-average remaining life
29.75	4,648,060	1,171,758	0.4 years
32.73	14,565,000	3,671,781	0.9 years
42.05	19,630,000	4,948,648	1.4 years
13.49	16,387,500	4,131,226	2.9 years
7.00	25,441,750	5,088,350	4.9 years
7.50	14,475,000	2,895,000	5.9 years

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

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

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 $4 million for 2004, expense of $1 million for 2003 and income of $14 million for 2002, respectively, as a result of changes in the fair value of the outstanding WARs and the vested portion. To hedge its exposure to fluctuations in fair value of outstanding WARs, the Company purchases cash-settled call options, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. In accordance with EITF 00-19 the cash-settled call options have been recorded as assets measured at fair value (see Note 5), with subsequent changes in fair value recorded through earnings as an offset to the compensation expense recorded in connection with the WARs. During 2004, 2003 and 2002, the Company recognized expense of $15 million, $9 million and $26 million, respectively, in interest and other finance expense, related to the cash-settled call options.

The aggregate fair value of outstanding WARs was $14 million and $17 million at December 31, 2004 and 2003, 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, 2002	**103,553,070**
Exercised	(1,455,080)
Forfeited	(3,803,750)
Outstanding at December 31, 2002	**98,294,240**
Granted	21,287,000
Exercised	(2,052,500)
Forfeited	(1,850,000)
Outstanding at December 31, 2003	**115,678,740**
Granted	30,490,000
Exercised	(3,481,220)
Forfeited	(2,600,000)
Expired	(7,895,000)
Outstanding at December 31, 2004	**132,192,520**

At December 31, 2004 and 2003, 81,590,520 and 57,619,240 of the WARs were exercisable, respectively. The aggregate fair value at date of grant of WARs issued in 2004 and 2003 was $8 million and $9 million, respectively. No WARs were granted in 2002.

Employee Share Acquisition Plan

To incentivize employees, the Company granted stock options under an Employee Share Acquisition Plan (ESAP Plan) in November 2004. In the initial launch of the ESAP Plan, employees in eleven countries, including the United States, were invited to participate. The ESAP Plan is an employee stock option plan with a savings feature. Employees save over a twelve-month savings period, by way of monthly salary deductions. The maximum monthly savings amount is the lower of 10 percent of gross monthly salary or the local currency equivalent of 750 Swiss francs. At the end of the savings period, employees choose whether to exercise their stock options using their savings plus interest to buy ABB Ltd shares (American Depositary Shares (ADS) in the case of employees in the United States – each ADS representing one registered share of the Company) at the exercise price set at the grant date, or have their savings returned with interest. The savings are accumulated in a bank account held by a third party trustee on behalf of the participants and earn interest.

Note 22 Employee incentive plans, continued

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

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

The exercise price per share and ADS of 6.95 Swiss francs and $5.90, respectively, was determined using the respective closing price of the ABB Ltd share on SWX Swiss Exchange (virt-x) and ADS on the New York Stock Exchange on November 9, 2004, the grant date. The Company granted stock options, such that, if fully exercised, the Company would issue 7,548,360 registered shares (including shares represented by ADS). The aggregate fair value of the awards at date of grant was $5 million, assuming a zero percent dividend yield, expected volatility of 28.25 percent, a risk-free interest rate of 0.97 percent and a life of one year from grant date. Forfeitures since grant date have been insignificant.

The Company accounts for awards under the ESAP Plan using the intrinsic value method of APB 25. The awards were issued with an exercise price equal to the market price of the stock on grant date. Accordingly, the intrinsic value as of grant date was zero and the Company has recorded no compensation expense related to the ESAP Plan.

Performance Incentive Share Plan

In December 2004, the Company introduced a Performance Incentive Share Plan (Performance Plan) for members of its Executive Committee (EC Members). EC Members did not participate in the management incentive plan in 2004.

The Performance Plan involves annual conditional grants of ABB Ltd shares (or ADSs where deemed appropriate by the Nomination and Compensation Committee). The number of shares conditionally granted is dependent upon the base salary of the EC Member. The actual number of shares that the participants will receive free of charge at a future date is dependent on 1) the performance of ABB Ltd shares during a defined period (Evaluation Period) compared to those of a selected peer group of publicly-listed multinational companies and 2) the term of service of the respective EC Member in that capacity during the Evaluation Period. The actual number of shares received after the Evaluation Period cannot exceed 100 percent of the conditional grant.

The Evaluation Period of the initial launch was defined as the period from March 15, 2004, to March 15, 2006. The reference price of 7.68 Swiss francs for the purpose of comparison with the peers was calculated as the average of the closing prices of the ABB Ltd share on SWX Swiss Exchange (virt-x) over the 20 trading days preceding March 15, 2004.

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

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

If an EC Member gives notice of resignation or, under certain circumstances is given notice of termination, and the vesting period has not expired, then the right to shares is forfeited. In the event of death or disability during the vesting period, the conditional grant size for that participant is reduced pro rata based on the remaining vesting period. An evaluation of the Company's Performance for the Evaluation Period up to the date of death or disability is made to establish the number of shares that vest. If a Performance Plan participant ceases to be an EC Member for reasons other than described above, the conditional grant size is reduced pro rata based on the portion of the vesting period remaining when the participant ceases to be an EC Member. In respect of a Performance Plan grant for which the vesting period has not expired, the Nomination and Compensation Committee can invite a new EC Member to receive a conditional grant, adjusted to reflect the shorter service period.

In 2004, 443,430 shares were conditionally granted to EC Members. In January 2005, a further 59,001 shares were conditionally granted under the 2004 launch to a new EC Member.

The Company accounts for awards under the Performance Plan using the intrinsic value method of APB 25. As the shares that vest are awarded free of charge, the intrinsic value of the award is equivalent to the market price of the stock. Since the actual number of shares that participants will ultimately receive is not determinable until March 15, 2006, the Performance Plan is deemed to be a variable plan in accordance with APB 25. Changes in the fair value of the Company's stock and actual number of shares that vest up to July 1, 2005, date of adoption of SFAS 123R, will result in a change in the intrinsic value and amount of the awards and a corresponding change to compensation expense over the vesting period. The amount of compensation expense for 2004 was insignificant. The aggregate fair value of the 2004 awards at grant date, assuming vesting of the maximum award in March 2006, was approximately $2 million.

Note 23 Stockholders' equity

In March 2003, the Company sold 80 million treasury shares in two transactions for approximately $156 million.

At the Company's annual general meeting held on May 16, 2003, the Company's shareholders approved amendments to its articles of incorporation providing for an increase in authorized share capital and an increase in contingent share capital. The amendments include the creation of 250 million Swiss francs in authorized share capital, replacing the 100 million Swiss francs in authorized share capital that expired in June 2001. This entitled the Company's Board of Directors to issue up to 100 million new ABB Ltd shares, including approximately 30 million CE Settlement Shares (see Note 18).

Note 23 Stockholders' equity, continued

The amendments also included an increase of contingent capital from 200 million Swiss francs to 750 million Swiss francs, allowing the issuance of up to a further 300 million new ABB Ltd shares which may be used primarily for the exercise of conversion rights granted in connection with issuance of bonds and other financial market instruments and for the issuance of new shares to employees.

In October 2003, the Company announced a three-component capital-strengthening program, comprised of a share capital increase, a credit facility agreement and a bond issuance. As part of this program, in November 2003, an extraordinary shareholders' meeting resolved to increase the Company's share capital by approximately 840 million shares through a rights issue. In December 2003, the Company completed the 7-for-10 rights offering for the 840 million new registered shares at an offer price of 4 Swiss francs per share resulting in a net increase of capital stock and additional paid in capital of approximately $2.5 billion.

In December 2003, the Company issued 30,298,913 CE Settlement Shares out of its authorized capital for purposes of fulfilling the Company's obligations under a pre-packaged plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code of Combustion Engineering. In accordance with its then current articles of incorporation, the pre-emptive rights of the shareholders were excluded and allocated to a Company subsidiary, which subscribed for these shares and holds them until they will be contributed to the Asbestos PI Trust or any similar trust, once a plan of reorganization of Combustion Engineering is declared effective.

At December 31, 2004, the Company had 2,440,016,034 authorized shares. Of these, 2,070,314,947 shares are registered and issued, including 30,298,913 CE Settlement Shares that are reserved for use in connection with a pre-packaged plan of reorganization of Combustion Engineering. As these shares are presently held by one of the Company's subsidiaries and carry no participation rights, these shares are not treated as outstanding for the purposes of the Company's Consolidated Financial Statements. The CE Settlement Shares will only become outstanding and carry participation rights once a plan of reorganization for Combustion Engineering becomes effective and the shares have been contributed to the Asbestos PI Trust or any similar trust created under such a plan. Should a plan ultimately not become effective, the CE Settlement Shares reserved for such use would be cancelled by the Company.

At December 31, 2004, including the securities issued under the employee incentive plans and call options sold to a bank at fair value during 2001, 2003 and 2004, the Company had outstanding obligations to deliver 62 million shares at exercise prices ranging from 6.95 to 42.05 Swiss francs. These financial instruments expire in periods ranging from June 2005 to December 2010 and were recorded as equity instruments in accordance with EITF 00-19. Also, at December 31, 2004, the Company had obligations to deliver approximately 107 million shares at a conversion price of $9.03 as a result of the issuance of convertible debt in May 2002 and to deliver approximately 105 million shares at a conversion price of 9.53 Swiss francs as a result of the issuance of convertible debt in September 2003. In addition, at December 31, 2004, the Company had outstanding contingent obligations to deliver up to a maximum of 0.5 million shares free of charge to EC Members under the Performance Plan (see Note 22).

Dividends are payable to the Company's stockholders based on the requirements of Swiss law, ABB Ltd's Articles of Incorporation, and stockholders' equity as reflected in the unconsolidated financial statements of ABB Ltd prepared in compliance with Swiss law. At December 31, 2004, of the 8,911 million Swiss francs stockholders' equity reflected in such unconsolidated financial statements, 5,176 million Swiss francs is share capital, 2,191 million Swiss francs is restricted, 1,533 million Swiss francs is unrestricted and 11 million Swiss francs is available for distribution.

Note 24 Earnings per share

Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise: outstanding written call options, if dilutive; the securities issued under the Company's employee incentive plans, if dilutive; and shares issuable in relation to outstanding convertible bonds, if dilutive. The shares issuable in relation to the warrants and options outstanding in connection with the Company's employee incentive plans were excluded from the computation of diluted earnings per share in 2003 and 2002 as their inclusion would have been antidilutive. In 2004, only the shares issuable in relation to the warrants and options outstanding in connection with the Company's December 2003 launch under the management incentive plan were included in the computation of diluted earnings (loss) per share as the inclusion of potential shares from the warrants and options of other launches under the employee incentive plans would have been antidilutive. In 2002, the shares issuable in relation to the $968 million convertible bonds were included in the computation of diluted earnings per share for the period they were outstanding. In 2004 and 2003, the shares issuable in relation to the convertible bonds were excluded from the calculation of diluted earnings per share as their inclusion would have been antidilutive.

Basic earnings (loss) per share:

Year ended December 31,	2004	2003	2002
Income (loss) from continuing operations	$ 448	$ (371)	$ (126)
Loss from discontinued operations, net of tax	(483)	(408)	(693)
Net loss	**$ (35)**	**$ (779)**	**$ (819)**
Weighted-average number of shares outstanding (in millions)	2,028	1,220	1,113
Earnings (loss) per share:			
Income (loss) from continuing operations	$ 0.22	$ (0.30)	$ (0.11)
Loss from discontinued operations, net of tax	(0.24)	(0.34)	(0.63)
Net loss	**$ (0.02)**	**$ (0.64)**	**$ (0.74)**

Note 24 Earnings per share, continued

Diluted earnings (loss) per share:

Year ended December 31,	2004	2003	2002
Income (loss) from continuing operations	$ 448	$ (371)	$ (126)
Effect of dilution:			
Convertible bonds, net of tax	–	–	(187)
Income (loss) from continuing operations, adjusted	**448**	**(371)**	**(313)**
Loss from discontinued operations, net of tax	(483)	(408)	(693)
Net loss, adjusted	**$ (35)**	**$ (779)**	**$ (1,006)**
Weighted-average number of shares outstanding (in millions)	2,028	1,220	1,113
Dilutive potential shares:			
Warrants and options	1	–	–
Convertible bonds	–	–	53
Diluted weighted-average number of shares outstanding (in millions)	**2,029**	**1,220**	**1,166**
Earnings (loss) per share:			
Income (loss) from continuing operations, adjusted	$ 0.22	$ (0.30)	$ (0.27)
Loss from discontinued operations, net of tax	(0.24)	(0.34)	(0.59)
Net loss, adjusted	**$ (0.02)**	**$ (0.64)**	**$ (0.86)**

Note 25 Restructuring charges

2001 program

In July 2001, the Company announced and initiated a restructuring program (2001 program) in an effort to improve productivity, reduce cost base, simplify product lines, reduce multiple location activities and perform other downsizing in response to weakening markets and consolidation of major customers in certain industries. The 2001 program was substantially completed at September 30, 2002.

Restructuring charges relating to workforce reductions, lease terminations and other exit costs associated with the 2001 program are included in other income (expense), net. Termination benefits were paid to approximately 100, 2,270 and 4,000 employees in 2004, 2003 and 2002, respectively. Workforce reductions include production, managerial and administrative employees. Changes in management's original estimate of the amounts accrued for workforce reductions, lease terminations and other exit costs have been included in other income (expense), net.

As a result of the 2001 program, certain assets, inventories and property, plant and equipment were identified as impaired or that would no longer be used in continuing operations. The Company recorded a charge of $18 million in 2002 to write down these assets to fair value and such costs were included in cost of sales and other income (expense), net.

Step change program

In October 2002, the Company announced the Step change program. The goals of the Step change program were to increase competitiveness of the Company's core businesses (see Note 26), reduce overhead costs and streamline operations by approximately $1 billion on an annual basis by 2005. At June 30, 2004, the Step change program was substantially complete.

Restructuring charges relating to workforce reductions, lease terminations and other exit costs associated with the Step change program are included in other income (expense), net. Termination benefits were paid to approximately 950, 1,500 and 200 employees in 2004, 2003 and 2002, respectively. Workforce reductions include production, managerial and administrative employees. Changes in management's original estimate of the amounts accrued for workforce reductions, lease terminations and other exit costs were included in other income (expense), net.

As a result of the Step change program, certain assets, inventories and property, plant and equipment were identified as impaired or will no longer be used in continuing operations. The Company recorded $0 million, $3 million and $2 million in 2004, 2003 and 2002, respectively, to write down these assets to their fair value and such costs were included in cost of sales and other income (expense), net.

Other

Certain restructuring programs were initiated primarily during 2003 at specified locations not included in the Step change program. The goals of these programs are to increase efficiencies by reducing headcount and streamlining operations. These programs are expected to increase productivity of the non-core businesses (see Note 26). Anticipated savings will be recognized through the strategic divestment of these operations.

Restructuring charges related to workforce reductions, lease terminations and other exit costs associated with these other programs are included in other income (expense), net. Termination benefits were paid to approximately 1,290 and 1,300 employees in 2004 and 2003, respectively. Workforce reductions include production, managerial and administrative employees. Changes in management's original estimate of the amounts accrued for workforce reductions, lease terminations and other exit costs have been included in other income (expense), net.

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

Note 25 Restructuring charges, continued

As a result of these restructuring programs, certain assets, inventories and property, plant and equipment have been identified as impaired or will no longer be used in continuing operations. The Company recorded $5 million and $11 million in 2004 and 2003, respectively, to write down these assets to fair value and such costs are included in cost of sales and other income (expense), net.

Restructuring liabilities consist of the following:

	2001 program		Step change		Other		Total
	Workforce reductions	Lease terminations and other exit costs	Workforce reductions	Lease terminations and other exit costs	Workforce reductions	Lease terminations and other exit costs	
Balance at January 1, 2002	**$ 78**	**$ 39**	**$ –**	**$ –**	**$ 20**	**$ 12**	**$ 149**
Restructuring expense	168	40	51	26	–	–	**285**
Cash paid	(156)	(29)	(13)	(1)	–	–	**(199)**
Exchange rate differences	20	5	–	–	–	–	**25**
Changes in estimate	(16)	(5)	–	–	(9)	–	**(30)**
Balance at December 31, 2002	**94**	**50**	**38**	**25**	**11**	**12**	**230**
Restructuring expense	–	–	181	56	110	25	**372**
Cash paid	(99)	(10)	(143)	(48)	(43)	(12)	**(355)**
Exchange rate differences	14	9	24	4	7	3	**61**
Changes in estimate	–	(22)	(4)	–	(6)	–	**(32)**
Balance at December 31, 2003	**9**	**27**	**96**	**37**	**79**	**28**	**276**
Restructuring expense	–	–	42	17	98	31	**188**
Cash paid	(9)	(9)	(137)	(18)	(103)	(16)	**(292)**
Exchange rate differences	–	2	6	3	5	4	**20**
Changes in estimate	–	(6)	(7)	–	(5)	(5)	**(23)**
Balance at December 31, 2004	**$ –**	**$ 14**	**$ –**	**$ 39**	**$ 74**	**$ 42**	**$ 169**

Cumulative

The cumulative amounts at December 31, 2004, for each plan are given below:

	2001 program	Step change	Other	Total
Restructuring charge for workforce reduction	$ 282	$ 274	$ 228	**$ 784**
Restructuring charge for lease terminations and other	111	99	68	**278**
Changes in estimate	(49)	(11)	(25)	**(85)**
Total restructuring charges	**$ 344**	**$ 362**	**$ 271**	**$ 977**

Segment information

Restructuring charges by segment consist of the following:

Year ended December 31,	**2004**	**2003**	**2002**
Power Technologies	$ 51	$ 61	$ 57
Automation Technologies	72	139	126
Non-core activities:			
Oil, Gas and Petrochemicals	20	20	–
Equity Ventures	–	–	–
Structured Finance	–	–	–
Building Systems	11	43	22
New Ventures	1	1	2
Other Non-core activities	–	47	15
Total Non-core activities	**32**	**111**	**39**
Corporate/Other	10	29	33
Total restructuring charges	**$ 165**	**$ 340**	**$ 255**

Note 26 Segment and geographic data

Effective January 1, 2003, in order to streamline the Company's structure and improve operational performance, the Company put into place two divisions: Power Technologies, which combined the former Power Technology Products and Utilities divisions and employed approximately 40,400 people at December 31, 2004; and Automation Technologies, which combined the former Automation Technology Products and Industries divisions and employed approximately 54,600 people at December 31, 2004. The remaining operations of the Company are grouped in Non-core activities. Effective January 1, 2004, the Group Processes activities, previously in the Non-core activities division, were integrated into the core divisions and the Substations Automation business was integrated into the Power Technologies division from the Automation Technologies division. All periods presented have been restated to reflect the new organizational structure of the Company.

- The Power Technologies division produces transformers, switchgear, breakers, capacitors, cables and other products and technologies for high- and medium-voltage applications. It serves electric, gas, and water utilities as well as industrial and commercial customers, with a broad range of products, systems and services for power transmission, distribution and power plant automation. The division's principal customers are electric, gas and water utilities, owners and operators of power transmission systems, utilities that own or operate networks and owners and operators of power generating plants. Other customers include gas transmission companies, local distribution companies and multi-utilities, which are involved in the transmission or distribution of more than one commodity. The division also serves industrial and commercial customers, such as operators of large commercial buildings and heavy industrial plants.
- The Automation Technologies 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 of the automotive, cement, chemical, distribution, electronics, food and beverage, life sciences, marine, metals, mining, paper, petroleum, printing and telecommunications industries with application-specific power and automation technology.
- Non-core activities include the following:

  The Company's remaining Oil, Gas and Petrochemicals business;

  The Company's remaining Equity Ventures business;

  The Company's remaining Structured Finance business;

  The Company's remaining Building Systems business;

  The Company's New Ventures business area;

  The Company's Customer Service, Logistic Systems, and Semiconductors business areas.

  The remaining Oil, Gas and Petrochemicals business primarily consists of a full service engineering company which, in addition to having expertise in engineering, procurement and construction projects, also licenses process technologies in the refining, chemical, petrochemical and polymer fields.

  The Building Systems business area designs, builds and maintains complete installations for industrial, infrastructure and commercial facilities, integrating products manufactured by the Power Technologies and Automation Technologies divisions, as well as those from third-party suppliers.
- Corporate/Other includes Headquarters, Central Research and Development, Real Estate, Group Treasury Operations and the Financial Advisory business.

The Company evaluates performance of its segments based on earnings before interest and taxes, which excludes interest and dividend income, interest and other finance expense, provision for taxes, minority interest, and loss 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, earnings before interest and taxes, 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 inter-division transactions. The Company accounts for inter-division sales and transfers as if the sales and transfers were to third parties, at current market prices.

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

Note 26 Segment and geographic data, continued

The following tables summarize information for each segment:

2004	Revenues	Depreciation and amortization	Earnings (loss) before interest and taxes	Net operating assets [1]	Capital expenditures [2]
Power Technologies	$ 8,755	$ 214	$ 610	$ 2,728	$ 137
Automation Technologies	11,030	292	1,027	3,754	186
Non-core activities:					
Oil, Gas and Petrochemicals	1,079	26	(4)	363	1
Equity Ventures[3]	7	6	69	1,161	10
Structured Finance	6	1	(14)	524	–
Building Systems	508	3	(70)	–	1
New Ventures	49	4	(5)	99	10
Other Non-core activities	44	1	(22)	9	1
Total Non-core activities	**1,693**	**41**	**(46)**	**2,156**	**23**
Corporate/Other	887	84	(507)	1,901	54
Inter-division elimination	(1,644)	–	–	(917)	–
Consolidated	**$ 20,721**	**$ 631**	**$ 1,084**	**$ 9,622**	**$ 400**

2003	Revenues	Depreciation and amortization	Earnings (loss) before interest and taxes	Net operating assets [4]	Capital expenditures [2]
Power Technologies	$ 7,598	$ 183	$ 595	$ 2,568	$ 120
Automation Technologies	9,628	253	738	3,868	154
Non-core activities:					
Oil, Gas and Petrochemicals	1,895	–	(296)	276	5
Equity Ventures[3]	26	5	76	1,151	46
Structured Finance	48	1	(65)	643	–
Building Systems	1,829	9	(104)	9	3
New Ventures	53	5	(21)	195	11
Other Non-core activities	471	53	(57)	(226)	6
Total Non-core activities	**4,322**	**73**	**(467)**	**2,048**	**71**
Corporate/Other	905	68	(486)	2,513	57
Inter-division elimination	(2,026)	–	(23)	(1,140)	–
Consolidated	**$ 20,427**	**$ 577**	**$ 357**	**$ 9,857**	**$ 402**

2002	Revenues	Depreciation and amortization	Earnings (loss) before interest and taxes	Net operating assets	Capital expenditures [2]
Power Technologies	$ 6,814	$ 168	$ 451	$ 2,266	$ 116
Automation Technologies	8,201	199	495	3,554	130
Non-core activities:					
Oil, Gas and Petrochemicals	2,321	16	(142)	152	5
Equity Ventures[3]	19	–	43	1,062	–
Structured Finance	66	1	96	1,165	2
Building Systems	2,375	11	(113)	68	9
New Ventures	50	11	(37)	144	14
Other Non-core activities	783	75	(157)	(178)	20
Total Non-core activities	**5,614**	**114**	**(310)**	**2,413**	**50**
Corporate/Other	1,014	78	(363)	2,361	144
Inter-division elimination	(2,171)	–	(74)	(724)	–
Consolidated	**$ 19,472**	**$ 559**	**$ 199**	**$ 9,870**	**$ 440**

(1) Net operating assets at December 31, 2004, are calculated based upon total assets of $24,677 million excluding cash and equivalents of $3,676 million, marketable securities and short-term investments of $524 million, current loans receivable of $17 million, tax assets of $1,256 million, assets held for sale and in discontinued operations of $155 million, prepaid pension and other employee benefits of $549 million and other assets of $89 million, less total liabilities of $21,556 million excluding borrowings of $5,534 million, tax liabilities of $1,522 million, provisions of $3,326 million, pension and employee related liabilities of $1,628 million, liabilities held for sale and in discontinued operations of $290 million and certain other liabilities of $467 million.

(2) Capital expenditures reflect purchases of tangible fixed assets.

(3) Includes the Company's investment in Jorf Lasfar Energy Company S.C.A. (see Note 14).

(4) Net operating assets at December 31, 2003, are calculated based upon total assets of $30,401 million excluding cash and equivalents of $4,783 million, marketable securities and short-term investments of $473 million, current loans receivable of $23 million, tax assets of $1,327 million, assets held for sale and in discontinued operations of $4,981 million, prepaid pension and other employee benefits of $564 million and other assets of $143 million, less total liabilities of $27,199 million excluding borrowings of $7,934 million, tax liabilities of $1,644 million, provisions of $3,021 million, pension and employee related liabilities of $1,902 million, liabilities held for sale and in discontinued operations of $3,990 million and certain other liabilities of $458 million.

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

Note 26 Segment and geographic data, continued

Geographic information

	Revenues Year ended December 31,			Long-lived assets at December 31,	
	2004	2003	2002	2004	2003
Europe	$ 10,764	$ 10,963	$ 10,461	$ 2,288	$ 2,159
The Americas	3,624	3,900	4,177	272	297
Asia	4,296	3,519	2,860	299	281
Middle East and Africa	2,037	2,045	1,974	122	121
	$ 20,721	**$ 20,427**	**$ 19,472**	**$ 2,981**	**$ 2,858**

Revenues have been reflected in the regions based on the location of the customer. The United States generated approximately 11 percent, 12 percent and 14 percent of the Company's total revenues in 2004, 2003 and 2002 respectively. Germany generated approximately 11 percent of the Company's total revenues in 2004, 2003 and 2002, respectively. More than 95 percent of the Company's total revenues were generated outside Switzerland in 2004, 2003 and 2002. Long-lived assets represent property, plant and equipment, net, and are shown by location of the assets. Switzerland and Germany represented approximately 22 percent and 15 percent, respectively, of the Company's long-lived assets at both December 31, 2004 and 2003.

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.

Management estimates that approximately 63 percent of the Company's employees are subject to collective bargaining agreements in various countries. These agreements are subject to various regulatory requirements and are renegotiated on a regular basis in the normal course of business.