NVR INC
Form 8-K
April 21, 2016

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 21, 2016

NVR, Inc.

(Exact name of registrant as specified in its charter)

Virginia	**1-12378**	**54-1394360**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

11700 Plaza America Drive, Suite 500

Reston, Virginia 20190

(Address of principal executive offices) (Zip Code)

(703) 956-4000

(Registrant's telephone number, including area code)

Not applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On April 21, 2016, NVR, Inc. issued a press release reporting its financial results for the first quarter ended March 31, 2016. A copy of this press release is furnished herewith as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	**Exhibit Description**
99.1	Press release dated April 21, 2016.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NVR, Inc.

Date: April 21, 2016 By: /s/ Daniel D. Malzahn
Daniel D. Malzahn
Senior Vice President, Chief Financial Officer and Treasurer

EXHIBIT INDEX

Exhibit Number	Exhibit Description
99.1	Press release dated April 21, 2016.

New Roman" style="font-size:3.0pt;"> The total number of shares purchased were purchased through open-market transactions. These purchases were made in respect of our obligation to deliver shares as compensation to our directors.

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PART III

Item 17. Financial Statements

We have elected to provide financial statements and the related information pursuant to Item 18.

Item 18. Financial Statements

See pages F-1 to F-65 and pages S-1 to S-2, which are incorporated herein by reference.

(a) Reports of Independent Registered Public Accounting Firms.

(b) Consolidated Income Statements for the years ended December 31, 2005, 2004 and 2003.

(c) Consolidated Balance Sheets as of December 31, 2005 and 2004.

(d) Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003.

(e) Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2005, 2004 and 2003.

(f) Notes to Consolidated Financial Statements.

(g) Report of Independent Registered Public Accounting Firm on Financial Statement Schedule.

(h) Schedule II Valuation and Qualifying Accounts.

Item 19. Exhibits

1.1 Articles of Incorporation of ABB Ltd as amended to date. Incorporated by reference to Exhibit 1.1 to the Annual Report on Form 20-F filed by ABB Ltd on April 9, 2004.

2.1 Form of Amended and Restated Deposit Agreement, by and among ABB Ltd, Citibank, N.A., as Depositary, and the holders and beneficial owners from time to time of the American Depositary Shares issued thereunder (including as an exhibit the form of American Depositary Receipt). Incorporated by reference to Exhibit (a)(i) to Post-Effective Amendment No. 1 on Form F-6 (File No. 333-13346) filed by ABB Ltd on May 7, 2001.

2.2 Form of American Depositary Receipt (included in Exhibit 2.1).

2.3 EMTN Amended and Restated Fiscal Agency Agreement, dated December 8, 2005 between ABB International Finance Limited, Fortis Banque Luxembourg S.A. and Banque Meespierson BGL S.A.

2.4 EMTN Amended and Restated Dealership Agreement, dated December 8, 2005, between ABB International Finance Limited, ABB Ltd and Morgan Stanley & Co. International Limited.

2.5 EMTN Deed of Covenant, dated March 10, 1993, by ABB International Finance N.V. Incorporated by reference to Exhibit 2.4 to the Annual Report on Form 20-F filed by ABB Ltd on June 27, 2002.

2.6 EMTN Deed of Covenant, dated March 10, 1993, by ABB Finance Inc. Incorporated by reference to Exhibit 2.5 to the Annual Report on Form 20-F filed by ABB Ltd on June 27, 2002.

2.7 EMTN Deed of Covenant, dated March 10, 1993, by ABB Capital B.V. Incorporated by reference to Exhibit 2.6 to the Annual Report on Form 20-F filed by ABB Ltd on June 27, 2002.

The total amount of long-term debt securities of ABB Ltd authorized under any other instrument does not exceed 10 percent of the total assets of the ABB Group on a consolidated basis. ABB Ltd hereby agrees to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of ABB Ltd or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.

4.1 Share Purchase and Settlement Agreement dated as of March 31, 2000 among ABB Ltd, ALSTOM and ABB ALSTOM POWER N.V., as amended. Incorporated by reference to Exhibit 4.1 to the Annual Report on Form 20-F filed by ABB Ltd on June 27, 2002.

4.2 Purchase Agreement, dated as of December 21, 1999, between ABB Handels-Und Verwaltungs AG, as Seller, and British Nuclear Fuels plc, as Purchaser, as amended. Incorporated by reference to Exhibit 4.2 to the Annual Report on Form 20-F filed by ABB Ltd on June 27, 2002.

4.3 $2,000,000,000 Multicurrency Revolving Credit Agreement, dated as of July 4, 2005, between ABB Ltd, certain subsidiaries of ABB Ltd as borrowers and guarantors, Barclays Capital, Bayerische Hypo-und Vereinsbank AG, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse, Deutsche Bank AG, Dresdner Kleinwort Wasserstein, Handelsbanken Capital Markets, Svenska Handelsbanken AB (publ), HSBC Bank plc, Nordea Bank (AB) and SEB Merchant Banking, Skandinaviska Enskilda Banken, AB (publ), as mandated lead arrangers, Credit Suisse, as facility agent, dollar swingline agent and euro swingline agent, and SEB Merchant Banking, Skandinaviska Enskilda Banken, AB (publ), as SEK swingline agent.

4.4 Sale and Purchase Agreement, dated 4 September 2002, between ABB Financial Services B.V., General Electric Capital Corporation and ABB Ltd. Incorporated by reference to Exhibit 4.5 to the Annual Report on Form 20-F filed by ABB on June 30, 2003.

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4.5	Amendment Agreement, dated 29 November 2002, between ABB Financial Services B.V., General Electric Capital Corporation and ABB Ltd. Incorporated by reference to Exhibit 4.6 to the Annual Report on Form 20-F filed by ABB on June 30, 2003.
4.6	Stock and Asset Purchase Agreement, dated January 16, 2004, between ABB Handels-und Verwaltungs AG and Laradew Limited. Incorporated by reference to Exhibit 4.6 to the Annual Report on Form 20-F filed by ABB on April 9, 2004.
4.7	Settlement Agreement and Amendment, dated as of February 9, 2005, between ABB Handels-und Verwaltungs AG and Vetco Limited (formerly known as Laradew Limited), relating to the Stock and Asset Purchase Agreement dated as of January 16, 2004, between Handels-und Verwaltungs AG and Laradew Limited. Incorporated by reference to Exhibit 4.8 to the Annual Report on Form 20-F filed by ABB on May 27, 2005.
4.8	Purchase Agreement, dated as of December 8, 2003, between ABB Holding AG, Zurich, and Lagrummet December NR 919 AB (under change of name to Fund American Holdings AB). Incorporated by reference to Exhibit 4.7 to the Annual Report on Form 20-F filed by ABB on April 9, 2004.
4.9	Amendment and Acknowledgement, dated April 14, 2004, to the Purchase Agreement, dated as of December 8, 2003, between ABB Holding AG, Zurich, and Lagrummet December NR 919 AB (under change of name to Fund American Holdings AB). Incorporated by reference to Exhibit 4.10 to the Annual Report on Form 20-F filed by ABB on May 27, 2005.
4.10	Employment Agreement of Dinesh Paliwal, dated as of February 21, 2003. Incorporated by reference to Exhibit 4.9 to the Annual Report on Form 20-F filed by ABB on June 30, 2003.
4.11	Employment Agreement of Peter Smits, dated November 1, 2001. Incorporated by reference to Exhibit 4.10 to the Annual Report on Form 20-F filed by ABB on June 30, 2003.
4.12	Employment Agreement of Gary Steel, dated August 27, 2002. Incorporated by reference to Exhibit 4.11 to the Annual Report on Form 20-F filed by ABB on June 30, 2003.
4.13	Employment Agreement of Fred Kindle, dated February 21, 2004. Incorporated by reference to Exhibit 4.16 to the Annual Report on Form 20-F filed by ABB on May 27, 2005.
4.14	Employment Agreement of Michel Demaré, dated October 28, 2004. Incorporated by reference to Exhibit 4.17 to the Annual Report on Form 20-F filed by ABB on May 27, 2005.
4.15	Employment Agreement of Ulrich Spiesshofer, dated September 5, 2005.
8.1	Subsidiaries of ABB Ltd as of March 31, 2006.
12.1	Certification of the chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of the chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification by the chief executive officer of ABB Ltd pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
13.2	Certification by the chief financial officer of ABB Ltd pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
15.1	Consent of Independent Accountants
15.2	Consent of Independent Registered Public Accounting Firm

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* This document is being furnished in accordance with SEC Release Nos. 33-8212 and 34-74551.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this report on its behalf.

ABB LTD		
By:	/s/ MICHEL DEMARÉ	
	Name:	Michel Demaré
	Title:	Executive Vice President and Chief Financial Officer
By:	/s/ RICHARD A. BROWN	
	Name:	Richard A. Brown
	Title:	Group Vice President and Assistant General Counsel

Date: April 19, 2006

ABB Ltd
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Management Committee
and Stockholders of Jorf Lasfar
Energy Company S.C.A.
B.P. 99 Side Bouzid
El Jadida

We have audited the accompanying balance sheets of Jorf Lasfar Energy Company S.C.A. (the Company) as of December 31, 2004 and 2003 and the related statements of income, of stockholders equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jorf Lasfar Energy Company S.C.A at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ PRICE WATERHOUSE

Casablanca, Morocco,
February 11, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of ABB Ltd:

We have audited the accompanying consolidated balance sheets of ABB Ltd as of December 31, 2005 and 2004, and the related consolidated income statements, statements of cash flows and statements of changes in stockholders equity for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2004 and 2003 financial statements of Jorf Lasfar Energy Company, a corporation in which the Company has a 50% interest, (the Company s equity in Jorf Lasfar Energy Company s net income is stated at $63 million in 2004 and $60 million in 2003). Those statements were audited by other auditors whose report has been furnished to us. Our opinion, insofar as it relates to amounts included for Jorf Lasfar Energy Company, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABB Ltd at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2005 the Company changed its method of accounting for conditional asset retirement obligations.

/s/ ERNST & YOUNG AG

Zurich, Switzerland
March 3, 2006

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ABB Ltd
Consolidated Income Statements
for the years ended December 31, 2005, 2004 and 2003

	Year ended December 31,		
	2005	2004	2003
	(U.S. dollars in millions, except per share data)		
Sales of products	$ 18,737	$ 17,309	$ 17,337
Sales of services	3,705	3,301	2,995
Total revenues	**22,442**	**20,610**	**20,332**
Cost of products	(14,263)	(13,365)	(13,651)
Cost of services	(2,567)	(2,316)	(2,205)
Total cost of sales	(16,830)	(15,681)	(15,856)
Gross profit	**5,612**	**4,929**	**4,476**
Selling, general and administrative expenses	(3,922)	(3,822)	(3,950)
Other income (expense), net	52	(61)	(239)
Earnings before interest and taxes	**1,742**	**1,046**	**287**
Interest and dividend income	157	151	142
Interest and other finance expense	(403)	(360)	(544)
Income (loss) from continuing operations before taxes and minority interest and cumulative effect of accounting change	**1,496**	**837**	**(115)**
Provision for taxes	(482)	(331)	(233)
Minority interest	(131)	(102)	(67)
Income (loss) from continuing operations before cumulative effect of accounting change	**883**	**404**	**(415)**
Loss from discontinued operations, net of tax	(143)	(439)	(364)
Income (loss) before cumulative effect of accounting change	740	(35)	(779)
Cumulative effect of accounting change, net of tax	**(5)**		
Net income (loss)	**$ 735**	**$ (35)**	**$ (779)**
Basic earnings (loss) per share: Income (loss) from continuing operations before cumulative effect of accounting change	$ 0.44	$ 0.20	$ (0.34)
Loss from discontinued operations, net of tax	(0.08)	(0.22)	(0.30)
Cumulative effect of accounting change, net of tax			
Net income (loss)	$ 0.36	$ (0.02)	$ (0.64)
Diluted earnings (loss) per share: Income (loss) from continuing operations before cumulative effect of accounting change	$ 0.43	$ 0.20	$ (0.34)
Loss from discontinued operations, net of tax	(0.07)	(0.22)	(0.30)
Cumulative effect of accounting change, net of tax			
Net income (loss)	$ 0.36	$ (0.02)	$ (0.64)

See accompanying notes to the Consolidated Financial Statements.

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ABB Ltd
Consolidated Balance Sheets
at December 31, 2005 and 2004

	December 31,	
	2005	2004
	(U.S. dollars in millions, except share data)	
Cash and equivalents	$ 3,226	$ 3,676
Marketable securities and short-term investments	368	524
Receivables, net	6,515	6,284
Inventories, net	3,074	3,178
Prepaid expenses	251	334
Deferred taxes	473	670
Other current assets	189	449
Assets held for sale and in discontinued operations	52	600
Total current assets	**14,148**	**15,715**
Financing receivables	645	889
Property, plant and equipment, net	2,565	2,964
Goodwill	2,479	2,602
Other intangible assets, net	349	492
Prepaid pension and other employee benefits	605	549
Investments in equity method companies	618	596
Deferred taxes	628	504
Other non-current assets	239	366
Total assets	**$ 22,276**	**$ 24,677**
Accounts payable, trade	$ 3,321	$ 4,256
Accounts payable, other	1,172	1,424
Short-term debt and current maturities of long-term debt	169	626
Advances from customers	1,005	929
Deferred taxes	187	200
Provisions and other	3,769	3,666
Accrued expenses	1,909	1,624
Liabilities held for sale and in discontinued operations	74	734
Total current liabilities	**11,606**	**13,459**
Long-term debt	3,933	4,717
Pension and other employee benefits	1,233	1,551
Deferred taxes	692	750
Other liabilities	988	1,082
Total liabilities	**18,452**	**21,559**
Minority interest	341	294
Stockholders equity:		
Capital stock and additional paid-in capital	3,121	3,083
Retained earnings	2,460	1,725
Accumulated other comprehensive loss	(1,962)	(1,846)
Less: Treasury stock, at cost (11,531,106 and 11,611,529 shares at December 31, 2005 and 2004)	(136)	(138)
Total stockholders equity	**3,483**	**2,824**
Total liabilities and stockholders equity	**$ 22,276**	**$ 24,677**

See accompanying notes to the Consolidated Financial Statements.

ABB Ltd
Consolidated Statements of Cash Flows
for the years ended December 31, 2005, 2004 and 2003

	Year ended December 31,		
	2005	2004	2003
	(U.S. dollars in millions)		
Operating activities			
Net income (loss)	$ 735	$ (35)	$ (779)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	597	633	585
Provisions	496	92	(728)
Pension and postretirement benefits	(62)	55	21
Deferred taxes	38	3	47
Net gain from sale of property, plant and equipment	(44)	(36)	(26)
Income from equity accounted companies	(109)	(87)	(96)
Minority interest	131	102	67
Loss on sale of discontinued operations	16	63	38
Other	103	152	440
Changes in operating assets and liabilities:			
Marketable securities (trading)	1	43	13
Trade receivables	(892)	(160)	85
Inventories	(328)	(74)	238
Trade payables	26	(63)	(381)
Other assets and liabilities, net	304	214	324
Net cash provided by (used in) operating activities	**1,012**	**902**	**(152)**
Investing activities			
Changes in financing receivables	229	176	390
Purchases of marketable securities and short-term investments (other than trading)	(1,915)	(2,877)	(2,781)
Purchases of property, plant and equipment and intangible assets	(456)	(543)	(547)
Acquisitions of businesses (net of cash acquired)	(27)	(24)	(55)
Proceeds from sales of marketable securities and short-term investments (other than trading)	1,833	2,317	3,049
Proceeds from sales of property, plant and equipment	117	123	155
Proceeds from sales of businesses (net of cash disposed)	(97)	1,182	543
Net cash provided by (used in) investing activities	**(316)**	**354**	**754**
Financing activities:			
Net changes in borrowings with maturities of 90 days or less	(9)	(104)	(99)
Increases in borrowings.	155	265	1,976
Repayment of borrowings	(978)	(2,913)	(2,893)
Capital and treasury stock transactions	35	(36)	2,675
Other	(99)	43	(77)
Net cash provided by (used in) financing activities	**(896)**	**(2,745)**	**1,582**
Effects of exchange rate changes on cash and equivalents	(259)	74	150
Adjustment for the net change in cash and equivalents in assets held for sale and in discontinued operations	9	308	(80)
Net change in cash and equivalents continuing operations	**(450)**	**(1,107)**	**2,254**
Cash and equivalents beginning of period	3,676	4,783	2,529
Cash and equivalents end of period	**$ 3,226**	**$ 3,676**	**$ 4,783**
Interest paid	$ 332	$ 382	$ 438
Taxes paid	$ 325	$ 379	$ 238

See accompanying notes to the Consolidated Financial Statements.

ABB Ltd
Consolidated Statements of Changes in Stockholders Equity
For the years ended December 31, 2005, 2004 and 2003

			Accumulated other comprehensive loss						
	Capital stock and additional paid-in capital	Retained earnings	Foreign currency translation adjustment	Unrealized gain (loss) on available-for-sale securities	Minimum pension liability adjustment	Unrealized gain (loss) of cash flow hedge derivatives	Total accumulated other comprehensive loss	Treasury stock	Total stockholders equity
Balance at January 1, 2003	**$ 2,027**	**$ 2,539**	**$ (1,735)**	**$ (38)**	**$ (156)**	**$ 44**	**$ (1,885)**	**$ (1,750)**	**$ 931**
Comprehensive loss:									
Net loss		(779)							(779)
Foreign currency translation adjustments			25				25		25
Accumulated foreign currency translation adjustments allocated to divestments of businesses			(37)				(37)		(37)
Effect of change in fair value of available-for-sale securities (net of tax, of $18)				65			65		65
Minimum pension liability adjustments (net of tax, of $5)					19		19		19
Change in derivatives qualifying as cash flow hedges (net of tax, of $13)						41	41		41
Total comprehensive loss									(666)
Sale of treasury stock	(1,456)							1,612	156
Capital stock issued in connection with rights offering	2,487								$ 2,487
Call options	9								9
Balance at December 31, 2003	**$ 3,067**	**$ 1,760**	**$ (1,747)**	**$ 27**	**$ (137)**	**$ 85**	**$ (1,772)**	**$ (138)**	**$ 2,917**
Comprehensive loss:									
Net loss		(35)							(35)
Foreign currency translation adjustments			19				19		19
Accumulated foreign currency translation adjustments allocated to divestments of businesses			20				20		20
Effect of change in fair value of available-for-sale securities (net of tax, of $6)				(15)			(15)		(15)
Minimum pension liability adjustments (net of tax, of $37)					(69)		(69)		(69)
Change in derivatives qualifying as cash flow hedges (net of tax, of $16)						(29)	(29)		(29)
Total comprehensive loss									(109)
Call options	8								8
Other	8								8
Balance at December 31, 2004	**$ 3,083**	**$ 1,725**	**$ (1,708)**	**$ 12**	**$ (206)**	**$ 56**	**$ (1,846)**	**$ (138)**	**$ 2,824**
Comprehensive income:									
Net income		735							735
Foreign currency translation adjustments			(52)				(52)		(52)
Accumulated foreign currency translation adjustments allocated to divestments of businesses			4				4		4
Effect of change in fair value of available-for-sale securities (net of tax, of $2)				(11)			(11)		(11)
Minimum pension liability adjustments (net of tax, of $(18))					(8)		(8)		(8)
Change in derivatives qualifying as cash flow hedges (net of tax, of $24)						(49)	(49)		(49)

Total comprehensive income									619
Employee plan issuances	39								39
Treasury share transactions	(1)							2	1
Balance at December 31, 2005	**$ 3,121**	**$ 2,460**	**$ (1,756)**	**$ 1**	**$ (214)**	**$ 7**	**$ (1,962)**	**$ (136)**	**$ 3,483**

See accompanying Notes to the Consolidated Financial Statements.

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

Reclassifications

Amounts reported for prior years in the Consolidated Financial Statements and Notes have been reclassified to conform to the current year s presentation, primarily as a result of the application of Statement of Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), in reflecting assets and liabilities held for sale and in discontinued operations. During 2005, the Company reclassified prior years cash flows from financing related derivatives from cash flows provided by (used in) operating activities to cash flows provided by (used in) financing activities to conform to the current year s presentation.

Operating cycle

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

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that directly affect the amounts reported in the Consolidated Financial Statements. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material impact on the financial statements are addressed in these notes to the Consolidated Financial Statements.

Cash and equivalents

Cash and equivalents include highly liquid investments with maturities of three months or less at the date of acquisition.

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.

Accounts receivable and allowance for doubtful accounts

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

Concentrations of credit risk

The Company sells a broad range of products, systems and services to a wide range of industrial 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. The Company maintains reserves for potential credit losses and such losses, in the aggregate, are in line with the Company s expectations.

It is the Company s policy to invest cash in deposits with banks throughout the world with certain minimum credit ratings and in high quality, low risk, liquid investments. The Company actively manages its credit risk by routinely reviewing the creditworthiness of the banks and the investments held, as well as maintaining such investments in 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.

Revenue recognition

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

Revenues under long-term contracts are recognized using the percentage-of-completion method of accounting. 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.

Revenues from service transactions are recognized as services are performed. Service revenues reflect revenues earned from the Company s activities involved in providing customer services primarily subsequent to the sale and delivery of a product or complete system; such revenues consist principally of maintenance-type contracts.

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, or the Company has demonstrated the customer-specified objective criteria, or the contractual acceptance period has lapsed.

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.

Securitization of receivables

The Company accounts for the securitization of trade receivables in accordance with Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). 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 variable interest entities 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 variable interest entities 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. Retained interests are recorded in a manner similar to trading securities at fair value as allowed under SFAS 140, and cash inflows from reductions of retained interests are recorded as operating cash flows. Costs associated with the sale of receivables are included in the determination of earnings.

The Company, in its normal course of business, sells receivables outside its securitization programs without recourse (see Note 8). 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 including net proceeds expected from disposition of the asset, if any, the carrying amount of the asset is reduced to its estimated fair value, pursuant to the measurement criteria of SFAS 144. 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. Results 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. Assets and liabilities related to sold operations that are retained are recorded in continuing assets and liabilities; future adjustments of such balances are recorded through discontinued operations in the Consolidated Income Statements.

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, net to loss from discontinued operations, net of tax, in accordance with Emerging Issues Task Force No. 87-24 *Allocation of Interest to Discontinued Operations*, (EITF 87-24). Such amounts were $0 million, $20 million and $33 million in 2005, 2004 and 2003, respectively.

Goodwill and other intangible assets

In accordance with Statement of Financial Accounting Standards No.142, *Goodwill and Other Intangible Assets* (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:

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

Derivative financial instruments and hedging activities

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 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.

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 consistent with the classification of the hedged item.

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 borrowing activities, 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 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.

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*.

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 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. Non-monetary assets are remeasured using historical U.S. dollar rates. 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 are expected to be in effect when the differences are expected to reverse. For financial statement purposes, the Company records a deferred tax asset when it determines that it is 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 on the basis of their technical merits, including relative tax law and OECD guidelines, as well as on items relating to potential audits by tax authorities based upon its best estimate of the facts and circumstances as of each reporting period. Changes in the facts and circumstances could result in a material change to the tax accruals. The Company provides for contingencies whenever it is deemed 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 $679 million, $690 million and $635 million in 2005, 2004 and 2003, respectively. These costs are included in selling, general and administrative expenses.

Earnings per share

Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the period, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise: outstanding written call options; outstanding options granted under the Company s employee incentive plans; and shares issuable in relation to outstanding convertible bonds. See further discussion related to earnings per share in Note 23 and further discussion of the potentially dilutive securities in Notes 14 and 21.

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 21. The Company accounts for such stock-based securities using the intrinsic value method of APB Opinion No. 25 *Accounting for Stock Issued to Employees* (APB 25), as permitted by Statement of Financial Accounting Standards No. 123 *Accounting for Stock Based Compensation* (SFAS 123). Warrants granted under the Company s management incentive plan and options granted under the Company s employee share acquisition plan were issued with exercise prices greater than or equal to the market prices of the stock on the dates of grant. Accordingly, the Company recorded no compensation expense related to these securities, except in circumstances when a participant ceased to be employed by a consolidated subsidiary, such as after a divestment by the Company. The

following table illustrates the effect on net income (loss) and on income (loss) per share (see Note 23) 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 21).

	Year ended December 31,		
	2005	**2004**	**2003**
Net income (loss), as reported	$ 735	$ (35)	$ (779)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	31	3	1
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(39)	(11)	(12)
Pro forma net income (loss)	**$ 727**	**$ (43)**	**$ (790)**
Income (loss) per share:			
Basic as reported	$ 0.36	$ (0.02)	$ (0.64)
Basic pro forma	$ 0.36	$ (0.02)	$ (0.65)
Diluted as reported	$ 0.36	$ (0.02)	$ (0.64)
Diluted pro forma	$ 0.35	$ (0.02)	$ (0.65)

New accounting pronouncements

In November 2004, the Financial Accounting Standards Board issued Statement No.151, *Inventory Costs an amendment of ARB No. 43, Chapter 4* (SFAS 151). SFAS 151 amends Accounting Research Bulletin 43, Chapter 4: Inventory Pricing, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company implemented SFAS 151 in the first quarter of 2006, and does not expect the adoption of SFAS 151 to 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.123(R) *Share-Based Payment* (SFAS 123R), which replaces SFAS 123 and APB 25 and requires the Company to measure compensation cost for all share-based payments at fair value. On April 14, 2005, the U.S. Securities and Exchange Commission (SEC) announced the adoption of a new rule that amends the implementation dates for SFAS 123R. As a result of this announcement, the Company adopted SFAS 123R as of January 1, 2006. The Company will recognize share-based employee compensation cost from January 1, 2006, 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.

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 *Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143* (FIN 47). FIN 47 clarifies that the term conditional asset retirement obligation as used in Financial Accounting Standards Board Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. Accordingly, pursuant to FIN 47 the Company was required to recognize a liability for the fair value of a conditional asset retirement obligation when the fair value of the liability could be reasonably estimated. The Company implemented FIN 47 in the fourth quarter of 2005 and presented the change as a cumulative effect of an accounting change of $5 million, net of tax in the Consolidated Income Statement.

At the June 15 16, 2005, Emerging Issues Task Force (EITF) meeting, the EITF reached a consensus on Issue No. 05-5 *Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)* (EITF 05-5), that the Financial Accounting Standards Board ratified on June 29, 2005. Altersteilzeit is a term which describes an early retirement program designed to create an incentive for employees, within a certain age group, to leave their employers before the legal retirement age. The issue addresses how to account for salary and bonus components as well as potential subsidies earned from governmental entities. EITF 05-5 is effective for the Company beginning with the first quarter of 2006. The impact of implementation will not have a financial statement impact as the Company had been calculating the liability consistent with the requirements of EITF 05-5.

Note 3 Held for sale and discontinued operations

The Company s financial statements for all periods presented were significantly impacted by activities relating to the divestitures of a number of our businesses. The following planned or completed disposals met the SFAS 144 criteria for held for sale and/or discontinued operations in the reporting periods.

Structured Finance

In 2002, the Company completed the sale of most of its Structured Finance business to General Electric Capital Corporation (GE) for approximately $2.0 billion. Pursuant to the sale and purchase agreement, the Company provided GE with cash collateralized letters of credit as security for certain performance-related obligations retained by the Company, which amount to $15 million at December 31, 2005.

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 a net loss of $9 million in 2003.

In November 2005, the Company completed the sale of its remaining Structured Finance business and divested the Lease portfolio business in Finland. With lease and loan financial receivables of approximately $300 million, the Lease portfolio business was the last remaining major entity of the Structured Finance business. In 2005, the Company recorded a loss of $28 million in loss from discontinued operations, net of tax, principally related to the loss on sale of the business.

Upstream Oil, Gas and Petrochemicals business

In 2004, the Company sold its Upstream Oil, Gas and Petrochemicals 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 Oil, Gas and Petrochemicals business had revenues of $855 million and $1,499 million in 2004 and 2003, respectively, and net losses of $70 million and $44 million in 2004 and 2003, respectively.

Wind Energy business

In 2003, the Company sold a part of its Wind Energy business in Germany for proceeds of approximately $35 million. The Wind Energy business had revenues of $0 million and $16 million and net losses of $25 million and $42 million in 2004 and 2003, respectively. During the fourth quarter of 2005, the Company determined it no longer met the criteria required to classify the remaining Wind Energy business in discontinued operations. Therefore, as of the fourth quarter of 2005, the results of operations of the Wind Energy business were reclassified to continuing operations for all periods presented.

Reinsurance business

In 2004, the Company completed the sale of its Reinsurance business, receiving gross cash proceeds of $415 million and net cash proceeds of approximately $280 million. The Company recorded revenues of $139 million and $782 million and losses totaling $41 million and $97 million in loss from discontinued operations, in 2004 and 2003, respectively, related to the Reinsurance business. The 2003 net loss of $97 million includes a $154 million impairment charge and an allocation of interest of $15 million in accordance with EITF 87-24, offset by income from operations of approximately $72 million.

Power Lines business

During 2004, the Company reclassified part of its Power Lines business, part of the Power Technologies division, to discontinued operations. The businesses that were reclassified are the Power Lines businesses in Nigeria, Italy and Germany whose sales were completed in 2005. These reclassified businesses had revenues of $27 million, $117 million and $187 million and net losses recorded in discontinued operations of $12 million, $75 million and $10 million for the years ended December 31, 2005, 2004, and 2003, respectively.

During the fourth quarter of 2005, the Company reclassified the remaining Power Lines businesses in Brazil, Mexico, Venezuela and South Africa to discontinued operations, on the basis of management s plan to sell the remaining Power Lines businesses. The remaining Power Lines businesses had revenues of $102 million, $79 million and $70 million for the years ended December 31, 2005, 2004 and 2003, respectively. Net income reported for 2005 and 2004 was $3 million and $3 million, respectively, whereas for 2003 these businesses had a net loss of $4 million recorded in loss from discontinued operations.

Foundry business

During 2004, the Company reclassified its Foundry business, part of the Automation Technologies division, to discontinued operations. In 2005, the Company completed the sale of its Foundry business. The Foundry business had revenues of $41 million, $41 million and $45 million and net losses of $1 million, $17 million and $0 million in 2005, 2004 and 2003, respectively.

Control Valves

In 2005, the Company sold its Control Valves business in Japan which was part of the Automation Technologies division. The Control Valves business had revenues of $26 million, $31 million and $28 million and net income of $15 million, $3 million and $2 million in 2005, 2004 and 2003, respectively. The net income recorded in 2005 includes $14 million related to the gain on sale of the Control Valves business.

Other

In addition, the Company has also reflected other minor operations as held for sale and in discontinued operations, as appropriate.

Loss from discontinued operations, net of tax, also includes costs related to the Company s potential asbestos obligations of approximately $133 million, $262 million and $142 million in 2005, 2004, and 2003, respectively (see Note 17).

Operating results of the discontinued businesses are summarized as follows:

	Year ended December 31,		
	2005	2004	2003
Revenues	$ 200	$ 1,276	$ 2,735
Costs and expenses, finance loss	(333)	(1,656)	(3,002)
Operating loss before taxes	**(133)**	**(380)**	**(267)**
Tax benefit (expense)	6	4	(59)
Operating loss from discontinued operations	**(127)**	**(376)**	**(326)**
Loss from dispositions	(16)	(63)	(38)
Loss from discontinued operations, net of tax	**$ (143)**	**$ (439)**	**$ (364)**

The major components of assets and liabilities held for sale and in discontinued operations in our Consolidated Balance Sheet are summarized as follows:

	December 31,	
	2005	2004
Cash and equivalents, marketable securities and short-term investments	$	$ 9
Receivables, net	20	106
Inventories, net	23	43
Prepaid expenses and other current assets		17
Financing receivables, non-current		345
Property, plant and equipment, net	8	69
Other non current assets	1	11
Assets held for sale and in discontinued operations	**$ 52**	**$ 600**
Accounts payable	$ 19	$ 79
Short-term borrowings and accrued liabilities	33	149
Long-term borrowings		203
Pensions and other employee benefits	22	82
Other liabilities, non-current		221
Liabilities held for sale and in discontinued operations	**$ 74**	**$ 734**

Note 4 Business combinations and other divestments

Acquisitions and investments

During 2005, 2004, and 2003, the Company invested $27 million, $24 million and $55 million, in 22, 24 and 24 new businesses, joint ventures or affiliated companies, respectively. The aggregate excess of the purchase price over the fair value of the net assets acquired of new businesses totaled $6 million, $15 million and $2 million, in 2005, 2004 and 2003, respectively, and has been recorded as goodwill. The Company has not presented the pro forma results of operations of the acquired businesses as the results are not material to the Company s consolidated financial statements.

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 25 and which do not meet the requirements of SFAS 144. 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 2002, the Company decided to dispose of its Building Systems businesses. 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 of 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.

During 2005, 2004 and 2003, the Company disposed of numerous Building Systems businesses and recorded gains on disposal of $1 million, $12 million and $83 million, respectively, which are included in other income (expense), net. Proceeds received from the divestment of the Building Systems businesses were $0 million, $39 million and $234 million in 2005, 2004 and 2003, respectively.

Other divestitures

In 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 2003, the Company also 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 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 2004, the Company also sold its entire 15.7 percent interest in IXYS Corporation for approximately $42 million and recorded a gain on disposal of $20 million in other income (expense), net.

During 2005, 2004 and 2003, the Company sold several operating units and investments, excluding the divestments disclosed above, for total proceeds of $24 million, $39 million and $31 million, respectively, and recognized net gains on disposal of $20 million, $13 million and $12 million, respectively, which are included in other income (expense), net. Revenues and net income from these businesses and investments were not significant in 2005, 2004 and 2003.

Note 5 Marketable securities and short-term investments

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

	December 31,	
	2005	**2004**
Available-for-sale securities	$ 276	$ 263
Time deposits	39	247
Securities serving as hedges of the Company s management incentive plan (see Note 21)	53	14
Total	**$ 368**	**$ 524**

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 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock,* (EITF 00-19), 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:

	December 31, 2005		2004	
	Cost	Fair value	Cost	Fair value
Equity securities	**$ 80**	**$ 84**	**$ 55**	**$ 63**
Debt securities:				
U.S. government obligations	64	63	99	99
European government obligations			3	3
Corporate	98	96	59	59
Other	34	33	33	39
Total debt securities	**196**	**192**	**194**	**200**
Total	**$ 276**	**$ 276**	**$ 249**	**$ 263**

At December 31, 2005 and 2004, unrealized gains and losses on available-for-sale securities were not significant.

At December 31, 2005, contractual maturities of the above available-for-sale debt securities consist of the following:

	Cost	Fair value
Less than one year	$	$
One to five years	116	113
Six to ten years	52	51
Due after ten years	28	28
Total	**$ 196**	**$ 192**

Gross realized gains on available-for-sale securities were $18 million, $117 million and $8 million in 2005, 2004 and 2003, respectively. Gross realized losses on available-for-sale securities were $34 million, $5 million and $2 million in 2005, 2004 and 2003, respectively. Additionally, in 2003, the Company recorded an impairment charge of $36 million, in interest and other finance expense, related to available-for-sale securities. In 2003, the Company also realized and recorded, in interest and other finance expense, a loss of $40 million on the sale of available-for-sale securities in a strategic investment.

Gross unrealized losses of those available for sale securities that have been in a continuous unrealized loss position were not significant at December 31, 2005 and 2004.

At December 31, 2005 and 2004, the Company pledged $91 million and $51 million, respectively, of marketable securities as collateral for issued letters of credit and other security arrangements.

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.

The amount of derivative financial instrument net gains or losses reclassified from accumulated other comprehensive loss to earnings was a net gain of $27 million, $31 million and $58 million in 2005, 2004 and 2003, respectively. The $31 million in 2004 excludes the $14 million loss described below. It is anticipated that during 2006, the amount included in accumulated other comprehensive loss at December 31, 2005, that will be reclassified to earnings is not significant. 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, 2005, 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 borrowing activities, the Company uses interest rate and cross-currency swaps. Where such instruments are designated as fair value hedges, the changes in fair value of these instruments, as well as the changes in fair value of the underlying liabilities, are recorded as offsetting gains and losses in the determination of earnings. The hedge ineffectiveness in 2005, 2004 and 2003, resulted in a loss of $16 million and gains of $11 million and $11 million, respectively.

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 debt and current maturities of long-term debt: The carrying amounts approximate the fair values as the items are short-term in nature.

Marketable securities and short-term investments: 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, 2005, were $201 million and $201 million, respectively, and at December 31, 2004, were $276 million and $276 million, respectively.

Long-term debt (non-current portion): Fair values of public bond issues are based on quoted market prices. The fair values of other debt are based on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments, or in the case of private placement bond or note issuances, using the relevant borrowing rates derived from interest rate swap curves. The carrying values and estimated fair values of long-term borrowings at December 31, 2005, were $3,933 million and $4,710 million, respectively, and at December 31, 2004, were $4,717 million and $5,223 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, 2005 and 2004, the carrying values equal fair values. Current derivative assets are recorded in other current assets, and non-current derivative assets are recorded in other non-current assets. Current derivative liabilities are recorded in provisions and other, and non-current derivative liabilities are recorded in other liabilities. The fair values are:

	December 31,	
	2005	**2004**
Derivative assets, current	$ 156	$ 369
Derivative assets, non-current	162	251
Total	**$ 318**	**$ 620**
Derivative liabilities, current	$ 138	$ 324
Derivative liabilities, non-current	63	53
Total	**$ 201**	**$ 377**

Note 7 Receivables, net

Receivables, net consist of the following:

	December 31, 2005	2004
Trade receivables	$ 4,548	$ 3,993
Other receivables	967	1,264
Allowance for doubtful accounts	(279)	(309)
	5,236	**4,948**
Unbilled receivables, net:		
Costs and estimated profits in excess of billings	2,227	2,257
Advance payments received	(948)	(921)
	1,279	**1,336**
Total	**$ 6,515**	**$ 6,284**

Trade receivables include contractual retention amounts billed to customers of $115 million and $124 million at December 31, 2005 and 2004, 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.

Note 8 Securitization and variable interest entities

Securitization

During 2005 and 2004, the Company sold trade receivables to VIEs, unrelated to the Company, in revolving-period securitization programs. During 2005, the Company re-assessed its need for these securitization programs, terminating one program and reducing the size of the other program. At December 31, 2005, the remaining securitization program is with a VIE that is not required to be consolidated in accordance with Financial Accounting Standards Board Interpretation No. 46 (revised) *Consolidation of Variable Interest Entities:* FIN 46(R).

The Company retains servicing responsibility relating to the sold receivables. Solely for the purpose of credit enhancement from the perspective of the purchasing entity, 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. Similarly, while 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, the impact on earnings 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 securitization program through which the Company securitizes certain of its trade receivables, the Company effectively bears the risk of potential delinquency or default associated with trade receivables sold or interests retained. At December 31, 2005 and 2004, the fair value of the retained interests was approximately $185 million and $349 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 is not readily obtainable nor reliably estimable in the geographic market in which the entities selling receivables operate.

During 2005, 2004 and 2003, the following cash flows were received from and paid to VIEs:

	December 31, 2005	2004	2003
Gross trade receivables sold to VIEs ($505)*	$ 4,925	$ 5,846	$ 5,661
Collections made on behalf of and paid to VIEs ($(696))*	(5,489)	(5,713)	(5,883)
Purchaser, liquidity and program fees ($(2))*	(18)	(20)	(21)
Decrease in retained interests ($117)*	178	17	124
Net cash received from (paid to) VIEs during the year ($(76))*	**$ (404)**	**$ 130**	**$ (119)**

* Related to assets held for sale and in discontinued operations for 2003. Amounts related to assets held for sale and in discontinued operations were not significant in 2005 or 2004.

Net cash settlements on the remaining program take place twice per month.

The Company records a loss on sale at the time of sale of the receivables and subsequently records purchaser, liquidity and program fees. The total cost of $18 million, $20 million and $21 million in 2005, 2004 and 2003, respectively, related to the securitization of trade receivables, is included in interest and other finance expense.

The following table reconciles total gross receivables to the amounts in the Consolidated Balance Sheet after the effects of securitization at December 31, 2005 and 2004:

	December 31, 2005	2004
Total trade receivables	$ 4,952	$ 5,132
Portion derecognized	(193)	(710)
Retained interests included in other receivables	(195)	(373)
Trade receivables	**4,564**	**4,049**
Less: Trade receivables included in assets held for sale and in discontinued operations	(16)	(56)
Trade receivables continuing operations	**$ 4,548**	**$ 3,993**

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At December 31, 2005 and 2004, of the gross trade receivables sold, the total trade receivables for which cash has not been collected at those dates amounted to $388 million and $1,083 million, respectively. At December 31, 2005 and 2004, an amount of $41 million and $54 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 2005 and 2004 were approximately $530 million and $902 million, respectively, of which sales of $0 million and $159 million in 2005 and 2004, respectively, related to assets held for sale and in discontinued operations. During 2005 and 2004, the related costs, including the associated gains and losses, were $5 million and $10 million, respectively, of which costs of $0 million and $1 million in 2005 and 2004, respectively, related to assets held for sale and in discontinued operations.

Variable interest entities

The following VIE is consolidated, as the Company is the primary beneficiary as defined by FIN 46(R).

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 $55 million of assets and acquired approximately $9 million of third party long-term borrowings provided to the VIE at December 31, 2005. 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 following VIEs are not consolidated, as the Company is not the primary beneficiary as defined by FIN 46(R).

The Company maintains a combined equity and financing interest of approximately $85 million in two VIEs, that are accounted for using the equity method of accounting, and were established as consortiums 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, 2005, these VIEs have combined total assets of approximately $783 million and reported combined total revenues and earnings before interest and taxes of $136 million and $5 million, respectively. The exposure to loss as a result of involvement with the VIEs is limited to the Company s combined equity and financing interests.

Note 9 Inventories, net

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

	December 31, 2005	2004
Commercial inventories, net:		
Raw materials	$ 1,186	$ 1,246
Work in process	1,258	1,205
Finished goods	449	394
	2,893	**2,845**
Contract inventories, net:		
Inventoried costs	540	637
Advance payments received related to contracts	(359)	(304)
	181	**333**
Total	**$ 3,074**	**$ 3,178**

Note 10 Financing receivables, net

Financing receivables consist of the following:

	December 31, 2005	2004
Loans receivable	$ 201	$ 276
Pledged financial assets	309	314
Finance leases	22	79
Other	113	220
Total	**$ 645**	**$ 889**

Loans receivable primarily represent financing arrangements provided to customers related to products manufactured by the Company.

The Company entered into tax-advantaged leasing transactions with U.S. investors prior to 1999. The prepaid rents relating to these transactions are reflected as pledged financial assets, with an offsetting non-current deposit liability, which is included in other liabilities (see Note 19). Net gains on these transactions are being recognized over the lease terms.

Note 11 Property, plant and equipment, net

Property, plant and equipment, net consist of the following:

	December 31, 2005	2004
Land and buildings	$ 2,298	$ 2,662
Machinery and equipment	4,383	4,911
Construction in progress	132	122
	6,813	**7,695**
Accumulated depreciation	(4,248)	(4,731)
Total	**$ 2,565**	**$ 2,964**

In 2005, 2004 and 2003, depreciation expense was $413 million, $429 million and $428 million, respectively.

Note 12 Goodwill and other intangible assets

The changes in the carrying amount of goodwill for the year ended December 31, 2005, are as follows:

	Automation Technologies	Power Technologies	Non-core activities	Corporate/ Other	Total
Balance at January 1, 2005	$ 1,795	$ 561	$ 225	$ 21	$ 2,602
Goodwill acquired during the year	6				6
Other		(3)	(2)		(5)
Foreign currency translation	(93)	(11)	(19)	(1)	(124)
Balance at December 31, 2005	**$ 1,708**	**$ 547**	**$ 204**	**$ 20**	**$ 2,479**

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 reallocations during 2004 were principally due to the reorganization of the Substation Automation business from the Automation Technologies division to the Power Technologies division. The goodwill reallocated for the Substation Automation business was $107 million and was calculated on the basis of relative fair value. During 2004, the Company also reallocated goodwill from Corporate/Other to the Automation Technologies and Power Technologies division as the expected benefit of such goodwill resides in these divisions. At December 31, 2005 and 2004, the $204 million and $225 million of goodwill, respectively, in Non-core activities principally related to the Company s remaining Oil, Gas and Petrochemicals business.

Other intangible assets consist of the following:

	December 31, 2005 Gross carrying amount	Accumulated amortization	Net carrying amount	2004 Gross carrying amount	Accumulated amortization	Net carrying amount
Capitalized software for internal use	$ 495	$ (404)	$ 91	$ 580	$ (450)	$ 130
Capitalized software for sale	208	(110)	98	237	(87)	150
Other intangible assets	549	(389)	160	595	(383)	212
Total	**$ 1,252**	**$ (903)**	**$ 349**	**$ 1,412**	**$ (920)**	**$ 492**

Amortization expense of capitalized software for internal use for 2005 and 2004, recorded in selling, general and administrative expenses, amounted to $62 million and $111 million, respectively. Amortization expense of capitalized software for sale for 2005 and 2004, recorded in cost of sales, amounted to $45 million and $42 million, respectively. Amortization expense of other intangible assets for 2005 and 2004, recorded in other income (expense), net amounted to $53 million and $59 million, respectively.

The Company recorded impairment charges to intangible assets of $4 million, $3 million and $11 million, in 2005, 2004 and 2003, respectively. These charges are included in other income (expense), net, in the Consolidated Income Statement.

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

Amortization expense of other intangible assets is estimated to be as follows:

2006	$113
2007	$97
2008	$79
2009	$19
2010	$8
Thereafter	$31
Total	**$347**

At December 31, 2005 and 2004, the Company maintained $2 million and $11 million, respectively, related to intangible pension assets not subject to amortization (see Note 20).

For the years ended December 31, 2005 and 2004, the Company capitalized intangible assets of $55 million ($30 million, $17 million and $8 million of software for internal use, software for sale and other intangible assets, respectively) and $75 million ($29 million, $36 million and $10 million of software for internal use, software for sale and other intangible assets, respectively), respectively. For items capitalized in 2005 and 2004, amortization expense is calculated using an estimated useful life of 4 years for capitalized software and 5 years for other intangible assets.

Note 13 Investments in equity method accounted companies

The Company recorded earnings of $109 million, $87 million and $96 million in 2005, 2004 and 2003, respectively, in 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 principal company accounted for using the equity method of accounting is: Jorf Lasfar Energy Company S.C.A. (JLEC), a power plant based in Morocco, of which the Company owns 50 percent.

	Investment balance		**The Company s share of the pre-tax earnings of equity-accounted investees**		
	2005	**2004**	**2005**	**2004**	**2003**
JLEC	$ 364	$ 356	$ 62	$ 68	$ 62
Other	254	240	47	19	34
Total	**$ 618**	**$ 596**	**$ 109**	**$ 87**	**$ 96**
Less: Current income tax expense			(16)	(8)	(7)
The Company s share of earnings of equity-accounted investees			**$ 93**	**$ 79**	**$ 89**

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

	2005	2004	2003
Total current assets	$ 264	$ 296	$ 273
Total non-current assets	$ 1,037	$ 1,147	$ 1,162
Total current liabilities	$ 241	$ 254	$ 310
Total non-current liabilities	$ 441	$ 572	$ 612
Total shareholders equity	$ 619	$ 617	$ 513
Revenues	$ 509	$ 462	$ 369
Income before taxes	$ 127	$ 133	$ 122
Net income	$ 112	$ 125	$ 120

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.

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 guarantees for certain equity accounted companies. At December 31, 2005, the total unused lines of credit amounted to $74 million and ABB has issued $25 million of capital commitment guarantees on behalf of equity accounted companies.

The Company s 2005 Consolidated Financial Statements include the following aggregate amounts related to transactions with equity accounted companies:

	2005	2004
Revenues	$ 63	$ 57
Receivables	$ 17	$ 11
Other current assets	$ 2	$ 13
Financing receivables, non-current	$ 53	$ 45
Current liabilities	$	$ 2
Short-term debt and non-current liabilities	$ 2	$ 22

Note 14 Debt

The Company s total debt at December 31, 2005 and 2004, amounted to $4,102 million and $5,343 million, respectively.

Short-term debt

The Company s short-term debt consists of the following:

	December 31,	
	2005	2004
Short-term debt (weighted-average interest rate of 6.5% and 6.5%)	$ 142	$ 186
Current portion of long-term debt (weighted-average interest rate of 3.9% and 3.9%)	27	440
Total	**$ 169**	**$ 626**

Short-term debt primarily represents short-term loans from various banks.

On July 4, 2005, the Company signed a new five-year, $2 billion multicurrency revolving credit facility and canceled the three-year $1 billion credit facility that was due to expire in November 2006. As a result of canceling the $1 billion facility prior to expiry, the Company recorded in July 2005, a charge of $12 million in interest and other finance expense to write off unamortized costs related to this facility.

The new $2 billion facility contains financial covenants in respect of minimum interest coverage and maximum net leverage. The Company is required to meet these covenants on a semi-annual basis, at June and December. At December 31, 2005, the Company was in compliance with these covenants. If the Company s corporate credit rating reaches certain defined levels, the minimum interest coverage covenant will no longer be required.

No amount was drawn under either facility at December 31, 2005 and 2004. The interest costs of borrowings under the new facility are LIBOR, STIBOR or EURIBOR (depending on the currency of the drawings) plus a margin of 0.25 percent to 0.70 percent, depending on the Company s corporate debt rating. The commitment fees paid on the unused portion of the facility amount to 35 percent per annum of the applicable margin, and are therefore also dependent upon the corporate credit rating of the Company. A utilization fee is payable when borrowings are greater than one-third of the facility and the level of these fees is linked to the level of the amounts outstanding.

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

Long-term debt

The Company utilizes a variety of derivative products to modify the characteristics of its long-term debt. The Company uses interest rate swaps to effectively convert certain fixed-rate long-term debt into floating rate obligations. For certain non-U.S. dollar denominated debt, the Company utilizes cross-currency swaps to effectively convert the debt into an U.S. dollar obligation. As required by SFAS 133, debt designated as being hedged by fair value hedges is stated at its fair value.

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

	December 31, 2005			**December 31, 2004**		
	Balance	**Nominal rate**	**Effective rate**	**Balance**	**Nominal rate**	**Effective rate**
Floating rate	$ 2,002	8.5 %	7.0 %	$ 1,772	8.7 %	6.0 %
Fixed rate	278	3.4 %	5.4 %	1,610	5.1 %	5.5 %
Convertible bonds	1,680	4.1 %	4.1 %	1,775	4.1 %	4.1 %
	3,960			5,157		
Current portion of long-term debt	(27)	3.9 %	3.9 %	(440)	3.9 %	1.5 %
Total	**$ 3,933**			$ 4,717		

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At December 31, 2005, maturities of long-term debt were as follows:

Due in 2006	$ 27
Due in 2007	936
Due in 2008	856
Due in 2009	473
Due in 2010	762
Thereafter	906
Total	**$ 3,960**

Bond repurchases

During 2005, the Company repurchased debt securities with a total face value of $307 million, primarily a portion of the Company s 3.75% 500 million Swiss franc bonds, due 2009, and recognized a loss on extinguishment of debt of $19 million on the repurchases.

During 2004, through open market repurchases, the Company repurchased a portion of its public bonds with a total equivalent face value of $513 million. These open market repurchases resulted in a gain on extinguishments of debt of approximately $6 million. In addition, in July 2004, the Company announced tender offers to repurchase all of the outstanding 5.375% 300 million euro bonds, due 2005, and 5.125% 475 million eurobonds, due 2006, being approximately 275 million euro and approximately 368 million euro, respectively. In conjunction with the tender offers, the bonds were amended to allow the Company to call and redeem those bonds that were not tendered under the respective tender offer. In September 2004, bonds validly tendered and accepted under the tender offers were settled and the Company exercised its option to redeem early the remaining outstanding 2005 and 2006 bonds that were not tendered. The open market repurchases, combined with the tender offers and calls, resulted in a decrease in total borrowings during 2004 of $1,330 million.

Bond issuances

The Company did not issue any bonds during 2005 or 2004.

Details of the Company s outstanding bonds are as follows:

		December 31, 2005			**December 31, 2004**	
		Nominal outstanding (in millions)	**Carrying value(1)**		**Nominal outstanding (in millions)**	**Carrying value(1)**
Public bonds:						
4.625% USD Convertible Bonds, due 2007	USD	968	$ 921	USD	968	$ 890
3.5% CHF Convertible Bonds, due 2010	CHF	1,000	759	CHF	1,000	885
9.5% EUR Instruments, due 2008	EUR	500	614	EUR	500	728
10% GBP Instruments, due 2009	GBP	200	353	GBP	200	382
3.75% CHF Bonds, due 2009	CHF	108	81	CHF	500	442
6.5% EUR Instruments, due 2011	EUR	650	764	EUR	650	887
0.5% JPY Instruments, due 2005				JPY	17,425	171
Private placements			181			433
Total Outstanding Bonds			**$ 3,673**			**$ 4,818**

(1) USD carrying value is net of bond discounts and includes adjustments for fair value hedge accounting, where appropriate.

The 6.5% EUR Instruments pay interest semi-annually in arrears at a fixed annual rate of 6.5 percent. In the event of a change of control of the Company, the terms of these bonds require the Company to offer to repurchase the bonds at 101 percent of the principal amount thereof, plus any accrued interest.

During 2005, the Company entered into interest rate swaps to hedge its interest obligations on the 6.5% EUR Instruments, due 2011, and the 3.75% CHF bonds due 2009. After considering the impact of these interest rate swaps, the 6.5% EUR Instruments effectively became a floating rate euro obligation, while the 3.75% CHF Bonds effectively became a floating rate Swiss franc obligation. Consequently, these bonds are included as floating rate debt at December 31, 2005, in the table of long-term debt above but as fixed rate debt at December 31, 2004.

The CHF Convertible Bonds pay interest annually in arrears at a fixed annual rate of 3.5 percent. The conversion price is subject to adjustment provisions to protect against dilution or change in control. Each 5,000 Swiss francs of principal amount of bonds is convertible into 524.65897 fully paid shares of the Company at a conversion price of 9.53 Swiss francs, representing a total of 104,931,794 shares if the bonds were fully converted.

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.

The USD Convertible Bonds due 2007 pay interest semi-annually in arrears at a fixed annual rate of 4.625 percent. The conversion price is subject to adjustment provisions to protect against dilution or change in control. As a result of an amendment to the bonds in May 2004, described below, the conversion price of the bonds was amended from 14.64 Swiss francs (converted into U.S. dollars at the fixed exchange rate of 1.6216 Swiss francs per U.S. dollar) to $9.03, representing a total of 107,198,228 shares if the bonds were fully converted.

These USD Convertible 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.

Prior to May 2004, 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.

During 2004, 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. In 2003, an increase in fair value of the embedded derivative, combined with the accretion of the discount on issuance of the bonds, resulted in a charge to interest and other finance expense of $84 million.

The 10% GBP Instruments and the 9.5% EUR Instruments 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. However, as the rating assigned by either Moody s or Standard & Poor s decreased below Baa3 or BBB-, respectively, in October 2002, the annual interest rate on the bonds increased by 1.5 percent per annum to 11.5 percent and 11 percent for the sterling and euro bonds, respectively. If after this 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.

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. 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 debt above.

Substantially all of the Company s publicly traded bonds contain cross-default clauses which would allow the bondholders to demand repayment if the Company were to default on any borrowing at or above a specified threshold. Furthermore, all such bonds constitute unsecured and unsubordinated obligations of the Company and rank pari passu with other debt obligations.

In addition to the bonds described above, included in long-term debt at December 31, 2005 and 2004, are lease obligations, bank borrowings of subsidiaries, and other long-term debt.

Note 15 Provisions and other

Provisions and other consists of the following:

	December 31, 2005	2004
Asbestos and related costs (see Note 17)	$ 1,128	$ 1,023
Contract related reserves	647	456
Provisions for warranties and contract penalties	783	739
Derivatives	138	324
Employee benefit costs	83	77
Taxes payable	369	368
Other	621	679
Total	**$ 3,769**	**$ 3,666**

Note 16 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 was $359 million, $371 million and $392 million in 2005, 2004 and 2003, respectively. Sub-lease income received on leased assets by the Company was $39 million, $33 million and $18 million in 2005, 2004 and 2003, respectively.

At December 31, 2005, 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:

2006	$ 319
2007	263
2008	225
2009	190
2010	177
Thereafter	509
	1,683
Sublease income	(148)
Total	**$ 1,535**

Note 17 Commitments and contingencies

Contingencies general

The Company is subject to various legal proceedings, including environmental and other claims that have arisen in the ordinary course of business that have not been finally resolved. It is not possible at this time for the Company to predict with any certainty the outcome of such litigation and claims. However, except as stated below, management is of the opinion, based upon information presently available and on advice of external counsel and other advisors, that while any such liability could have a material adverse impact on the Company s net cash flows, 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 or results of operations.

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 the Company s ABB Lummus Global Inc. subsidiary (Lummus) as well as against other affiliates of the Company. In October 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 to settle approximately 154,000 asbestos-related personal injury claims that were then pending against Combustion Engineering. Under that agreement Combustion Engineering established and funded a trust (the CE Settlement Trust) to provide for partial payment of those 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 Initial CE Plan). The Initial CE Plan provided for the issuance of a channeling injunction under which asbestos-related personal injury claims related to the operations of Combustion Engineering, Lummus and Basic Incorporated (Basic), another subsidiary of the Company that is a former subsidiary of Combustion Engineering, could only be brought against a future 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 (the Asbestos PI Trust). 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 ALSTOM POWER NV, from further liability for such claims.

The Initial CE Plan was filed with the U.S. Bankruptcy Court on February 17, 2003 and confirmed by the District Court on August 8, 2003. On December 2, 2004, however, the Court of Appeals for the Third Circuit reversed the District Court s confirmation order. The Court of Appeals remanded the Initial CE Plan to the District Court among other things 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 Initial CE Plan, the treatment of asbestos-related personal injury claims against Combustion Engineering under the Initial CE Plan was consistent with the requirements of the U.S. Bankruptcy Code. The Court of Appeals also held that asbestos claims against Lummus and Basic that are not related to Combustion Engineering s operations could not be channeled to the Asbestos PI Trust as proposed under the Initial CE Plan.

In March 2005, following extensive discussions with certain representatives of various parties, including the Creditors Committee, the Future Claimants Representative appointed in the Combustion Engineering case (the CE FCR) and Certain Cancer Claimants (the CCC) who had opposed the Initial CE Plan, the parties reached an agreement in principle (the Agreement in Principle) for modifying the Initial 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 main terms of the Agreement in Principle provide for the Company and certain of its subsidiaries to make an additional contribution of $204 million to the Asbestos PI Trust not later than two years from the effective date of the

Initial CE Plan, as modified as contemplated by the Agreement in Principle, but payment of this additional contribution may be accelerated in whole or in part if Lummus or Lummus assets are sold in the interim; the payment by the Company of the legal fees of the CCC in the amount of $ 8 million; and the filing of a separate Chapter 11 case and a prepackaged plan of reorganization for Lummus (the Lummus Plan). The Agreement in Principle contemplates that the Modified CE Plan and the Lummus Plan will become effective concurrently.

One of the holdings of the Court of Appeals was that asbestos-related personal injury claims against Basic that are not related to Combustion Engineering s operations could not be channeled to the Asbestos PI Trust. The Modified CE Plan and Lummus Plan do not address claims against Basic. Basic s asbestos-related personal injury liabilities will have to be resolved through its own bankruptcy or similar U.S. state court liquidation proceeding, or through the tort system.

Following the Agreement in Principle, the parties negotiated the terms and language of the Lummus Plan and the modifications to the Initial CE Plan. These negotiations lasted for approximately five (5) months, and on August 19, 2005, an amended version of the Initial CE Plan (the Modified CE Plan) was filed with the U.S. Bankruptcy Court. The Modified CE Plan was filed with the support of all of the original proponents of the Initial CE Plan, as well as the CCC. Shortly thereafter, the Modified CE Plan and the Lummus Plan were mailed to all their respective impaired creditors for voting.

In late September 2005, voting concluded on the Modified CE Plan and the Lummus Plan, and both plans were approved overwhelmingly by the voting creditors. On September 28, 2005, the U.S. Bankruptcy Court held a Confirmation Hearing on the Modified CE Plan. While several insurers filed objections to the Modified CE Plan, all such objections were resolved or withdrawn prior to the conclusion of the hearing. On December 19, 2005, the U.S. Bankruptcy Court entered an Order confirming the Modified CE Plan, and recommending that the U.S. District Court affirm the U.S. Bankruptcy Court s Order. The U.S. District Court entered an order affirming The Modified CE Plan on March 1, 2006. From the date the order was entered, there is a 30-day appeals period. If no appeals are lodged within the appeals period, the Plan will be final.

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 ABB Inc. and third parties.

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. Of these claims, approximately 155,000 were claims by asbestos claimants who participated in the Master Settlement Agreement.

From 1990 through February 17, 2003, Lummus was named as a defendant in approximately 13,000 asbestos-related personal injury claims, of which approximately 11,000 claims were pending on February 17, 2003.

Other entities of the Company have sometimes been named as defendants in asbestos-related claims. At December 31, 2005 and 2004, there were approximately 16,400 asbestos-related claims pending against entities of the Company other than Combustion Engineering and Lummus. These claims, which include approximately 4,300 claims against Basic, are unrelated to Combustion Engineering and Lummus and will not be resolved in the Combustion Engineering bankruptcy case or the contemplated prepackaged bankruptcy case for Lummus. 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, and Lummus 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

In October 2002, Combustion Engineering and the Company determined that it was likely that the expected asbestos-related personal injury liabilities of Combustion Engineering would exceed the value of its assets of approximately $800 million if its historical settlement patterns continued into the future. At that time, Combustion Engineering and the Company determined to resolve the asbestos-related personal injury 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 2002. Combustion Engineering also agreed, pursuant to the Master Settlement Agreement, to form and fund the CE Settlement Trust to administer and pay a portion of the value of 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 and provides for the partial payment of approximately 155,000 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 155,000 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 with representatives of asbestos claimants on the terms of the Initial CE Plan.

As proposed, the Initial CE Plan provided for the creation of the Asbestos PI Trust, an independent trust separate and distinct from the CE Settlement Trust, to address Asbestos PI Trust Claims, which are 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 or Lummus or Basic. The Initial 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 Initial 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 Initial CE Plan, Lummus and Basic).

As proposed, the Initial 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 Initial 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 Initial 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 to be issued on behalf of Basic (the Basic Note) 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 $293 million, $170 million and $154 million at December 31, 2005, 2004 and 2003, 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, 2005, 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 ($66 million at December 31, 2005). (The proceeds and payments to be assigned are together referred to as Certain Insurance Amounts .)

In addition, the Initial CE Plan 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.

Upon the effective date under the Initial 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 Initial 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 Initial CE Plan.

On July 10, 2003 the Bankruptcy Court issued an Order recommending to the U.S. District Court, among other things, that the Initial CE Plan be confirmed.

Following the issuance of the Bankruptcy Court s Order 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 Initial CE Plan. The District Court held a hearing on July 31, 2003, with respect to the appeals and entered an order on August 8, 2003 confirming the Initial CE Plan.

Various parties appealed the District Court s confirmation order to the United States Court of Appeals for the Third Circuit. The Court of Appeals held a hearing with respect to the appeals of the confirmation order of the District Court on June 23, 2004 and issued its decision on December 2, 2004 (the Third Circuit Decision).

The Third Circuit Decision reversed the District Court s confirmation of the Initial CE Plan. The Third Circuit Decision focused on three issues raised by the appealing parties in respect to the terms of the Initial 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 non-debtors Lummus and Basic. With regard to the two-trust structure, the Court of Appeals remanded the Initial 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.

Notwithstanding the Third Circuit Decision, the Master Settlement Agreement, which settles the amount of and provides for partial payment on approximately 155,000 asbestos-related personal injury claims, remained effective. Early in the Combustion Engineering bankruptcy case, however, 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. The Modified CE Plan contemplates that on its effective date the complaint would be dismissed.

Following the Third Circuit Decision, the lower courts assumed jurisdiction over further confirmation proceedings in respect of the Initial CE Plan. On January 27, 2005, the Bankruptcy Court authorized the CE FCR 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 Company also entered into a tolling agreement to extend the time period within which bankruptcy-related claims against it could be brought. The Modified CE Plan contemplates that all such actions by the trustee agent and the Company will be dismissed on the effective date of that Plan.

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.

The Modified CE Plan

In March 2005, following extensive discussions with the CE FCR, the Creditors Committee and representatives of the CCC, Combustion Engineering and the Company reached the Agreement in Principle on certain overall modifications to the Initial CE Plan to bring it into conformity with the Third Circuit Decision and to provide a mechanism for resolving finally Lummus potential asbestos liability.

The Modified CE Plan, which implements the Agreement in Principle, includes the following material changes to the Initial CE Plan:

- Additional Contribution The Company will make an additional contribution of $204 million (the ABB Additional Contribution) to the Asbestos PI Trust from the proceeds received from any sale of Lummus in whole or in part, but in no event later than two years from the effective date of the Modified CE Plan regardless of any sale of all or a portion of Lummus;

- ABB Promissory Note The terms of the original ABB Promissory Note have been changed to, among other things, modify the payment schedule and the percentages for EBIT Margin Events that give rise to contingent payments;

- Guarantees Guarantees by certain subsidiaries of the Company of the ABB Promissory Note have been extended for all continuing, modified, and additional contributions of Combustion Engineering, the Company or their respective affiliates under the Modified CE Plan;

- Lummus Effective Date The Effective Date of the Modified CE Plan is conditioned upon the occurrence of the Lummus Effective Date, but this condition becomes inoperative if Lummus fails to file its own chapter 11 case within 15 days after the Confirmation Order in respect to the Modified CE Plan becomes final;

- Asbestos PI Trust Distributions Certain changes have been made to the Asbestos PI Trust documents that modify the Asbestos PI Trust Distribution Procedures under the Modified CE Plan;

- Settlement of Preference Claims The CE Settlement Trust and claimants who received payments from the CE Settlement Trust will receive a release of any preference claims, fraudulent transfer claims, and other similar claims that Combustion Engineering, the CE FCR or creditors of Combustion Engineering may have against them;

- Elimination of Lummus and Basic The Modified CE Plan no longer addresses the direct asbestos related liabilities of Lummus and Basic and eliminates any assignment of insurance rights by Lummus and Basic other than their rights to coverage under Combustion Engineering s insurance policies.

As part of these changes, the Company has paid approximately $8 million of approved legal fees of the CCC.

The Modified CE Plan contemplates a channeling injunction substantially similar to the channeling injunction contemplated by the Initial CE Plan. If the ABB entities fail to perform any of their financial obligations under the Modified CE Plan, the channeling injunction will terminate and the affected asbestos-related personal injury claims could be pursued against the ABB entities.

The Lummus Plan

The negotiations that determined the proposed terms of the Lummus Plan were conducted with an individual appointed by Lummus to represent the interests of its future asbestos claimants (the Lummus FCR). These negotiations were held in parallel with the negotiations on the Modified CE Plan over approximately five months.

The material terms of the Lummus Plan are as follows:

- Lummus Note Lummus will execute a note in the principal amount of $33 million (the Lummus Note) payable to the Trust created under the Lummus Plan (the Lummus Asbestos PI Trust). The Lummus Note will bear interest at 6% per annum and be secured by 51% of the capital stock of Lummus.

- Insurance Recoveries The Lummus Asbestos PI Trust will also be entitled to be paid the first $7.5 million in aggregate recoveries from Lummus insurers, with the first $5 million guaranteed by Lummus; and

- Channeling Injunction The Lummus Plan provides for the issuance of a channeling injunction pursuant to Sections 524(g) and 105 of the Bankruptcy Code pursuant to which all asbestos claims against Lummus shall be channeled to the Lummus Asbestos PI Trust.

The Solicitation and Voting Process

In late August 2005, Combustion Engineering distributed informational materials and ballots to claimants who were eligible to vote on the Modified CE Plan or to persons who had been authorized by eligible claimants to cast ballots on their behalf. On August 31, 2005, Lummus set out informational materials and ballots on the Lummus Plan to all affected Lummus creditors for voting.

Separate voting on the Modified CE Plan and Lummus Plan began on about September 1, 2005 and concluded on September 19, 2005. The Modified CE Plan was approved by an overwhelming majority of the votes cast in respect to the Modified CE Plan and the Lummus Plan was approved by an overwhelming majority of those who voted on the Lummus Plan.

Confirmation of the Modified CE Plan

The Bankruptcy Court held a Confirmation Hearing on the Modified CE Plan on September 28, 2005. Several objections to confirmation of the Modified CE Plan had been filed by insurance carriers and others but all such objections were resolved or otherwise withdrawn at or prior to the hearing. As a consequence, there were no objections to confirmation of the Modified CE Plan before the court.

On December 19, 2005 the Bankruptcy Court issued an Order, and accompanying Opinion, confirming the Modified CE Plan and recommending that the U.S. District Court affirm the Bankruptcy Court s Order. The U.S. District Court entered an order affirming the Modified CE Plan on March 1, 2006. From the date the order was entered, there is a 30-day appeals period. If no appeals are lodged within the appeals period, the Plan will be final.

The Modified CE Plan contemplates that Lummus would file its own Chapter 11 case within 15 days from the date that the confirmation of the Modified CE Plan becomes a final order. However, Lummus is under no obligation to file such a case or to file at any particular time.

We do not know whether any plan or reorganization for Combustion Engineering or Lummus will be ultimately confirmed. 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, we expect that Lummus asbestos-related liabilities will have to be resolved through the tort system, or otherwise.

Entities of the Company that are not included in the protection offered by the channeling injunctions entered pursuant to the Modified CE Plan or the Lummus Plan (if Lummus files its own Chapter 11 case) will continue to resolve current and future asbestos-related claims that are asserted against them in the tort system, or otherwise.

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 $133 million, $262 million and $142 million in loss from discontinued operations, net of tax, and $0 million, $1 million and $3 million in income from continuing operations, net of tax, for 2005, 2004 and 2003, respectively. Loss from discontinued operations, net of tax, for 2005 includes $123 million resulting from the mark-to-market adjustment relating to the CE Settlement Shares and other costs of $11 million. 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 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 then 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.

Cash Payments. Cash payments, before insurance recoveries, related to Combustion Engineering s asbestos-related claims were $19 million (including $3 million contributed to the CE Settlement Trust, described above), $56 million (including $49 million contributed to the CE Settlement Trust) and $391 million (including $365 million contributed to the CE Settlement Trust), in 2005, 2004 and 2003, respectively. Administration and defense costs were $17 million, $10 million and $36 million in 2005, 2004 and 2003, respectively.

Cash payments related to asbestos-related claims against Lummus aggregated approximately $3 million through December 31, 2005, of which approximately $1 million was paid in 2003 and the remainder in prior years. Administration and defense costs were $4 million, $0 million and $2 million in 2005, 2004 and 2003, respectively.

The aggregate cash payments to resolve asbestos-related claims against Basic and other entities of the Company were approximately $4 million as of December 31, 2005, of which $3 million related to Basic.

Provisions. At December 31, 2005, 2004 and 2003, the Company recorded total provisions on a consolidated basis of $1,128 million, $1,023 million and $815 million in respect of asbestos-related claims and defense costs related to Combustion Engineering, Lummus and Basic. Based upon the expected implementation of the Modified CE Plan and the Lummus Plan, the Company recorded provisions of $1,080 million and $43 million, respectively, at December 31, 2005, 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 and to Stockholders Equity for the amounts related to the CE Settlement Shares. Future earnings will be affected by mark-to-market adjustments relating to the CE Settlement Shares through the Effective Date, as well as contingent payments when they become probable of payment. The provisions at December 31, 2003 were based on the Company s obligations under the initial CE Plan and assumed that the initial CE Plan would be confirmed and become effective as proposed.

With respect to Basic, we have established a provision of $4 million relating to its asbestos-related personal injury 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 and Lummus in accordance with the Modified CE Plan and the proposed Lummus Plan, and those of Basic. The Company may incur liability greater than the existing provisions, whether in connection with modified plans 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 $208 million, $221 million and $232 million at December 31, 2005, 2004 and 2003, respectively, for probable insurance recoveries, which were established with respect to asbestos-related claims. The Company has not established a provision for claims against entities other than Combustion Engineering, Lummus and Basic as amounts are immaterial.

In the event the Modified CE Plan or Lummus Plan (if Lummus files its own Chapter 11 case) 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 environmental

The Company is a participant in several legal and regulatory actions, which result from various U.S. and other environmental protection legislation, as well as agreements with third parties. While the Company cannot estimate the impact of future legislation, 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.

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 agreed to reimburse BNFL for a share of the costs that BNFL incurs for 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 incurred until a facility is taken out of use and generally are incurred over a number of years. Although it is difficult to predict with accuracy the amount of time it may take to remediate radiological and chemical contamination at the Hematite site, based on information that BNFL has made 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.

Under the terms of the sale agreement, BNFL must perform the Hematite remediation in a cost efficient manner and pursue recovery of remediation costs from other potentially responsible parties as conditions for obtaining cost sharing contributions from the Company. Westinghouse Electric Company LLC, the BNFL subsidiary that owns the Hematite site (Westinghouse) has brought legal action against former owner/operators of the Hematite site and the U.S. Government under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) to recover past and future remediation costs. The defendants are contesting Westinghouse s claims. If Westinghouse s CERCLA cost recovery action is unsuccessful, the cost to the Company may increase in the future. This risk is included in the high end of the estimated contingent liability set forth below.

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 government s Formerly Utilized Sites Remedial Action Program.

The Company established a reserve of $300 million in loss from discontinued operations in 2000 for its estimated share of the remediation costs for these facilities. The Company, as of December 31, 2005, has recorded in other liabilities a reserve of $255 million, net of payments from inception of $43 million, and a reversal of $2 million to loss from discontinued operations in 2005 reflecting realized cost savings. At December 31, 2005 the Company estimated the total contingent liability for its share of the remediation costs for these facilities in a range of loss from $220 million to $402 million. Expenditures charged to the remediation reserve were $9 million, $10 million and $6 million during 2005, 2004 and 2003, respectively. The Company does not expect the majority of the remaining costs to be paid in cash during 2006.

Contingencies Regulatory and Compliance

Disclosures of suspect payments to the SEC and the United States Department of Justice

In April 2005 the Company voluntarily disclosed to the United States Department of Justice (DoJ) and the SEC certain suspect payments in its network management unit in the United States. Subsequently, the Company made additional voluntary disclosures to the DoJ and the SEC regarding suspect payments made by Company subsidiaries in a number of countries, including a country in the Middle East. These payments were discovered by ABB as a result of the Company s internal compliance reviews. The payments may be in violation of the Foreign Corrupt Practices Act (FCPA) or other applicable laws. The consequences for ABB could include penalties, other costs and business-related impacts. ABB is

cooperating on these issues with the relevant authorities, and is continuing its internal investigations and compliance reviews.

Earnings overstatement in an Italian subsidiary

In September 2004, the Company restated its financial statements for all prior periods as a result of earnings overstatements by a business unit of the Company s Power Technologies division in Italy. The restatement followed an internal investigation by the Company which showed that the business unit had overstated earnings before interest and taxes and net income as well as that certain employees had participated in arranging improper payments to an employee of an Italian power generation company in order to obtain a contract. The Company has reported this matter to the Italian Public Prosecutor s Office, which is conducting its own investigation, as well as to the SEC. The Company cannot be certain as to the outcome of the Italian Public Prosecutor s Office investigation or as to the position of the SEC.

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 conditional amnesty from the European Commission and is cooperating with it and the other national competition authorities involved in the respective investigations.

Vetco Gray

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 FCPA and paid an aggregate fine to the DoJ totaling $10.5 million. In addition, in July 2004, in a related action the Company agreed with the SEC to resolve civil charges relating to the FCPA, including the payment of $5.9 million to disgorge allegedly unlawful profits earned by the two subsidiaries and to retain an independent consultant to review the Company s FCPA compliance policies and procedures.

Guarantees general

Certain guarantees issued or modified after December 31, 2002 are accounted for in accordance with Financial Accounting Standards Board Interpretation No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). 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.

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,	2005 Maximum potential payments	Carrying amount of liabilities	2004 Maximum potential payments	Carrying amount of liabilities
Third-party performance guarantees	$ 1,197	$ 1	$ 1,525	$ 2
Financial guarantees	209		253	1
Indemnification guarantees	150	13	198	16
Total	**$ 1,556**	**$ 14**	**$ 1,976**	**$ 19**

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 $756 million and $875 million at December 31, 2005 and 2004, 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 $440 million and $650 million at December 31, 2005 and 2004, respectively. The Company has the ability to recover potential payments under these guarantees through certain backstop guarantees. The maximum potential recovery under these backstop guarantees is approximately $108 million and $146 million at December 31, 2005 and 2004, respectively.

Guarantees financial

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

At December 31, 2005 and 2004, the Company had $209 million and $253 million, respectively, of financial guarantees outstanding. Of those amounts, $95 million and $123 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.

Guarantees indemnification

The Company has indemnified certain purchasers of divested businesses for potential claims arising from the operations of the divested businesses. To the extent the maximum loss related to such indemnifications could not be calculated, no amounts have been included under maximum potential payments in the table above. Indemnifications for which maximum losses could not be calculated include indemnifications for legal claims.

The Company delivered to the purchasers of the Upstream business and Reinsurance business guarantees related to assets and liabilities divested in 2004. The maximum liability at December 31, 2005 and 2004, of approximately $150 million and $198 million, respectively, relating to the Upstream and Reinsurance businesses will reduce over time, pursuant to the respective sales agreements.

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 15 includes penalties resulting from delays in contract fulfillment, which is not included in the amounts below.

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

	December 31,	
	2005	**2004**
Balance at the beginning of year	$ 677	$ 513
Claims paid in cash or in kind	(119)	(72)
Net increase to provision for changes in estimates, warranties issued and warranties expired	237	178
Exchange rate differences	(65)	58
Balance at the end of year	**$ 730**	**$ 677**

IBM Outsourcing Agreement

In 2003, the Company entered into a 10-year global framework agreement with International Business Machines Corporation (IBM) to outsource the Company s information systems infrastructure services to IBM. The global framework agreement includes an obligation for IBM to lease new personal computers and other IT equipment to the Company as older equipment is retired. The Company accounts for these items as capital leases or operating leases based on the terms of the leases.

Further, pursuant to the global framework agreement, IBM will receive monthly payments from the Company s subsidiaries in the respective countries related to information systems infrastructure services. Expected annual costs during the 10-year term of the global framework agreement approximate $230 million based on the current level of usage of the services.

Related party transactions

The IBM global framework agreement, referred to above, was negotiated between IBM and the Company. However, it should be noted that Jürgen Dormann, the Company s Chairman, is a member of the Board of Directors of IBM, and Hans-Ulrich Märki, a director on the Company s Board of Directors, is Chairman of IBM Europe/Middle East/Africa.

The Company maintains banking relationships with Skandinaviska Enskilda Banken AB (publ) (SEB) and Dresdner Bank AG. Specifically, both SEB and Dresdner Bank AG, each have a commitment to ABB of $120 million under our $2 billion multicurrency revolving credit facility of which no amounts were drawn at December 31, 2005. In addition, SEB is an arranger and dealer of the Company s 5 billion Swedish krona commercial paper program, signed in November 2005. Jacob Wallenberg, a member of the Company s Board of Directors, is the vice-chairman of SEB. Bernd W. Voss, a member of the Company s Board of Directors, is a member of the supervisory board of Dresdner Bank AG. In addition, during 2005, the Company sold its Finnish Lease portfolio business to SEB.

Note 18 Taxes

Provision for taxes consists of the following:

	Year ended December 31, 2005	2004	2003
Current taxes on income	$ 445	$ 332	$ 215
Deferred taxes	37	(1)	18
Tax expense from continuing operations	**482**	**331**	**233**
Tax (benefit) expense from discontinued operations	(8)	21	54

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, 2005	2004	2003
Reconciliation of taxes:			
Income (loss) from continuing operations before taxes and minority interest and cumulative effect of accounting change	$ 1,496	$ 837	$ (115)
Weighted-average tax rate	34.2 %	38.9 %	12.2 %
Taxes at weighted-average tax rate	**512**	**326**	**(14)**
Items taxed at rates other than the weighted-average tax rate	(39)	(36)	15
Changes in valuation allowance	(19)	115	276
Changes in tax laws and enacted tax rates	(22)	3	4
Other, net	50	(77)	(48)
Tax expense from continuing operations	**$ 482**	**$ 331**	**$ 233**
Effective tax rate for the year	**32.2 %**	**39.5 %**	**(202.6)%**

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 14), partially offset by earnings recognized in relation to certain of the Company s equity accounted investments.

The reconciliation of taxes for 2005, 2004 and 2003 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 either be realized or no longer be realized. In 2005, the change in valuation allowance is predominately related to the Company s operations in certain countries including the United States. 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 and $9 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 and certain countries within Central Europe respectively.

In 2005, the reconciling item Other, net included an expense of approximately $60 million relating to items that are deducted for accounting purposes, but are not included in the computation of taxable

income such as interest expense, state and local taxes on productive activities, disallowed meals and entertainment expenses and other similar items.

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, Other, net included $5 million, 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 (see Note 17).

In 2003, the loss from continuing operations before taxes and minority interest and cumulative effect of accounting change of $115 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 and $9 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 and certain countries within Central Europe respectively. The effective tax rate applicable to income from continuing operations excluding the tax effect of these items would be 38.7 percent.

Deferred income tax assets and liabilities consist of the following:

	December 31, 2005	2004
Deferred tax liabilities:		
Financing receivables	$	$ (33)
Property, plant and equipment	(165)	(290)
Pension and other accrued liabilities	(572)	(479)
Other	(142)	(148)
Total deferred tax liability	**(879)**	**(950)**
Deferred tax assets:		
Investments and other	28	36
Property, plant and equipment	53	77
Pension and other accrued liabilities	1,057	833
Unused tax losses and credits	1,575	1,694
Other	341	551
Total deferred tax asset	**3,054**	**3,191**
Valuation allowance	(1,953)	(2,017)
Deferred tax asset, net of valuation allowance	**1,101**	**1,174**
Net deferred tax asset	**$ 222**	**$ 224**

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 $1,953 million and $2,017 million have been established at December 31, 2005 and 2004, respectively.

At December 31, 2005, net operating loss carry-forwards of $4,182 million and tax credits of $128 million are available to reduce future taxes of certain subsidiaries, of which $2,106 million loss

carry-forwards and $108 million tax credits expire in varying amounts through 2025 and the remainder does not expire. These carry-forwards are predominantly related to the Company s U.S. and German operations.

The Company operates in numerous tax jurisdictions and, as a result, is regularly subject to audit by tax authorities. The Company provides for tax contingencies on the basis of their technical merits, including relative tax law and OECD guidelines, as well as on items relating to potential audits by tax authorities based upon its best estimate of the facts and circumstances as of each reporting period. Changes in the facts and circumstances could result in a material change to the tax accruals. The Company provides for contingencies whenever it is deemed 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. A significant part of the tax contingency provisions that have been accrued relate to pending court cases in Northern Europe relating to certain sale and leaseback transactions, as well as contingencies arising related to our interpretation of tax law and OECD guidelines.

Note 19 Other liabilities

Other liabilities consist of the following:

	December 31,	
	2005	**2004**
Nuclear technology environmental provisions (see Note 17)	$ 255	$ 266
Non-current deposit liabilities (see Note 10)	309	314
Deferred income	120	143
Non current derivative liabilities	63	53
Other liabilities non-current	241	306
Total	**$ 988**	**$ 1,082**

Note 20 Employee benefits

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

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, 2005 and 2004, for the Company s benefit plans:

	Pension benefits		Other benefits	
	2005	**2004**	**2005**	**2004**
Benefit obligation at the beginning of year	$ 8,713	$ 7,721	$ 369	$ 397
Service cost	189	190	3	3
Interest cost	364	375	18	23
Contributions from plan participants	39	46	10	10
Benefit payments	(511)	(523)	(37)	(39)
Benefit obligations of businesses acquired		38		
Benefit obligations of businesses disposed	(20)	(118)		
Actuarial (gain) loss	330	366	11	(23)
Plan amendments and other		(14)	(104)	(3)
Exchange rate differences	(1,093)	632		1
Benefit obligation at the end of year	**8,011**	**8,713**	**270**	**369**
Fair value of plan assets at the beginning of year	7,262	6,041		
Actual return on plan assets	758	476		
Contributions from employer	558	753	27	29
Contributions from plan participants	39	46	10	10
Benefit payments	(511)	(523)	(37)	(39)
Plan assets of businesses acquired		34		
Plan assets of businesses disposed	(1)	(92)		
Plan amendments and other		(8)		
Exchange rate differences	(933)	535		
Fair value of plan assets at the end of year	**7,172**	**7,262**		
Unfunded amount	**839**	**1,451**	**270**	**369**
Unrecognized transition liability			(8)	(11)
Unrecognized actuarial loss	(819)	(1,019)	(144)	(141)
Unrecognized prior service cost	(13)	(22)	113	16
Net amount recognized	**$ 7**	**$ 410**	**$ 231**	**$ 233**

The following amounts have been recognized in the Company s Consolidated Balance Sheet at December 31, 2005 and 2004:

	Pension benefits		Other benefits	
	2005	**2004**	**2005**	**2004**
Prepaid pension cost	$ (605)	$ (536)	$	$
Accrued pension cost	919	1,272	231	233
Intangible assets	(2)	(11)		
Accumulated other comprehensive loss	(305)	(315)		
Net amount recognized	**$ 7**	**$ 410**	**$ 231**	**$ 233**

Included in the $1,233 million and $1,551 million of pension and other benefits in the Consolidated Balance Sheet at December 31, 2005 and 2004, respectively, are $83 million and $46 million of long-term employee-related obligations not accounted for under Statement of Financial Accounting Standards No. 87, *Employers Accounting for Pensions* (SFAS 87) or Statement of Financial Accounting Standards No. 106 *Employers Accounting for Postretirement Benefits Other Than Pensions* (SFAS 106). Additionally,

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provisions and other (see Note 15), contains an accrual of $83 million and $77 million at December 31, 2005 and 2004, 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 $307 million and $326 million at December 31, 2005 and 2004, respectively, to record a minimum pension liability. Accumulated other comprehensive loss includes $214 million and $206 million of minimum pension liability at December 31, 2005 and 2004, respectively.

The accumulated benefit obligation (ABO) for all defined benefit pension plans was $7,603 million and $8,228 million at December 31, 2005 and 2004, respectively.

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

	December 31, 2005			2004		
	PBO	Assets	Difference	PBO	Assets	Difference
PBO exceeds assets	$ 5,161	$ 4,116	$ 1,045	$ 8,294	$ 6,810	$ 1,484
Assets exceed PBO	2,850	3,056	(206)	419	452	(33)
Total	**$ 8,011**	**$ 7,172**	**$ 839**	**$ 8,713**	**$ 7,262**	**$ 1,451**

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, 2005			2004		
	ABO	Assets	Difference	ABO	Assets	Difference
ABO exceeds assets	$ 1,708	$ 930	$ 778	$ 5,008	$ 3,910	$ 1,098
Assets exceed ABO	5,895	6,242	(347)	3,220	3,352	(132)
Total	**$ 7,603**	**$ 7,172**	**$ 431**	**$ 8,228**	**$ 7,262**	**$ 966**

Components of net periodic benefit cost

For the years ended December 31, 2005, 2004 and 2003, net periodic benefit cost consists of the following:

	Pension benefits			Other benefits		
	2005	2004	2003	2005	2004	2003
Service cost	$189	$190	$204	$3	$3	$3
Interest cost	364	375	369	18	23	26
Expected return on plan assets	(357)	(330)	(325)			
Amortization transition liability		5	1		2	6
Amortization prior service cost	4	4	9	(4)	(2)	
Amortization of net actuarial loss	46	37	45	7	9	9
Other	2	4	8	1	2	
Net periodic benefit cost	**$248**	**$285**	**$311**	**$25**	**$37**	**$44**

Assumptions

The following weighted-average assumptions were used to determine benefit obligations at December 31, 2005 and 2004:

	Pension benefits		Other benefits	
	2005	2004	2005	2004
Discount rate	4.29 %	4.60 %	5.50 %	5.75 %
Rate of compensation increase	2.41 %	2.23 %		

The discount rate assumption is derived from rates of high quality fixed income investments of appropriate durations for the respective plans.

The following weighted-average assumptions were used to determine net periodic benefit cost for years ended December 31, 2005, 2004 and 2003:

	Pension benefits			Other benefits		
	2005	2004	2003	2005	2004	2003
Discount rate	4.60 %	4.97 %	5.10 %	5.75 %	6.25 %	6.74 %
Expected long-term return on plan assets	5.45 %	5.57 %	6.06 %			
Rate of compensation increase	2.23 %	2.28 %	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 maintains non-pension postretirement benefit plans, which are generally contributory with participants contributions adjusted annually.

	2005	2004
Health care cost trend rate assumed for next year	10.38 %	11.76 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	6.02 %	6.24 %
Year that the rate reaches the ultimate trend rate	2013	2013

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, 2005:

	1-percentage-point increase	1-percentage-point decrease
Effect on total of service and interest cost	$ 1	$ (1)
Effect on postretirement benefit obligation	$ 19	$ (16)

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 superseded FAS FSP No. 106-1). The effects of these provisions resulted in a reduction of $24 million in 2004 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.

During 2005, the Company amended the retiree medical health benefits in the United States to eliminate its subsidy on post-65 retiree medical and prescription drug coverage effective January 1, 2007 for certain retiree groups and effective January 1, 2006 for a union plan. For accounting purposes the amendments were effective September 1, 2005 and November 1, 2005, respectively. These amendments

reduced the accumulated postretirement benefit obligation by $101 million and net periodic benefit costs for 2005 by $5 million.

Plan assets

The Company s pension plan weighted-average asset allocations at December 31, 2005 and 2004, and approximate long-term target allocation is as follows:

	Plan assets 2005	2004	Long term target allocation
Asset category:			
Equity securities	34 %	33 %	20% 40 %
Debt securities	54 %	54 %	50% 70 %
Real estate	7 %	9 %	0% 15 %
Other	5 %	4 %	0% 15 %
Total	100 %	100 %	

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

ABB constantly reviews the asset allocation in light of the duration of its pension liabilities and analysis trends and events that may affect assets values in order to initiate appropriate measures at an early stage.

At December 31, 2005 and 2004, the plan assets included approximately 800,000 of the Company s capital stock with a total value of $8 million and $5 million respectively.

Contributions

During 2005, the Company made a non-cash contribution of $262 million of available-for-sale debt securities to certain of the Company s pension plans in Germany and cash contributions of $296 million to other pension plans and $27 million to other benefit plans.

The Company expects to contribute approximately $160 million to its pension plans and $30 million to its other postretirement benefit plans in 2006 to meet minimum statutory requirements. The Company may make additional discretionary pension contributions during 2006.

The Company also maintains several defined contribution plans. The expense for these plans was $101 million, $71 million and $86 million in 2005, 2004 and 2003, respectively. The Company also contributed $61 million, $74 million and $80 million to multi-employer plans in 2005, 2004 and 2003, respectively.

Estimated future benefit payments

The expected future cash flows to be paid by the Company in respect of pension and other postretirement benefit plans at December 31, 2005 is as follows:

	Pension benefits	Other postretirement benefits Benefit payments	Medicare subsidies
2006	$ 466	$ 31	$ (2)
2007	469	24	(1)
2008	469	23	(1)
2009	482	23	(1)
2010	485	23	(1)
Years 2011 2015	$ 2,390	119	$ (8)

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.

Note 21 Employee incentive plans

Management incentive plan

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

Warrants granted under the MIP 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, which facilitates valuation and transferability of warrants granted under this plan. If the participant elects to sell the warrant on the market rather than exercise the right to purchase shares, the warrant may then be held by a non-employee of the Company. 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. As the primary trading market for shares of ABB Ltd is the SWX Swiss Exchange (virt-x), the exercise prices of warrants and the trading prices of equivalent warrants listed on the SWX Swiss Exchange are denominated in Swiss francs. Accordingly, exercise prices are presented below in Swiss francs. Fair values are 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 SFAS 123. All warrants were issued with exercise prices greater than the market prices of the stock on the dates of grant. Accordingly, the Company recorded no compensation expense related to the warrants, except in circumstances when a participant ceased to be employed by a consolidated subsidiary, such as after a divestment by the Company. In accordance with Financial Accounting Standards Board Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation,* the Company recorded compensation expense based on the fair value of warrants retained by participants on the date their employment ceased, with an offset to additional paid in capital. The impact of such expense was 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, 2003	**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**
Forfeited	(1,200,000)	(240,000)	7.06
Expired	(19,213,060)	(4,843,539)	32.01
Outstanding at December 31, 2005	**74,734,250**	**16,823,224**	**18.99**
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
Exercisable at December 31, 2005	**36,017,500**	**9,079,874**	**29.06**

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

(2) Information presented reflects the exercise price per 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 29 percent, risk-free interest rate of 1.98 percent, and an expected life of six years.

Of the outstanding warrants at December 31, 2005, 2004 and 2003, 9.9 million, 7.3 million and 6.6 million warrants, respectively, have been sold on the market by participants, representing 2.5 million, 1.8 million and 3.1 million shares, respectively.

Presented below is a summary of warrants outstanding at December 31, 2005.

Range of exercice prices (in Swiss francs)(1)	Number of warrants	Number of shares(2)	Weighted-average remaining life
42.05	19,630,000	4,948,648	0.4 years
13.49	16,387,500	4,131,226	1.9 years
7.00	24,391,750	4,878,350	3.9 years
7.50	14,325,000	2,865,000	4.9 years
7.00 42.05	74,734,250	16,823,224	2.8 years

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

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

In February 2006, the Company granted 12,130,000 warrants to employees for no consideration under its MIP Plan. The warrants give the right to purchase 2,426,000 shares of ABB Ltd and have a strike price of 15.30 Swiss francs, vest over three years and have a life of six years.

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 expense of $31 million for 2005, income of $4 million for 2004 and expense of $1 million for 2003, as a result of changes in the fair value of the outstanding WARs and the vested portion. To hedge its exposure to fluctuations in the fair value of outstanding WARs, the Company purchased cash-settled call options, which entitle the Company to receive amounts equivalent to its obligations under the outstanding WARs. In accordance with EITF 00-19 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. In the fourth quarter of 2005, the Company changed the income statement classification of the cash-settled call options and, as a result, reclassified expense of $15 million and $9 million for 2004 and 2003, respectively, from interest and other finance expense to selling general and administrative expenses. In 2005, the Company recognized income of $26 million in selling, general and administrative expenses related to the cash-settled call options.

The aggregate fair value of outstanding WARs was $53 million and $14 million at December 31, 2005 and 2004, respectively. The fair value of WARs was determined based upon the trading price of equivalent warrants listed on the SWX Swiss Exchange.

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

	Number of WARs outstanding
Outstanding at January 1, 2003	**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**
Exercised	(7,100,000)
Forfeited	(2,050,000)
Expired	(17,045,520)
Outstanding at December 31, 2005	**105,997,000**

At December 31, 2005 and 2004, 58,107,500 and 81,590,520 of the WARs were exercisable, respectively. No WARs were granted in 2005. The aggregate fair value at date of grant of WARs granted in 2004 and 2003 was $8 million and $9 million, respectively.

In February 2006, the Company granted 34,172,500 WARs to employees for no consideration under its MIP 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 vest over three years and have a life of six years.

Employee share acquisition plan

To incentivize employees, the Company has an employee share acquisition plan (ESAP Plan). 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.

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 their stock options, the excess funds will be returned to the employee. If the balance of savings and interest is insufficient to permit the employee to fully exercise their stock options, the employee has the choice but not the obligation, to make an additional payment so that the employee may fully exercise their 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 their 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.

Presented below is a summary of the ESAP Plan.

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	Number of stock options(1)
Outstanding at January 1, 2004	
Granted (2004 grant)(2)	7,548,360
Forfeited (2004 grant)	(2,620)
Outstanding at December 31, 2004	**7,545,740**
Forfeited (2004 grant)	(333,440)
Not exercised savings returned plus interest (2004 grant)	(585,750)
Exercised (2004 grant)	(6,626,550)
Granted (2005 grant)(3)	6,222,890
Forfeited (2005 grant)	(2,290)
Outstanding at December 31, 2005	**6,220,600**

(1) Includes shares represented by ADS.

(2) The aggregate fair value at date of grant was $5 million, assuming a zero percent dividend yield, expected volatility of 28 percent, a risk-free interest rate of 0.97 percent and a life of one year from date of grant.

(3) The aggregate fair value at date of grant was $5 million, assuming a dividend yield of 0.97 percent, expected volatility of 27 percent, a risk-free rate of 1.40 percent and a life of one year from date of grant.

The exercise price per share and ADS of 6.95 Swiss francs and $5.90, respectively, for the 2004 grant, and 10.30 Swiss francs and $7.88, respectively for the 2005 grant, were determined using the closing price of the ABB Ltd share on SWX Swiss Exchange (virt-x) and ADS on the New York Stock Exchange on the respective grant dates of November 9, 2004 and November 8, 2005.

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

The Company has a Performance incentive share plan (Performance Plan) for members of its Executive Committee (EC Members). The Performance Plan involves annual conditional grants of the Company s stock. The number of shares conditionally granted is dependent upon the base salary of the EC Member. The actual number of shares that each participant 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 performance of the Company compared to its peers over the Evaluation Period will be measured as the sum, in percentage terms, of the average percentage price development of the ABB Ltd share price over the Evaluation Period and an average annual dividend yield percentage (the Company s Performance).

In order for shares to vest, the Company s Performance over the Evaluation Period must be positive and equal to or better than half of the defined peers. The actual number of shares to be delivered 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 during the vesting period, an EC Member gives notice of resignation or, under certain circumstances, is given notice of termination, 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. If, during the vesting period, 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, unless otherwise determined by the Company s Nomination and Compensation Committee. 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, and December 2005, a further 59,001 and 15,870 shares, respectively, were conditionally granted under the 2004 launch to new EC Members, resulting in a total conditional grant under the 2004 launch of 518,301 shares.

In December 2005, 1,044,456 shares were conditionally granted to EC Members under the 2005 launch of the Performance Plan.

Presented below is a summary of the Performance Plan.

Launch year	**Evaluation Period**	**Total numbers of shares conditionally granted**	**Reference price (Swiss francs)**(1)
2004	March 15, 2004, to March 15, 2006	518,301 (2)	7.68
2005	March 15, 2005, to March 15, 2008	1,044,456	7.15

(1) For the purpose of comparison with the peers, the reference price is calculated as the average of the closing prices of the ABB Ltd share on SWX Swiss Exchange (virt-x) over the 20 trading days preceding March 15 of the respective launch year.

(2) Includes shares conditionally granted in 2005 under the 2004 launch of the Performance Plan.

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 after the end of the Evaluation Period, the Performance Plan is deemed to be a variable plan in accordance with APB 25. Up to January 1, 2006, the date of adoption of SFAS 123R, changes in the fair value of the Company s stock and the number of shares anticipated to vest 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 recorded in selling, general and administrative expenses for 2005 was $4 million while the amount for 2004 was insignificant.

The aggregate fair value of the 2005 and 2004 launches at their grant dates was approximately $9 million and $3 million, respectively, assuming vesting of the maximum award in March 2008 and March 2006, respectively.

Note 22 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 included the creation of 250 million Swiss francs in authorized share capital (expiring May 2005), 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 17). 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.

In November 2005, the Company issued 6,626,550 shares from contingent capital stock for the purposes of fulfilling the Company s obligations under the ESAP Plan (see Note 21).

At December 31, 2005, the Company had 2,370,314,947 authorized shares. Of these, 2,076,941,497 shares are registered and issued, including 30,298,913 CE Settlement Shares that are reserved for use in connection with a 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, 2005, the Company had outstanding obligations to deliver approximately 50 million shares at exercise prices ranging from 7.00 to 42.05 Swiss francs for securities issued under employee incentive plans and call options sold to a bank at fair value during 2001, 2003 and 2004. These financial instruments expire in periods ranging from June 2006 to December 2010 and were recorded as equity instruments in accordance with EITF 00-19. Also, at December 31, 2005, 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 bonds 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 bonds in September 2003. In addition, at December 31, 2005, the Company had outstanding contingent obligations to deliver up to a maximum of 1.6 million shares free of charge to EC Members under the 2004 and 2005 launches of the Performance Plan.

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, 2005, of the 9,017 million Swiss francs stockholders equity reflected in such unconsolidated financial statements, 5,192 million Swiss francs is share capital, 2,219 million Swiss francs is restricted, 1,235 million Swiss francs is unrestricted and 371 million Swiss francs is available for distribution.

Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the year, assuming that all potentially dilutive securities were exercised, if dilutive. Potentially dilutive securities comprise: outstanding written call options; outstanding options granted under the Company s employee incentive plans; and shares issuable in relation to outstanding convertible bonds. In 2005, 2004 and 2003, outstanding securities representing a maximum of 133 million, 265 million and 271 million shares, respectively, were excluded from the calculation of diluted earnings (loss) per share as their inclusion would have been antidilutive.

	Year ended December 31,		
	2005	**2004**	**2003**
Basic earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 883	$ 404	$ (415)
Loss from discontinued operations, net of tax	(143)	(439)	(364)
Cumulative effect of accounting change, net of tax	(5)		
Net income (loss)	**$ 735**	**$ (35)**	**$ (779)**
Weighted-average number of shares outstanding (in millions)	2,029	2,028	1,220
Basic earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 0.44	$ 0.20	$ (0.34)
Loss from discontinued operations, net of tax	(0.08)	(0.22)	(0.30)
Cumulative effect of accounting change, net of tax			
Net income (loss)	**$ 0.36**	**$ (0.02)**	**$ (0.64)**

	Year ended December 31,		
	2005	**2004**	**2003**
Diluted earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 883	$ 404	$ (415)
Effect of dilution:			
Interest on convertible bonds, net of tax	26		
Income (loss) from continuing operations before cumulative effect of accounting change, adjusted	**909**	**404**	**(415)**
Loss from discontinued operations, net of tax	(143)	(439)	(364)
Cumulative effect of accounting change, net of tax	(5)		
Net income (loss), adjusted	**$ 761**	**$ (35)**	**$ (779)**
Weighted-average number of shares outstanding (in millions)	2,029	2,028	1,220
Effect of dilutive securities:			
Call options	4	1	
Convertible bonds	105		
Diluted weighted-average number of shares outstanding (in millions)	**2,138**	**2,029**	**1,220**
Diluted earnings (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 0.43	$ 0.20	$ (0.34)
Loss from discontinued operations, net of tax	(0.07)	(0.22)	(0.30)
Cumulative effect of accounting change, net of tax			
Net income (loss), adjusted	**$ 0.36**	**$ (0.02)**	**$ (0.64)**

Note 24 Transformer business and other restructuring charges

On June 30, 2005, the Company announced its decision to consolidate its global transformer business in the Power Technology division, including closing certain plants and employment reductions, as a result

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of overcapacity, increasing raw material costs and a regional shift in demand experienced by the transformer business. This consolidation program is expected to be completed by the end of 2008 and will result in approximately $240 million of total charges.

During 2005, the Company recorded a charge of $123 million; $105 million was recorded in cost of sales, $3 million in selling, general and administrative expenses and $15 million in other income (expense) net. This charge consisted of $58 million related to employee severance costs, $24 million related to inventory and long-lived asset impairments and $41 million of estimated contract settlement costs and loss order costs.

Liabilities associated with these charges are expected to be settled primarily by the end of 2006 and consist of the following:

	Employee severance costs (U.S. dollars in millions)	Contractual settlement/(loss) order costs	Total
Charges	$ 58	$ 41	$ 99
Cash paid	(7)	(10)	(17)
Liability at December 31, 2005	**$ 51**	**$ 31**	**$ 82**

The Company will continue to assess other potential losses and costs it might incur in relation to the transformer business consolidation program. These future costs are not yet accruable; however, the Company expects that additional costs will be incurred throughout the duration of the transformer business consolidation program.

In addition to the transformer business consolidation described above, the Company continues to restructure individual facilities and factories programs to increase efficiencies by reducing headcount and streamlining operations. At December 31, 2005, liabilities related to these other programs consist of $23 million for workforce reductions and $35 million for lease termination and other exit costs. These liabilities will be paid over approximately eleven years as lease shortfall payments are made.

Note 25 Segment and geographic data

Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), establishes standards for reporting information about operating segments. The following information is provided in accordance with the requirements of SFAS 131 and is consistent with how business results are reviewed by management.

For the years ended December 31, 2005, 2004 and 2003, the Company maintained two business divisions, Power Technologies and Automation Technologies. The remaining operations of the Company are grouped in Non-core activities. Effective January 1, 2005, the Company s remaining New Ventures business area, previously reported separately within Non-core activities was reclassified into Other Non-core activities. All periods presented have been restated to reflect the 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 and generating systems and 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, turbochargers, 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, consisting 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 Company s remaining Equity Ventures business, consisting primarily of the Company s investment in Jorf Lasfar Energy Company S.C.A. (JLEC);

- The Company s remaining Structured Finance business;

- The Company s remaining Building Systems business which designs, builds and maintains complete installations for industrial, infrastructure and commercial facilities; and

- The Company s Customer Service and Logistic Systems business areas.

- Corporate/Other includes Headquarters, Central Research and Development, Real Estate and Group Treasury Operations.

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 SFAS 131, the Company presents division revenues, depreciation and amortization, earnings before interest and taxes, total 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. Earnings (loss) before interest and taxes on inter-divisional sales for products not yet delivered to third-party customers is eliminated in the division for the years ended December 31, 2005 and 2004. In 2003, the Company eliminated such earnings (loss) before interest and taxes in the Inter-division line in the table below.

The following tables summarize information for each segment:

2005	**Revenues**	**Depreciation and amortization**	**Earnings (loss) before interest and taxes**	**Total assets(1)**	**Capital expenditures(2)**
Power Technologies	$ 9,784	$ 199	$ 789	$ 6,338	$ 159
Automation Technologies	12,161	295	1,312	7,929	220
Non-core activities:					
Oil, Gas and Petrochemicals	933	12	48	1,182	
Equity Ventures	2	4	69	625	
Structured Finance	5	1		53	
Building Systems	421	2	(37)	211	2
Other Non-core activities	60	3	(46)	80	5
Total Non-core activities	**1,421**	**22**	**34**	**2,151**	**7**
Corporate/Other	733	81	(393)	5,858	70
Inter-division elimination	(1,657)				
Consolidated	**$ 22,442**	**$ 597**	**$ 1,742**	**$ 22,276**	**$ 456**

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2004	Revenues	Depreciation and amortization	Earnings (loss) before interest and taxes	Total assets (1)	Capital expenditures (2)
Power Technologies	$ 8,675	$ 213	$ 608	$ 6,142	$ 163
Automation Technologies	11,000	293	1,023	8,222	243
Non-core activities:					
Oil, Gas and Petrochemicals	1,079	26	(4)	1,460	54
Equity Ventures	7	6	69	640	10
Structured Finance	4	1	(14)	764	
Building Systems	508	3	(70)	270	1
Other Non-core activities	93	7	(43)	124	14
Total Non-core activities	**1,691**	**43**	**(62)**	**3,258**	**79**
Corporate/Other	887	84	(523)	7,055	58
Inter-division elimination	(1,643)				
Consolidated	**$ 20,610**	**$ 633**	**$ 1,046**	**$ 24,677**	**$ 543**

2003	Revenues	Depreciation and amortization	Earnings (loss) before interest and taxes	Capital expenditures(2)
Power Technologies	$ 7,524	$ 187	$ 592	$ 134
Automation Technologies	9,602	253	735	225
Non-core activities:				
Oil, Gas and Petrochemicals	1,895		(296)	57
Equity Ventures	26	5	76	56
Structured Finance	31	3	(68)	1
Building Systems	1,829	9	(104)	5
Other Non-core activities	540	59	(128)	12
Total Non-core activities	**4,321**	**76**	**(520)**	**131**
Corporate/Other	905	69	(497)	57
Inter-division elimination	(2,020)		(23)	
Consolidated	**$ 20,332**	**$ 585**	**$ 287**	**$ 547**

(1) In 2004 and 2003, the Company evaluated its segments financial position based on net operating assets. In 2005, the Company reviewed segment performance based on total assets. It is not practicable for the Company to present total asset information based on the segment structure indicated above for 2003.

(2) Capital expenditures reflect purchases of property, plant and equipment and intangible assets.

Geographic information

	Revenues Year ended December 31,			Long-lived assets at December 31,	
	2005	2004	2003	2005	2004
Europe	$ 11,139	$ 10,750	$ 10,950	$ 1,902	$ 2,295
The Americas	4,231	3,557	3,844	237	264
Asia	5,127	4,261	3,519	317	283
Middle East and Africa	1,945	2,042	2,019	109	122
	$ 22,442	**$ 20,610**	**$ 20,332**	**$ 2,565**	**$ 2,964**

Revenues have been reflected in the regions based on the location of the customer. The United States generated approximately 11 percent, 11 percent and 12 percent of the Company s total revenues in 2005, 2004 and 2003 respectively. Germany generated approximately 10 percent, 11 percent and 11 percent of

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the Company s total revenues in 2005, 2004 and 2003 respectively. More than 95 percent of the Company s total revenues were generated outside Switzerland in 2005, 2004 and 2003. 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, 2005 and 2004, respectively.

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 62 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.

2006 Realignment

On September 6, 2005, the Company announced a realignment of our business divisions and a change in the composition of our Executive Committee, which was effective beginning January 1, 2006. The realignment was made to strengthen the Company s focus on customer relationships and growth. Effective January 1, 2006, the Company will operate five reporting segments that are grouped on the basis of similar product, market and operating factors:

- Power Products Division, which designs and manufactures power transformers for utility, transportation and industrial customers, as well as transformer components.

- Power Systems Division, which undertakes turnkey contracts to install and upgrade transmission and distribution systems incorporating components manufactured by both ABB and by third parties.

- Automation Products Division manufactures low-voltage circuit breakers, drives and motors, switches and control products to protect people, installations and electronic equipment from electrical overloads, as well as instrumentation products to measure and control the flow of fluids.

- Process Automation which develops integrated process control and information management systems and turbochargers for a variety of industries, primarily pulp and paper, minerals and mining, chemicals and pharmaceuticals, oil and gas, and the marine industry.

- Robotics Division which develops and manufactures industrial robots and related equipment for the automotive and other manufacturing industries.

The Company will report segment information based on the realigned divisions starting in the first quarter of 2006.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of ABB Ltd:

We have audited the consolidated financial statements of ABB Ltd as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, and have issued our report thereon dated March 3, 2006 (included elsewhere in this Annual Report on Form 20-F). Our audits also included the financial statement schedules listed in Item 18 (h) of this Annual Report on Form 20-F. This financial statement schedule is the responsibility of the Company s management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. We did not audit the 2004 and 2003 financial statements of Jorf Lasfar Energy Company, a corporation in which the Company has a 50% interest (the Company s equity in Jorf Lasfar Energy Company s net income is stated at $63 million in 2004 and $60 million in 2003). Those statements were audited by other auditors whose report has been furnished to us. Our opinion, insofar as it relates to amounts included for Jorf Lasfar Energy Company, is based solely on the report of the other auditors.

In our opinion, based on our audits and the report of other auditors, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young AG

Zurich, Switzerland

March 3, 2006

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Schedule II Valuation and Qualifying Accounts

Description	Balance at the beginning of year	Additions	Deductions	Balance at the end of year
	(U.S dollars in millions)			
Accounts Receivable allowance for doubtful accounts:				
Year ending December 31,				
2005	309	108	138	279
2004	264	136	91	309
2003	253	110	99	264

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