RISK FACTORS

You should carefully consider all of the information set forth in this report and the following description of risks and uncertainties that we currently believe may exist. Our business, financial condition or results of operations could be adversely affected by any of these risks. Additional risks of which we are unaware or that we currently deem immaterial may also impair our business operations. This annual report also contains forward-looking statements that involve risks and uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those described below and elsewhere in this annual report. See "Forward-Looking Statements."

We are subject to ongoing litigation and potentially substantial liabilities arising out of asbestos claims.

Companies in the ABB group are subject to thousands of lawsuits brought by plaintiffs seeking compensation for personal injuries allegedly resulting from exposure to asbestos. In the United States, our Combustion Engineering subsidiary has been a co-defendant in a large number of these lawsuits, and a smaller number of claims have been brought against two other subsidiaries, ABB Lummus Global Inc. ("Lummus") (which is part of our Oil, Gas and Petrochemicals business and was formerly a subsidiary of Combustion Engineering) and Basic Incorporated ("Basic") (which was a subsidiary of Combustion Engineering and of Asea Brown Boveri Inc. ("Asea Brown Boveri") and is now a subsidiary of ABB Holdings Inc. ("Holdings") following the merger in December 2004 of Asea Brown Boveri into Holdings).

Since early 2003, we and our subsidiaries have been seeking to resolve our asbestos-related liabilities principally through a proposed plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code for our subsidiary Combustion Engineering. In March 2005, following the ruling of the U.S. Court of Appeals for the Third Circuit in December 2004 (the "Third Circuit Decision") that reversed the lower courts' approval of the original plan, we reached agreement with various parties on basic terms for a modified plan of reorganization for Combustion Engineering (the "Modified CE Plan") and a separate plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code for Lummus (the "Lummus Plan"). The proposed plans do not address Basic, and we expect that Basic's asbestos-related liabilities will have to be resolved through its own bankruptcy or similar U.S. state court liquidation proceeding, or through the tort system.

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

We cannot be certain of the duration of the asbestos-related litigation process, its outcome or its eventual cost to us. We do not know whether any plan of reorganization for Combustion Engineering or Lummus will ultimately be confirmed or whether asbestos-related liabilities of any other ABB group entities would be resolved by any such plan. If for any reason a Chapter 11 plan relating to Combustion Engineering is not eventually confirmed, Combustion Engineering could be required to enter a Chapter 7 proceeding. If for any reason a Chapter 11 plan relating to Lummus is not eventually confirmed, we expect that Lummus' asbestos-related liabilities will have to be resolved through the tort system.

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

All of these factors make the ultimate outcome of our efforts to resolve the asbestos-related claims against Combustion Engineering and our other subsidiaries uncertain, and, moreover, could cause our obligations to make payments in respect of asbestos-related claims, indemnity payments and related defense costs to significantly exceed our estimates. From time to time we update our forecasts to take into consideration developments regarding any plan of reorganization, recent claims experience and other developments and such updates may affect our estimates of future asbestos-related liabilities and costs. Any expenses incurred or increases to our asbestos reserves as a result of a delay or abandonment of any plan of reorganization for Lummus or Combustion Engineering, revised forecasts, adverse jury verdicts or court decisions or other negative developments involving resolution of our asbestos-related liabilities, whether through the bankruptcy courts, liquidation proceedings or the tort system, may cause the value or trading prices of our securities to decrease significantly. These negative developments could also cause our credit ratings to be downgraded, restrict our access to the capital markets or otherwise have a material adverse effect on our financial condition, results of operations, cash flows and liquidity.

If we are not able to comply with the covenants contained in our new $1 billion credit facility, our financial position may be adversely affected.

We are party to a three-year $1 billion credit facility that became available in December 2003. It contains certain financial covenants in respect of minimum interest coverage, maximum net leverage and a minimum level of consolidated net worth, as well as specific negative pledges. If we are unable to comply with the covenants in the credit facility, we may be required to renegotiate the facility with our lenders or to replace it in order not to default under it. We can offer no assurance that we would be able to renegotiate or replace the facility on terms that are acceptable to us, if at all. We have never drawn any funds under the facility and we currently do not intend to draw on it. See "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Credit Facilities."

Our ability to bid for large contracts depends on our ability to obtain performance guarantees from financial institutions.

In the normal course of our business and in accordance with industry practice, we provide performance guarantees on large projects, including long-term operation and maintenance contracts, which guarantee our own performance. These guarantees may include guarantees that a project will be completed or that a project or particular equipment will achieve defined performance criteria. If we fail to attain the defined criteria, we must make payments in cash or in kind. Performance guarantees frequently are requested in relation to bids for large projects, both in our core power and automation businesses and in our Oil, Gas and Petrochemicals business.

Some customers require that performance guarantees be issued by a financial institution in the form of a letter of credit, surety bond or other financial guarantee. In considering whether to issue a guarantee on our behalf, financial institutions consider our credit ratings. Our current credit rating and financial position have not prevented us from obtaining such guarantees from financial institutions, but they can make and have made the process more difficult and expensive. If, in the future, we cannot obtain such a guarantee from a financial institution on reasonable terms, we could be prevented from bidding on or obtaining the contract or our costs would be higher, which would reduce the profitability of the contract. If we cannot obtain sufficient guarantees from financial institutions in the future, there could be a material impact on our business, financial condition, results of operations or liquidity.

We have retained performance guarantees related to our divested power generation business.

We have retained performance guarantees related to the power generation business that we contributed to the former ABB ALSTOM POWER joint venture. The guarantees primarily consist of performance guarantees, advance payment guarantees, product warranty 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 that are expected to be completed by 2015 but in some cases the guarantees have no definite expiration. ALSTOM and its subsidiaries have primary responsibility for performing the obligations that are the subject of the guarantees. In connection with the sale to ALSTOM of our interest in the joint venture in May 2000, ALSTOM, (the parent company), and ALSTOM POWER (the former joint venture entity) have undertaken jointly and severally to fully indemnify us and hold us harmless against any claims arising under these guarantees. Due to the nature of product warranty guarantees and certain other guarantees, we are unable to develop an estimate of the maximum potential amount of future payments for these guarantees. Our best estimate of the total maximum potential exposure under all quantifiable guarantees we issued on behalf of our former power generation business was approximately $875 million as of December 31, 2004. This maximum potential exposure, as required by Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* is based on the original guarantee or contract amount and does not reflect our assessment of actual exposure under the guarantees.

As of December 31, 2004, no losses have been recognized in connection with the guarantees relating to the divested power generation business. We have not concluded that a loss is probable under these guarantees and, therefore, we have not recorded a provision as of December 31, 2004. However, if we are required to fund payments under these guarantees following a failure of the divested power generation business to perform its obligations, and if ALSTOM does not to fulfill its undertaking to indemnify us, we could incur material losses. See "Item 5. Operating and Financial Review and Prospects—Off Balance Sheet Arrangements—Guarantees."

Undertaking long-term fixed price projects exposes our businesses to risk of loss.

We derive a portion of our revenues from long-term, fixed price or turnkey projects that are awarded on a competitive basis and can take many months, or even years, to complete. Such contracts involve substantial risks, including the possibility that we may underbid and the fact that we typically assume substantially all of the risks associated with completing the project and the post-completion warranty obligations. We also assume the project's technical risk, meaning that we must tailor our products and systems to satisfy the technical requirements of a project even though, at the time we are awarded the project, we may not have previously produced such a product or system. The revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from our original projections because of changes in conditions, including but not limited to:

- unanticipated technical problems with the equipment being supplied or developed by us which may require that we spend our own money to remedy the problem;
- changes in the cost of components, materials or labor;
- difficulties in obtaining required governmental permits or approvals;
- project modifications creating unanticipated costs;
- delays caused by local weather conditions; and
- suppliers' or subcontractors' failure to perform.

These risks are exacerbated if the duration of the project is long-term because there is an increased risk that the circumstances upon which we originally bid and developed a price will change in a manner that increases our costs. In addition, we sometimes bear the risk of delays caused by unexpected conditions or events. The contracts for our long-term, fixed-price projects often make us subject to penalties if we cannot complete portions of the project in accordance with agreed-upon time limits.

Historically, we have incurred significant losses as a result of performing long-term projects on a fixed-price or turnkey basis. For example, in 2003 the operating income of the downstream part of our Oil, Gas and Petrochemicals business was adversely affected by cost overruns amounting to $399 million, primarily relating to four large, long-term, fixed-price projects which had been contracted prior to 2002. In 2004 no significant losses were reported from such long-term projects. In view of the potential for losses from such contracts, we have been seeking to reduce our involvement with new long-term, fixed-price contracts and have instead been pursuing contracts with a cost-reimbursement element. However, because we still do enter into new contracts on a fixed price basis and continue to have substantial obligations under long-term, fixed-price contracts, we still face the risk of significant losses on these types of contracts.

In connection with long-term projects, we routinely undertake substantial customer- and project-specific development efforts to develop or adapt equipment and systems to the unique needs of our customers in connection with specific orders or projects. We had expenditures of $727 million, $886 million, and $719 million, or approximately 3.5 percent, 4.3 percent and 3.7 percent of annual consolidated revenues, in 2004, 2003 and 2002, respectively, on such order-related development activities. Order-related development amounts are initially recorded in inventories as part of the work in progress of a contract and then are reflected in cost of sales at the time revenue is recognized in accordance with our accounting policies. If our revenues on these projects are insufficient, we must write off the associated order-related development expenditures. Additionally, to the extent that order-related development expenditures in a specific project exceed expectations, the profit margin on that project will be adversely affected.

We may expend significant resources, both in management time as well as money, on bidding for projects that we are not awarded.

Our international operations expose us to the risk of fluctuations in currency exchange rates.

Exchange rate fluctuations have had, and could continue to have, a material impact on our operating results, the comparability of our results between periods, the value of assets or liabilities as recorded on our consolidated balance sheet and the price of our securities. Foreign exchange rate changes resulted in an increase in our reported revenues and earnings before interest and taxes of 6 percent and 18 percent in 2004 and 12 percent and 42 percent in 2003, respectively. Changes in exchange rates can unpredictably and adversely affect our consolidated operating results, and could result in exchange losses.

Currency Translation Risk. The results of operations and financial position of most of our non-U.S. companies are initially recorded in the currency, which we call "local currency," of the country in which the respective company resides. That financial information is then translated into U.S. dollars at the applicable exchange rates for inclusion in our Consolidated Financial Statements. The exchange rates between local currencies and the U.S. dollar fluctuate substantially, which has a significant translation effect on our reported consolidated results of operations and financial position. In 2004 as in 2003, the U.S. dollar continued to depreciate against most of the currencies in which our companies reported results of operations. In particular, the exchange rates between the U.S. dollar and the EUR and the U.S. dollar and the CHF at December 31, 2004, 2003, and 2002, were as follows.

Exchange rates into U.S. dollars

	At December 31,		
	2004	2003	2002
EUR 1.00	$ 1.37	$ 1.26	$ 1.05
CHF 1.00	$ 0.88	$ 0.81	$ 0.72

The average exchange rates between the U.S. dollar and the EUR and the U.S. dollar and the CHF for the years ended December 31, 2004, 2003 and 2002, were as follows.

Exchange rates into U.S. dollars

	For the year ended December 31,		
	2004	2003	2002
EUR 1.00	$ 1.25	$ 1.13	$ 0.94
CHF 1.00	$ 0.81	$ 0.75	$ 0.64

Increases and decreases in the value of the U.S dollar versus local currencies will affect the reported value of our local currency assets, liabilities, revenues and costs in our Consolidated Financial Statements, even if the value of these items has not changed in local currency terms. These translations could significantly and adversely affect our results of operations and financial position from period to period.

Currency Transaction Risk. Currency risk exposure also affects our operations when our sales are denominated in currencies that are different from those in which our manufacturing costs are incurred. In this case, if after the parties agree on a price, the value of the currency in which the purchase price is to be paid weakens relative to the currency in which we incur manufacturing costs, there would be a negative impact on the profit margin for any such transaction. This transaction risk may exist regardless of whether or not there is also a translation risk as described above.

In 2004, approximately 84 percent of our consolidated revenues were generated in local currencies and translated into U.S. dollars. Of that amount, the following percentages were reported in the following local currencies:

- Euro, approximately 37 percent;
- Chinese renminbi, approximately 6 percent;
- Swedish krona, approximately 6 percent;
- Swiss franc, approximately 5 percent; and
- Pound sterling, approximately 3 percent.

In 2004, approximately 83 percent of our consolidated cost of sales and selling, general and administration expenses were reported in currencies other than U.S. dollars. Of that amount, the following percentages were reported in the following currencies:

- Euro, approximately 37 percent,
- Chinese renminbi, approximately 5 percent,
- Swedish krona, approximately 6 percent,
- Swiss franc, approximately 5 percent and
- Pound sterling, approximately 4 percent.

Currency exchange rate fluctuations in those currencies in which we incur our principal manufacturing expenses may adversely affect our ability to compete with companies whose costs are incurred in other currencies. If our principal expense currencies appreciate in value against such other currencies, our competitiveness may be weakened.

Our hedging activities may not protect us against the consequences of significant fluctuations in exchange rates on our earnings and cash flows.

Our policy is to hedge material net currency exposures by entering into offsetting transactions with third party financial institutions. Given that, and the effective horizons of our risk management activities and the anticipatory nature of the exposures intended to be hedged, there can be no assurance that our currency hedging activities will fully offset the adverse financial impact resulting from unfavorable movements in foreign exchange rates. In addition, the timing of the accounting for recognition of gains and losses related to a hedging instrument may not coincide with the timing of gains and losses related to the underlying economic exposures.

We operate in very competitive markets and could be adversely affected if we fail to keep pace with technological changes.

We operate in very competitive environments in several specific respects, including product performance, developing integrated systems and applications that address the business challenges faced by our customers, pricing, new product introduction time and customer service. The relative importance of these factors differs across the geographic markets and product areas that we serve. The markets for our products and services are characterized by evolving industry standards (particularly for our automation technology products and systems), rapidly changing technology (in both our power and automation businesses) and increased competition as a result of deregulation (particularly for our power technology products and systems). For example, for a number of years power transmission and distribution providers throughout the world have been undergoing substantial deregulation and privatization. This has increased their need for timely product and service innovations that increase efficiency and allow them to compete in a deregulated environment. Additionally, the continual development of advanced technologies for new products and product enhancements is an important way in which we maintain acceptable pricing levels. If we fail to keep pace with technological changes in the industrial sectors that we serve, we may experience price erosion and lower margins.

The principal competitors for our automation technology products and services include Emerson Electric Co., Honeywell International, Inc., Invensys plc, Schneider Electric S.A. and Siemens AG. We primarily compete with Areva S.A., Schneider Electric SA and Siemens AG in sales of our power technology products and systems to our utilities customers. The principal competitors with our Oil, Gas and Petrochemicals business include Bechtel Group, Inc., UOP LLC, Fluor Corporation, Halliburton Company and Technip-Coflexip S.A. All of our competitors are sophisticated companies with significant resources that may develop products and services that are superior to our products and services or may adapt more quickly than we do to new technologies, industry changes or evolving customer requirements. Our failure to anticipate or respond quickly to technological developments or customer requirements could adversely affect our business, results of operations, financial condition and liquidity.

Industry consolidation could result in more powerful competitors and fewer customers.

Competitors of all of our business divisions are consolidating. In particular, the automation industry is undergoing consolidation that is reducing the number but increasing the size of companies that compete with us. As our competitors consolidate, they likely will increase their market share, gain economies of scale that enhance their ability to compete with us and/or acquire additional products and technologies that could displace our product offerings.

Our customer base also is undergoing consolidation. Consolidation among our customers' industries (such as the marine and cruise industry, the automotive, aluminum, steel, pulp and paper, pharmaceutical industries and the oil and gas industry) could affect our customers and their relationships with us. If one of our competitors' customers acquires any of our customers, we may lose its business. Additionally, as our customers become larger and more concentrated, they could exert pricing pressure on all suppliers, including ABB. For example, in an industry such as power transmission, which historically has consisted of large and concentrated customers such as utilities, price competition can be a factor in determining which products and services will be selected by a customer.

Our business is affected by the global economic and political climate.

Adverse changes in economic conditions or the political climate could have a material adverse effect on our business, financial condition, results of operations and liquidity. The business environment is influenced by numerous political uncertainties, which will continue to affect the global economy and the international capital markets. In periods of slow economic growth or decline, our customers are more likely to decrease expenditures on the types of products and systems we supply and we are more likely to experience decreased revenues as a result. Our Power Technologies division is affected by the level of investments by utilities, and our Automation Technologies division is affected by conditions in a broad range of industries, including the automotive, pharmaceutical, pulp and paper, metals and minerals and manufacturing and consumer industries. Our Oil, Gas and Petrochemicals business is affected by conditions in the oil, gas and petrochemicals industry, including the level of market growth in low hydrocarbon cost regions and high economic growth regions.

We have retained liability for environmental remediation costs relating to businesses that we sold in 2000, and we could be required to make payments in respect of these retained liabilities in excess of established reserves.

We have retained liability for environmental remediation costs at two sites in the United States that were operated by our nuclear technology business, which we sold in April 2000 to British Nuclear Fuels plc ("BNFL"). We have retained all environmental liabilities associated with our Combustion Engineering subsidiary's Windsor, Connecticut facility and a portion of the liabilities associated with our 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 upon decommissioning the facilities. Based on information that BNFL has made publicly available, we believe remediation may take until 2013 at the Hematite site and until 2008 at the Windsor site. At the Windsor site, we believe that a significant portion of such remediation costs will be the responsibility of the U.S. government pursuant to federal law, although the exact amount of such responsibility cannot reasonably be estimated. In connection with the sale of the nuclear business in April 2000, we established a reserve of $300 million in respect of estimated remediation costs related to these facilities. Expenditures charged to the remediation reserve were $10 million, $6 million and $12 million during 2004, 2003 and 2002, respectively. It is possible that we could be required to make expenditures in excess of the reserve, in a range of amounts that cannot reasonably be estimated. See "Item 5. Operating and Financial Review and Prospects—Environmental Liabilities

We are subject to environmental laws and regulations in the countries in which we operate. We incur costs to comply with such regulations, and our ongoing operations may expose us to environmental liabilities.

Our operations are subject to U.S., European and other laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Our manufacturing facilities use and produce paint residues, solvents, metals, oils and related residues. We use petroleum-based insulation in transformers, PVC resin to manufacture PVC cable and chloroparafine as a flame retardant. We use inorganic lead as a counterweight in robots that we produce. These are considered to be hazardous substances in many jurisdictions in which we operate. We may be subject to substantial liabilities for environmental contamination arising from the use of such substances. All of our manufacturing operations are subject to ongoing compliance costs in respect of environmental matters and the associated capital expenditure requirements.

In addition, we may be subject to significant fines and penalties if we do not comply with environmental laws and regulations including those referred to above. Some environmental laws provide for joint and several strict liability for remediation of releases of hazardous substances, which could result in our liability for environmental damage without regard to our negligence or fault. Such laws and regulations could expose us to liability arising out of the conduct of operations or conditions caused by others, or for our acts which were in compliance with all applicable laws at the time the acts were performed. Additionally, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. Changes in the environmental laws and regulations, or claims for damages to persons, property, natural resources or the environment, could result in substantial costs and liabilities to us.

We may be the subject of product liability claims.

We may be required to pay for losses or injuries purportedly caused by the design, manufacture or operation of our products and systems. Additionally, we may be subject to product liability claims for the improper installation of products and systems designed and manufactured by others.

Product liability claims brought against us may be based in tort or in contract, and typically involve claims seeking compensation for personal injury or property damage. If the claimant runs a commercial business, claims are often made also for financial losses arising from interruption of operations consequential to property damage. Because of our broad offering of products, these claims arise in different contexts, including the following:

- If our power technology products and systems are defective, there is a substantial risk of fires, explosions and power surges and significant damage to electricity generating, transmission and distribution facilities.

- If our automation technology products and systems are defective, our customers could suffer significant damage to facilities that rely on these products and systems to properly monitor and control their manufacturing processes.

If we were to incur a very large product liability claim, our insurance protection might not be adequate or sufficient to cover such a claim in terms of paying any awards or settlements, and/or paying for our defense costs. Further, some claims may be outside the scope of our insurance coverage. If a litigant were successful against us, a lack or insufficiency of insurance coverage could result in an adverse effect on our business, financial condition, results of operations and liquidity. Additionally, a well-publicized actual or perceived problem could adversely affect our market reputation which could result in a decline in demand for our products.

Our operations in emerging markets expose us to risks associated with conditions in those markets.

An increasing amount of our operations are conducted in the emerging markets of Latin America, Asia, the Middle East and Africa. In 2004, approximately 35 percent of our consolidated revenues were generated from these emerging markets. Operations in emerging markets can present risks that are not encountered in countries with well-established economic and political systems, including:

- economic instability, which could make it difficult for us to anticipate future business conditions in these markets, cause delays in the placement of orders for projects that we have been awarded and subject us to volatile markets;

- political or social instability, which makes our customers less willing to make investments in such regions and complicates our dealings with governments regarding permits or other regulatory matters, local businesses and workforces;
- boycotts and embargoes that may be imposed by the international community on countries in which we operate, which could adversely affect the ability of our operations in those countries to obtain the materials necessary to fulfill contracts and our ability to pursue business or establish operations in those countries;
- significant fluctuations in interest rates and currency exchange rates;
- the imposition of unexpected taxes or other payments on our revenues in these markets; and
- the introduction of exchange controls and other restrictions by foreign governments.

In addition, the legal and regulatory systems of the emerging markets identified above are less developed and less well-enforced than in industrialized countries. Therefore, our ability to protect our contractual and other legal rights in those regions could be limited. We cannot offer any assurance that our exposure to conditions in emerging markets will not adversely affect our business, financial condition, results of operations and liquidity.

We may encounter difficulty in managing our business due to the global nature of our operations.

We operate in approximately 100 countries around the world and, as of December 31, 2004, employed approximately 102,500 people. As of December 31, 2004, approximately 59 percent of our employees were located in Europe, approximately 16 percent in the Americas, approximately 16 percent in Asia and approximately 9 percent in the Middle East and Africa. In order to manage our day-to-day operations, we must overcome cultural and language barriers and assimilate different business practices. In addition, we are required to create compensation programs, employment policies and other administrative programs that comply with the laws of multiple countries. We also must communicate and monitor group-wide standards and directives across our global network. Our failure to successfully manage our geographically diverse operations could impair our ability to react quickly to changing business and market conditions and to enforce compliance with group-wide standards and procedures.

Our reputation and our ability to do business may be impaired by corrupt behavior by any of our employees or agents or those of our subsidiaries.

There is a risk that our employees or agents may take actions that violate either the U.S. Foreign Corrupt Practices Act (FCPA) or legislation promulgated pursuant to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions or other applicable anti-corruption regulations. Such actions have resulted, and could in the future result, in monetary penalties against us or our subsidiaries and could damage our reputation and ability to do business. Further, detecting, investigating and resolving such actions could be expensive and could consume significant time and attention of our senior management. While we and our subsidiaries are committed to conducting business in a legal and ethical manner, our internal control systems have not been, and in the future may not be, completely effective to prevent and detect such improper activities by our employees and agents.

In 2004, we agreed to a civil settlement and paid civil penalties in connection with FCPA violations in Nigeria, we discovered earnings overstatements and related improper payments by one of our units in Italy (and as a result in 2004 we restated our consolidated financial statements as of December 31, 2003 and 2002 and for each of the years in the three year period ended December 31, 2003) and we discovered and reported to European authorities anticompetitive practices by employees in our gas insulated switchgear business.

On April 19, 2005, we voluntarily disclosed to the U.S. Department of Justice and the U.S. Securities Exchange Commission certain suspect payments made by employees of ABB network management, a specialized U.S.-based business unit. The suspect payments became apparent during an internal investigation following the dismissal of two managers from the company in mid-2004. The payments were made to intermediaries in Latin America and in the Middle East in connection with the company's business, which is control software for utility customers. We are continuing our investigation and compliance review of this business.

If these payments are found to have been illegal, we could be subject to civil and criminal penalties. There can be no assurance that any governmental investigation or our investigation of these matters will not conclude that violations of applicable laws have occurred or that the results of these investigations will not have a material adverse effect on our business and results of operations.

For more information, see "Item 8. Financial Information—Legal Proceedings."

Our Oil, Gas and Petrochemicals business may experience losses if the oil and gas industry generally experiences a downturn.

Our Oil, Gas and Petrochemicals business, which is part of our Non-core activities, depends on the condition of the oil and gas and chemical industry and particularly on capital expenditure budgets of the companies engaged in the downstream refining and petrochemicals segments. The prices of oil and gas and their uncertainty in the future, along with forecasted growth in world oil and gas demand, strongly influence the extent of investment in downstream production activities. Demand for our Oil, Gas and Petrochemicals services will also be affected by refinery margins and prices for petrochemical products such as ethylene and polypropylene.

Refining budgets may be impacted by slower growth in transport fuel demands in China and other growing economies, reduction in fuel usage due to high gasoline prices in the Western economies and slowdown in implementing clean fuels regulations.

Petrochemicals investments, which are normally cyclical and which have been on a high growth pattern in the Middle East and China, may flatten or decline if there is a slowdown in consumption of plastics or if there are political or social events which disrupt business in the Middle East.

Increases in the costs of our raw materials may adversely affect our financial performance.

We purchase large amounts of commodity-based raw materials, including steel, copper, aluminum, and oil. Prevailing prices for such commodities are subject to fluctuations in response to changes in supply and demand and a variety of additional factors beyond our control, such as global political and economic conditions. Historically, prices received for some of these raw materials has been volatile and unpredictable, and such volatility is expected to continue. Therefore, commodity price changes may result in unexpected increases in raw material costs, and we may be unable to increase our prices to offset these increased costs without suffering reduced volume, revenue and operating income. We do not fully hedge against changes in commodity prices and our hedging procedures may not work as planned.

We depend on third parties to supply raw materials and other components and may not be able to obtain sufficient quantities of these materials, which could limit our ability to manufacture products on a timely basis and could harm our profitability. Any supply interruption in a limited or sole-sourced component or raw material could materially harm our ability to manufacture our products until a new source of supply, if any, could be found. We may be unable to find a sufficient alternative supply channel in a reasonable time period or on commercially reasonable terms, if at all. If our suppliers are unable to deliver sufficient quantities of these materials on a timely basis, the manufacture and sale of our products may be disrupted and our sales and profitability could be materially adversely affected.

If we are unable to successfully address the material weaknesses in our internal control over financial reporting, our ability to report our financial results on a timely and accurate basis may be adversely affected. As a result, investors could lose confidence in our financial reporting, which may harm our business and the trading price of our stock.

Effective internal control is necessary for us to provide reliable financial reports, and effective disclosure controls are important in enabling us to meet our reporting obligations under the U.S. federal securities laws and other relevant rules and regulations. The Sarbanes-Oxley Act of 2002 requires, among other things, that we maintain adequate internal control structure and procedures for financial reporting. If we can not provide reliable reports, our business and operating results could be harmed. In connection with their evaluation of our disclosure controls and procedures as of December 31, 2004, our Chief Executive Officer and Chief Financial Officer determined that several areas of our internal control over financial reporting need improvement, including a material weakness arising from our September 2004 restatement of our consolidated financial statements as of December 31, 2003 and 2002 and for each of the years in the three year period ended December 31, 2003 and data for 2004 and prior years, and a material weakness resulting from a series of significant deficiencies in our financial reporting process (including, significant deficiencies that were identified in prior years but had not yet been remediated). Based on their evaluation of our disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer were not able to conclude that as of December 31, 2004 our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We have begun executing a remediation plan to address these weaknesses in our internal controls over financial reporting, as discussed in Item 15 "Controls and Procedures."

In April 2005, in accordance with our 2004 civil settlement with the U.S. Securities and Exchange Commission, we appointed an independent consultant to review our policies and procedures as they relate to compliance with the books and records, internal accounting controls and anti-bribery provisions of the FCPA. The consultant is expected submit a report in August 2005 documenting findings and making recommendations (the "Report") to our Board of Directors. Within ninety days after receiving the Report, we are required to adopt the recommendations contained in the Report, except in certain limited circumstances. We cannot predict what conclusions the independent consultant will reach, or what changes we will make to our controls and procedures following recommendations by the independent consultant. See "Item 8. Financial Information—Legal Proceedings."

Unless and until we successfully address the material weaknesses and significant deficiencies, and any other inadequacies in our internal controls and disclosure controls and procedures, our ability to manage our business and to report on a timely and accurate basis may be adversely affected. Any failure to improve our internal control to address these identified material weaknesses and significant deficiencies could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our securities.

Item 4. Information on the Company

INTRODUCTION

We are a global provider of power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. We serve 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. We also deliver automation systems for measurement, control, motion, protection and plant optimization across a full range of industries. We apply our expertise to develop creative ways of integrating our products and systems with our customers' business processes to enhance their productivity and efficiency.

History of the ABB Group

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

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

Organizational Structure

We manage our business based on a divisional structure. Each of our divisions manages several business areas, which in turn are subdivided into business units.

Our core business consists of two divisions, Power Technologies and Automation Technologies, and our management intends to continue to focus its attention on, and future investments in, these divisions. In addition, certain of our operations are classified in Non-core activities and Corporate/Other.

Non-core activities comprise businesses and activities that are not integral to our focus on power and automation technologies and that we are considering for sale, winding down or otherwise exiting.

Effective January 1, 2003, some business areas within our business divisions were reorganized or combined. Consequently, the results of operations in 2002 for certain of the affected business areas are not directly comparable to our results in 2003. When our results of operations in 2003 on a business area basis are not directly comparable to our results of operations in 2002, we combine the results of