Payment of dividends is subject to general business conditions, the ABB Group's current and expected financial condition and performance and other relevant factors including growth opportunities.

Dividends may be paid only if ABB Ltd has sufficient distributable profits from previous fiscal years or sufficient free reserves to allow the distribution of a dividend. In addition, at least 5% of ABB Ltd's annual net profits must be retained and booked as general legal reserves, unless these reserves already amount to 20% of ABB Ltd's nominal share capital. As a holding company, ABB Ltd's main sources of income are dividend, interest and debt payments from its subsidiaries. At December 31, 2003, of the CHF 8,942 million of stockholders' equity recorded in the unconsolidated statutory financial statements of ABB Ltd prepared in accordance with Swiss law, CHF 5,176 million was share capital, CHF 2,192 million was restricted, CHF 1,533 million was unrestricted and CHF 41 million was available for distribution.

The declaration of any dividend proposed by the board of directors of ABB Ltd requires approval at a general meeting of shareholders. In addition, the statutory auditors must confirm that the dividend proposal of the board of directors conforms to statutory law and the articles of incorporation of ABB Ltd. In practice, the shareholders' meeting usually approves dividends as proposed by the board of directors, if the board of directors' proposal is confirmed by the statutory auditors.

Dividends are usually due and payable no earlier than three trading days after the shareholders' resolution. Dividends for which no payment has been requested within five years after the due date accrue to ABB Ltd and are allocated to its free reserves. For information about the deduction of withholding taxes from dividend payments, see "Item 10. Additional Information—Taxation."

We have established a dividend access facility for shareholders who are resident in Sweden under which these shareholders may register with Värdepapperscentralen VPC AB (Sweden) ("VPC"), as holder of up to 600,004,716 shares, and receive dividends in Swedish kronor equivalent to the dividend paid in Swiss francs without deduction of Swiss withholding tax. For further information, see "Item 10. Additional Information—Taxation."

Because ABB Ltd pays cash dividends, if any, in Swiss francs (subject to the exception for certain shareholders in Sweden described above), exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs upon conversion of those cash dividends by Citibank, N.A., the depositary, in accordance with the Amended and Restated Deposit Agreement dated May 7, 2001.

The following table sets forth in Swiss francs and in U.S. dollars (translated at the noon buying rate on December 31, 2003) the dividend paid per share with respect to the years ended December 31, 2002, 2001, 2000 and 1999. The board of directors has proposed that no dividend be paid with respect to the year ended December 31, 2003.

	Dividend per share	
Year ended December 31,	**(CHF)**	**($)**
2002	—	—
2001	—	—
2000	0.75	0.61
1999	0.75	0.61

RISK FACTORS

You should carefully consider all of the information set forth in this annual 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 from discontinued operations.

When we sold our 50% interest in ALSTOM POWER NV, formerly ABB ALSTOM POWER NV ("ALSTOM POWER"), to ALSTOM S.A. ("ALSTOM") in May 2000, we retained ownership of Combustion Engineering Inc. ("Combustion Engineering"), a subsidiary that had conducted part of our discontinued power generation business and that now owns commercial real estate that it leases to third parties. Together with other third parties, Combustion Engineering is a co-defendant in numerous lawsuits in the United States in which the plaintiffs claim damages for personal injury arising from exposure to asbestos in equipment or materials that Combustion Engineering allegedly supplied or was responsible for, primarily during the early 1970s and before. Other ABB Group entities have sometimes been named as defendants in asbestos claims. These entities include 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 is currently a subsidiary of Asea Brown Boveri Inc. and was formerly a subsidiary of Combustion Engineering).

The creation of the CE Settlement Trust and the pursuit of a pre-packaged bankruptcy plan.

In October 2002, we and Combustion Engineering determined that it was likely that the expected asbestos-related costs of Combustion Engineering would exceed the value of its assets ($812 million as of September 30, 2002 and $828 million as of December 31, 2002) if its historical settlement patterns continued into the future. We and Combustion Engineering determined to resolve the asbestos 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. We and Combustion Engineering determined to structure the Chapter 11 reorganization as a "pre-packaged plan," in which acceptances of the plan would be solicited prior to the filing of the Chapter 11 case, thus reducing the duration and expense of the bankruptcy proceedings.

On November 22, 2002, Combustion Engineering and the asbestos claimants' representatives entered into an agreement for settling open asbestos-related personal injury claims that had been lodged against Combustion Engineering prior to November 15, 2002 (the "Master Settlement Agreement"). Combustion Engineering also agreed, pursuant to the Master Settlement Agreement, to form and fund a CE Settlement Trust (the "CE Settlement Trust") to fund and administer the payment of asbestos-related personal injury claims settled under the Master Settlement Agreement. See "Item 5. Operating and Financial Review and Prospects—Contingencies and Retained Liabilities—Asbestos Liability."

On January 17, 2003, we announced that we and Combustion Engineering had reached an agreement on a proposed pre-packaged plan with certain representatives of asbestos claimants with existing asbestos-related personal injury claims against Combustion Engineering (encompassing claimants who had lodged claims prior to November 15, 2002 and claimants who had lodged claims after that date and were not eligible to participate in the Master Settlement Agreement), and with the proposed representative of persons who may be entitled to bring asbestos-related personal injury claims in the future. The pre-packaged plan provides for the creation of a trust, the Asbestos PI Trust, which is separate and distinct from the CE Settlement Trust, and addresses "Asbestos PI Trust Claims," which consist of present and future asbestos-related personal injury claims (including the claims previously settled pursuant to the Master Settlement Agreement only to the extent of any unpaid portions thereof) that arise directly or indirectly from any act, omission, products or operations of Combustion Engineering, Lummus or Basic. If the pre-packaged plan ultimately becomes effective, a channelling injunction would be issued under the U.S. Bankruptcy Code pursuant to which the Asbestos PI Trust Claims against ABB Ltd and its affiliates (including Combustion Engineering, Lummus and Basic), would be channelled to the Asbestos PI Trust. This would mean 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 its affiliates (including Combustion Engineering, Lummus and Basic). A preliminary injunction is currently in force.

The bankruptcy litigation and appeal process.

The pre-packaged plan, including the channelling order, will become effective when the U.S. Bankruptcy Court recommends the issuance of a confirmation order (which occurred on July 10, 2003), the confirmation order is entered by the U.S. District Court (which occurred on August 8, 2003) and has become a final order that is not subject to appeal, and the other conditions to the effectiveness of the pre-packaged plan have been satisfied.

On June 23, 2003, the U.S. Bankruptcy Court issued an Order Approving the Disclosure Statement but Recommending Withholding of Confirmation of the Plan of Reorganization for Combustion Engineering for Ten Days (the "Ruling") and related findings of fact. See "Item 5. Operating and Financial Review and Prospects—Contingencies and Retained Liabilities—Asbestos Liability." On July 10, 2003, the U.S. Bankruptcy Court issued a Supplemental and Amendatory Order Making Additional Findings and Recommending Confirmation of Plan of Reorganization (the "Supplemental Ruling"). The Supplemental Ruling recommended to the U.S. District Court, among other things, that the pre-packaged plan be confirmed.

Following the issuance of the Supplemental Ruling, interested parties had a period during which they could appeal the Ruling and the Supplemental Ruling. This appeal period expired on July 24, 2003. A number of interested parties, including a small number of asbestos claimants and certain insurance companies which historically have provided insurance coverage to Combustion Engineering, Basic and Lummus, filed appeals based on various objections to the Plan, as described in "Item 5. Operating and Financial Review and Prospects—Contingencies and Retained Liabilities—Asbestos Liability."

The U.S. District Court held a hearing on July 31, 2003 with respect to the appeals and entered its confirmation order on August 8, 2003. The U.S. Federal Third Circuit Court of Appeals granted a motion for expedition of appeals and ordered that all briefs were to be filed by October 7, 2003. The Circuit Court has set June 3, 2004 as the date for the hearing. We cannot be certain of the duration or outcome of the appeal process. Regardless of whether or not the pre-packaged plan becomes effective, the Master Settlement Agreement, which settles the amount of and provides for the partial payment on approximately 110,000 asbestos claims, remains effective. See "Item 5. Operating and Financial Review and Prospects—Contingencies and Retained Liabilities—Asbestos Liability" and Note 18 to our Consolidated Financial Statements.

Ongoing exposure.

Based on our expectation that the pre-packaged plan ultimately will become effective, we have recorded a provision of $813 million as of December 31, 2003, reflected in our Consolidated Balance Sheet, for resolution of the asbestos-related personal injury claims against Combustion Engineering, Lummus and Basic. Nonetheless, we cannot be certain of the duration of the asbestos-related litigation process, its outcome or its eventual cost to us. In particular, ongoing asbestos-related litigation resulting from a prolonged appeals process may hinder our ability to raise funds through capital markets transactions or otherwise, thereby limiting our ability to reduce our indebtedness. If the confirmation of the pre-packaged plan is later overturned, our ultimate liability for the resolution of asbestos-related personal injury claims and our reserves related thereto might change in a manner that would be uncertain and could have a material adverse impact on our business, consolidated financial condition, results of operations and cash flows.

For further information on the asbestos-related personal injury litigation, see "Item 5. Operating and Financial Review and Prospects—Contingencies and Retained Liabilities—Asbestos Liability."

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 entered into a three-year $1 billion credit facility on November 17, 2003. The new credit facility 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 new 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. At December 31, 2003 and March 31, 2004, nothing was drawn under the new 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 will require that performance guarantees be issued by a financial institution in the form of a letter of credit, surety bond or other financial guarantee. If 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. Financial institutions will consider our credit ratings and financial position in the guarantee approval process. Our current credit rating and financial position do not prevent us from obtaining such guarantees from financial institutions, but they can make the process more difficult or expensive. Although our ability to obtain such guarantees has significantly improved in a number of countries in recent months, if we find that 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 have maturity dates ranging from one to ten years and in some cases have no definite expiry. 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 $1.2 billion as of December 31, 2003. This maximum potential exposure, as required by Financial Accounting Standards Board Interpretation No. 45 ("FIN 45"), is based on the original guarantee or contract amount and does not reflect any discounting of our assessment of actual exposure under the guarantees.

As of December 31, 2003, 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, 2003. 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 is unable to fulfill its undertaking to indemnify us, we could incur material losses. See "Item 5. Operating and Financial Review and Prospects—Contractual Obligations and Commercial Commitments—Commercial Commitments—Commitments Relating to Disposed Businesses."

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 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 $6 million, $12 million and $6 million during 2003, 2002 and 2001, 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—Contingencies and Retained Liabilities—Environmental."

Bidding on large, long-term fixed price projects exposes our businesses to risk of loss.

Approximately 8% of the total U.S. dollar amount of orders booked in 2003 were "large orders," which we define as orders from third parties involving at least $15 million worth of products or systems. Portions of our business involve orders related to long-term projects that can take many months or even years to complete. Additionally, such projects are typically performed on a fixed price or turnkey basis and are awarded on a competitive bidding basis. We may expend significant resources, both in management time as well as money, on bidding for projects that we are not awarded.

Risks are inherent in fixed-priced contracts because of the possibility of underbidding and the fact that we 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. 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. Therefore, losses can result from performing large, long-term projects on a fixed-price or turnkey basis. For example, in 2003 the operating income of our Oil, Gas and Petrochemicals business was adversely affected by cost overruns amounting to $443 million, primarily relating to four large, long-term, fixed-price projects in the downstream business which had been contracted prior to 2002.

In connection with large, long-term projects, we routinely undertake substantial customer- and project-specific development efforts. In 2003 and 2002, we incurred order-related development expenditures of approximately $317 million and $248 million, respectively. 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. To the extent that revenues on these projects cannot be recognized, we would not recover the 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 continue to experience losses under some long-term contracts.

In several of our businesses, including the downstream business of our Oil, Gas and Petrochemicals division, the remaining portions of our Building Systems business and certain businesses within our Power Technologies and Automation Technologies divisions, we continue to

be party to long-term, fixed price contracts. Some of these contracts have resulted in losses due to, among other things, our inability to make proper estimates during the tendering process and weaknesses in project execution that have caused cost overruns. In 2002, the Oil, Gas and Petrochemicals business reported losses from cost overruns amounting to approximately $224 million. To address the weaknesses that we believed contributed to these losses, in 2002 we adopted a selective bidding approach aimed at reducing project risks and securing better margins. However, our new approach may not be successful and, in any event, we have in 2003 and may continue in the future to experience losses on the contracts we entered into prior to adopting our new approach until they expire or are terminated. For example, in 2003 the operating income of our Oil, Gas and Petrochemicals business was adversely affected by cost overruns amounting to $443 million, primarily relating to four large, long-term, fixed-price projects in the downstream business which had been contracted prior to 2002.

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. (which acquired ALSTOM's transmission and distribution division in January 2004), 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 Aker Kvaerner ASA, Bechtel Group, Inc., Cooper Cameron Corporation, FMC Technologies, Inc., 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. A major terrorist event or prolonged military action could adversely affect our business, financial condition and results of operations.

Our business has been adversely affected by the global economic downturn, particularly by depressed economic conditions in Europe and the United States. The business environment is influenced by numerous political uncertainties, which will continue to affect the global economy and the international capital markets. The threat of a major terrorist attack and the fear of prolonged military action have exacerbated volatility in the financial markets and caused consumer, corporate and financial confidence to weaken. As a result, many companies have experienced difficulties in achieving their revenue goals and have cancelled or delayed investments, expansions and recruitment.

In periods of slow 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. Although we expect continued growth in Asia, investments by our customers in Europe and the Americas may continue to be weak. Our Power Technologies division is affected mainly 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. If the current global economic and political climate fails to improve, this could have a material adverse effect on our business, financial condition, results of operations and liquidity.

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 liabilities for environmental contamination if we do not comply with applicable laws regulating such hazardous substances, and such liabilities can be substantial. 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

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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.

A malfunction in or the inadequate design of products, systems and services that we design and manufacture could result in product liability claims. 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 against us typically involve claims of 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.

- Our Oil, Gas and Petrochemicals business makes and installs equipment and systems used in oil and gas exploration, production and refining. These products handle petroleum-based substances which can be highly combustible and which can result in significant fires or explosions if we improperly design, manufacture or install equipment.

If a very large product liability claim were sustained, 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. 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 2003, approximately 30% of our consolidated revenues were generated from these emerging markets. Operations in emerging markets 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.

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 we intend to divest, depends on the condition of the oil and gas industry and particularly on capital expenditure budgets of the companies engaged in the exploration, development and production of oil and gas. Our upstream oil and gas activities are substantially dependent on the condition of the offshore exploration and development market. The prices of oil and gas and their uncertainty in the future, along with forecasted growth in world oil and gas demand, will strongly influence the extent of offshore exploration and development activities. Offshore oil and gas field capital expenditures also are influenced by the sale and expiration dates of offshore leases, the discovery rate of new oil and gas reserves in offshore areas, local and international political and economic conditions, environmental regulation, coordination by the Organization of Petroleum Exporting Countries, the ability of oil and gas companies to access or generate capital and the cost of such capital. Similarly, our businesses that provide products, systems and services to the downstream refining and petrochemical industry are affected by capital expenditure budgets of our customers, which are, in turn, affected by refinery margins and prices for petrochemical products such as ethylene and polypropylene. In 2003, the Oil, Gas and Petrochemicals business generated revenues of $3,374 million. These revenues are contained in the results of discontinued operations, reflecting our intention to sell this business. An adverse effect on the financial results of this division could have a material adverse effect on our consolidated results of operations.

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

Currency Translation Risk. The results of operations and financial position of most of our non-U.S. subsidiaries are reported in the currencies of countries in which those subsidiaries reside. That financial information is then translated into U.S. dollars at the applicable exchange rates for inclusion in our Consolidated Financial Statements. In 2003, approximately 78% 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 32%;
- Swedish krona, approximately 9%;
- Swiss franc, approximately 5%;
- Norwegian krone, approximately 6%; and

- Pound sterling, approximately 3%.

The exchange rates between these 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 2003 as in 2002, the U.S. dollar continued to depreciate against most of the currencies in which our subsidiaries reported results of operations, which represented a reversal of the appreciation of the U.S. dollar against these currencies in 2001. In particular, in 2003 the U.S. dollar weakened by approximately 20% (2002: 6%) against the euro, 16% (2002: 8%) against the Swiss franc, 14% (2002: 13%) against the Norwegian krone and 20% (2002: 7%) against the Swedish krona. This resulted in an increase of reported revenues and earnings before interest and taxes when consolidated and translated in U.S. dollars of 12% and 8%, respectively, when based on average annual exchange rates of 2003 compared to average annual exchange rates of 2002. The resulting increase of reported revenues and earnings before interest and taxes when consolidated and translated into U.S. dollars was 3% and 4%, respectively, when based on average annual exchange rates of 2002 compared to average annual exchange rates of 2001.

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 time that 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.

Currency exchange rate fluctuations in those currencies in which we incur our principal manufacturing expenses (the euro, Swedish krona and Swiss franc) may distort competition between us and our competitors whose costs are incurred in other currencies. If our principal currencies appreciate in value against such other currencies, our competitiveness may be weakened. For further information on our currency translation and transaction risk, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Currency Fluctuations and Foreign Exchange Risk."

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 employ approximately 116,000 people. As of December 31, 2003, approximately 61% of our employees were located in Europe, approximately 16% in the Americas, approximately 13% in Asia and approximately 10% 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.

While we and our subsidiaries are committed to conducting business in a legal and ethical manner, there is a risk that our employees or agents may take actions that violate either the U.S. Foreign Corrupt Practices Act 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. These actions could result in monetary penalties against us

or our subsidiaries and could damage our reputation and, therefore, our ability to do business. In addition to the risks that arise in countries that have experienced governmental corruption, there is also a risk that we will not be able to ensure that our internal control policies and procedures will protect us from fraud or other criminal acts committed by our employees.

In 2000, our internal audit group discovered during a regular compliance follow-up that several employees in the London region of our Manufacturing and Consumer Industries division (the business of which is now part of our Automation Technologies division) had intentionally concealed losses in 1999 and part of 2000 arising from contracts for which revenues were insufficient to cover costs. We believe that these activities were isolated in the London region of this division and did not extend to other operations. As a result of our investigation, we terminated the individuals involved and replaced the local management in the London region. If we had not discovered these activities, our net income for 1999 and 2000 would have been overstated by $30 million and $10 million, respectively. In 2001, we identified and recorded additional costs of approximately $25 million relating to these activities.

During 2002 and 2003, we undertook an investigation of potentially improper business conduct within our Oil, Gas and

Petrochemical division. In such internal investigations, we uncovered a limited number of improper payments by some of our employees and agents in the upstream business in Africa, Central Asia, and South America, which we voluntarily disclosed to the U.S. Department of Justice and the U.S. Securities and Exchange Commission. The payments, which violated our internal policies on business ethics, were made in order to obtain from local officials confidential information and commercial advantages, including with respect to contracts on which we were bidding. We have hired outside counsel and auditors (other than our auditors) to assist us in a compliance review to determine whether other instances of improper payments exist. The compliance review is being conducted jointly with the purchaser of the upstream part of the Oil, Gas and Petrochemicals business and with the purchaser's outside counsel and auditors, and satisfactory completion and disposition of the matters under review is a condition to the completion of the sale of this portion of the business. For more information, see "Item 5. Operating and Financial Review and Prospects—Acquisitions, Investments and Divestitures—Divestitures—Pending Divestitures" and "Item 8. Financial Information—Legal Proceedings."

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%. 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 ADSs), the Frankfurt Exchange and the London Stock Exchange.

Organizational Structure

In 2001, we realigned our worldwide business operations, replacing our six existing business segments with seven business divisions structured along customer groups. Four divisions, Utilities, Process Industries, Manufacturing and Consumer Industries, and Oil, Gas and Petrochemicals, were established to serve end-user customers. Two divisions, Power Technology Products and Automation Technology Products, were established to serve the four end-user divisions as well as certain external customers. Our Financial Services division served the ABB Group's businesses and external customers.

In April 2002, we announced our intention to sell our Building Systems business area (part of our Manufacturing and Consumer Industries division). The remaining business areas of the Manufacturing and Consumer Industries division were combined with our Process Industries division to form a new Industries division. In November 2002, we sold most of our Structured Finance business (part of our Financial Services division) and announced that we would sell the

remaining Structured Finance businesses that are unrelated to our core businesses. The remaining activities in the Financial Services division were transferred to the Corporate and Non-Core Activities divisions.

Effective January 1, 2003, we further realigned our business divisions to combine the Power Technology Products division and the Utilities division into a new Power Technologies division and the Automation Technology Products division and the Industries division into a new Automation Technologies division. Our Oil, Gas and Petrochemicals division, which we intend to divest, was reclassified as a discontinued operation along with a number of other businesses. Our remaining activities were grouped into a Non-Core Activities division. We began reporting our financial results to reflect this new structure starting with our results for the three months ended March 31, 2003.

We streamlined our divisional structure to sharpen our focus on power and automation technologies, to increase efficiency and to create a sustainable lower cost base. We consider the Power Technologies and Automation Technologies divisions to be our core divisions, and our management is focusing its attention on, and investments in, these divisions.

Our Non-Core Activities division comprises businesses and activities that are not integral to our focus on our power and automation technologies and that we are considering for sale, winding down or otherwise discontinuing. For a description of the businesses grouped within the Non-Core Activities division, see "—Business Divisions—Non-Core Activities."

The components of our Corporate division, as well as the activities that are classified as discontinued operations, are described in detail under "—Business Divisions—Corporate/Other" and "—Discontinued Operations."

The following table sets forth the amount and percentage of ABB Group revenues derived from each of our business divisions for the fiscal years ended December 31, 2003 and 2002, based on our current organizational structure:

	Revenues Year ended December 31,	**Percentage of Revenues Year ended December 31,**