



Summary Financial Information Six Months Ended June 2004

ABB Ltd Summary Consolidated Income Statements

	January - June		April - June	
	2004*	2003*	2004*	2003*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in millions, except per share data)			
Revenues	\$ 9,269	\$ 9,160	\$ 4,913	\$ 4,843
Cost of sales	(6,885)	(6,792)	(3,680)	(3,557)
Gross profit	2,384	2,368	1,233	1,286
Selling, general and administrative expenses	(1,836)	(1,993)	(932)	(1,041)
Amortization expense	(20)	(20)	(10)	(10)
Other income (expense), net	(7)	(120)	(3)	(95)
Earnings before interest and taxes	521	235	288	140
Interest and dividend income	76	69	45	29
Interest and other finance expense	(197)	(280)	(90)	(115)
Income from continuing operations before taxes and minority interest	400	24	243	54
Provision for taxes	(152)	(8)	(90)	(19)
Minority interest	(41)	(30)	(26)	(19)
Income (loss) from continuing operations	207	(14)	127	16
Loss from discontinued operations, net of tax	(117)	(86)	(41)	(71)
Net income (loss)	\$ 90	\$ (100)	\$ 86	\$ (55)
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.10	\$ (0.01)	\$ 0.06	\$ 0.01
Net income (loss)	\$ 0.04	\$ (0.09)	\$ 0.04	\$ (0.05)
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.10	\$ (0.01)	\$ 0.06	\$ 0.01
Net income (loss)	\$ 0.04	\$ (0.09)	\$ 0.04	\$ (0.05)

* The periods presented have not yet been restated to correct misstatements in an Italian subsidiary. See Note 2 – Earnings overstatement in an Italian subsidiary.



ABB Ltd
Summary Consolidated Balance Sheets

	At June 30 2004*	At March 31 2004*	At December 31 2003*
	(unaudited)	(unaudited)	(audited)
(in millions, except share data)			
Cash and equivalents	\$ 2,914	\$ 2,583	\$ 4,669
Marketable securities	491	1,237	473
Receivables, net	5,347	5,153	5,337
Inventories, net	2,824	2,821	2,605
Prepaid expenses and other	1,566	1,684	2,002
Assets held for sale and in discontinued operations	3,112	6,110	6,427
Total current assets	16,254	19,588	21,513
Financing receivables, non-current	1,249	1,312	1,330
Property, plant and equipment, net	2,695	2,749	2,840
Goodwill	2,306	2,309	2,331
Other intangible assets, net	466	498	549
Prepaid pension and other employee benefits	518	522	524
Investments and other	1,277	1,286	1,326
Total assets	\$ 24,765	\$ 28,264	\$ 30,413
Accounts payable, trade	\$ 2,946	\$ 2,874	\$ 2,981
Accounts payable, other	1,195	1,239	1,394
Short-term borrowings and current maturities of long-term borrowings	939	974	1,597
Accrued liabilities and other	4,683	4,760	5,140
Liabilities held for sale and in discontinued operations	1,980	4,764	5,100
Total current liabilities	11,743	14,611	16,212
Long-term borrowings	5,176	5,774	6,290
Pension and other employee benefits	1,778	1,773	1,794
Deferred taxes	958	952	969
Other liabilities	1,845	1,854	1,837
Total liabilities	21,500	24,964	27,102
Minority interest	237	287	285
Stockholders' equity:			
Capital stock and additional paid-in capital	3,067	3,067	3,067
Retained earnings	1,937	1,851	1,847
Accumulated other comprehensive loss	(1,838)	(1,767)	(1,750)
Less: Treasury stock, at cost (11,611,529 shares at June 30, 2004)	(138)	(138)	(138)
Total stockholders' equity	3,028	3,013	3,026
Total liabilities and stockholders' equity	\$ 24,765	\$ 28,264	\$ 30,413

* The periods presented have not yet been restated to correct misstatements in an Italian subsidiary. See Note 2 – Earnings overstatement in an Italian subsidiary.



ABB Ltd
Summary Consolidated Statements of Cash Flows

	January - June		April - June	
	2004*	2003*	2004*	2003*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in millions)			
Operating activities				
Net income (loss)	\$ 90	\$ (100)	\$ 86	\$ (55)
<i>Adjustments to reconcile net income (loss) to net cash used in operating activities:</i>				
Depreciation and amortization	296	290	148	146
Provisions	(141)	(640)	8	(170)
Pension and post-retirement benefits	48	(50)	22	(48)
Deferred taxes	13	(85)	15	(48)
Net gain from sale of property, plant and equipment	(23)	(12)	(22)	(1)
Loss on sale of discontinued operations	36	--	36	--
Other	156	162	38	94
<i>Changes in operating assets and liabilities:</i>				
Marketable securities (trading)	43	35	2	(11)
Trade receivables	(238)	(44)	(260)	69
Inventories	(372)	(125)	(29)	8
Trade payables	(20)	(47)	112	(10)
Other assets and liabilities, net	(165)	(337)	(292)	1
Net cash used in operating activities	(277)	(953)	(136)	(25)
Investing activities				
Changes in financing receivables	51	159	72	38
Purchases of marketable securities (other than trading)	(1,630)	(1,885)	(144)	(1,092)
Purchases of property, plant and equipment	(235)	(230)	(137)	(130)
Acquisitions of businesses (net of cash acquired)	(16)	(44)	(10)	(30)
Proceeds from sales of marketable securities (other than trading)	1,562	2,003	872	1,174
Proceeds from sales of property, plant and equipment	63	62	52	17
Proceeds from sales of businesses (net of cash disposed)	315	257	293	243
Net cash provided by investing activities	110	322	998	220
Financing activities				
Changes in borrowings	(1,717)	(52)	(647)	35
Treasury and capital stock transactions	(36)	156	--	--
Other	(26)	42	(22)	27
Net cash provided by (used in) financing activities	(1,779)	146	(669)	62
Effects of exchange rate changes on cash and equivalents	(27)	61	(10)	49
Adjustment for the net change in cash and equivalents in assets held for sale and in discontinued operations	218	(18)	148	(46)
Net change in cash and equivalents - continuing operations	(1,755)	(442)	331	260
Cash and equivalents beginning of period	4,669	2,336	2,583	1,634
Cash and equivalents end of period	\$ 2,914	\$ 1,894	\$ 2,914	\$ 1,894
Interest paid	\$ 185	\$ 226	\$ 101	\$ 97
Taxes paid	\$ 206	\$ 107	\$ 128	\$ 53

* The periods presented have not yet been restated to correct misstatements in an Italian subsidiary. See Note 2 – Earnings overstatement in an Italian subsidiary.

**ABB Ltd notes to summary consolidated financial statements (unaudited)**

(US\$ in millions, except per share data)

Note 1 The Summary Consolidated Financial Statements

The summary consolidated financial information is prepared on the basis of accounting principles generally accepted in the United States (US GAAP) and is presented in United States dollars (\$) unless otherwise stated. Data for orders and number of employees are shown as additional information and are not required disclosures under US GAAP.

The par value of capital stock is denominated in Swiss francs (CHF).

The Company considers earnings before interest and taxes (operating income), which excludes interest and dividend income, interest and other finance expense, provision for taxes, minority interest and loss from discontinued operations, net of tax, to be the most relevant measure of the Company's and its divisions' financial and operational performance. Accordingly, the Company evaluates itself and its divisions based on this measure.

Note 2 Developments during the Six Months***Ended June 30, 2004:***

- Earnings overstatement in an Italian subsidiary

During the second quarter of 2004, an internal inquiry uncovered an overstatement by the medium-voltage business in Italy of its earnings before interest and taxes of approximately \$70 million from the first quarter of 1998 through the first quarter of 2004. That corresponds to 1.4 percent of the Company's total reported consolidated earnings before interest and taxes during the period. The medium-voltage business in Italy is part of the Power Technologies division described in Note 5.

According to the Company's initial review, the annual impact on earnings before interest and taxes over the period ranged between \$2 million in 1998 to a maximum of approximately \$20 million in 2002.

The consolidated financial statements and related notes presented in this press release have not yet been restated for the misstatements. The Company intends, in 2004, to restate its consolidated financial statements by means of an amended 2003 annual report on Form 20-F and to disclose restated 2003 and 2004 quarterly consolidated financial statements in a press release.

- Reclassifications and restatements

Amounts in prior periods have been reclassified to conform to the Company's current presentation.

- Significant divestitures

In January 2004, the Company sold its MDCV cable business, located in Germany, to the Wilms Group of Menden, Germany.



In March 2004, the Company completed the sale of its Swiss Building Systems business to CapVis Equity Partners AG, a Swiss private equity company, for approximately \$39 million and bought a 10% ownership interest in a subsidiary of CapVis Equity Partners AG. The Company recorded a net gain of approximately \$12 million from the sale of this business in other income (expense), net, in the first quarter of 2004.

In April 2004, the Company completed the sale of its Reinsurance business to White Mountains Insurance Group Limited, a Bermuda-based insurance holding company, receiving gross cash proceeds of \$415 million, including \$12 million received in July 2004. Consequently, in the first half of 2004, the Company recorded a loss of \$36 million in loss from discontinued operations, net of tax, related primarily to foreign exchange effects of the business from January 1, 2004, through the date of sale.

In the second quarter of 2004, the Company sold a business in Sweden, formerly part of the Automation Technologies division, for \$11 million, as well as investments in two U.S. technology businesses for \$6 million, reporting a total gain on these divestments of \$7 million in other income (expense), net, in the second quarter of 2004.

In July 2004, the Company completed the sale of the upstream part of its Oil, Gas and Petrochemicals division to a consortium of private equity investors consisting of Candover Partners Limited, JP Morgan Partners LLC and 3i Group PLC for an initial purchase price of \$925 million plus potential deferred consideration of up to \$50 million. Net cash proceeds from the sale were approximately \$800 million, reflecting the initial sales price adjusted for unfunded pension liabilities of approximately \$85 million and changes in net working capital.

For additional information see Note 2 – Discontinued operations and businesses held for sale.

- Restructuring programs

2001 Program

The 2001 program initiated in July 2001 in an effort to improve productivity, reduce cost base, simplify product lines, reduce multiple location activities and perform other downsizing in response to weakening markets and consolidation of major customers in certain industries continued to be paid out in 2004.

In the first half of 2004, the Company paid termination benefits of \$11 million to 55 employees and \$3 million were paid to cover costs associated with lease terminations and other exit costs. At June 30, 2004, accrued liabilities included \$19 million for lease terminations and other exit costs. Currency fluctuations resulted in a \$3 million decrease in the liabilities accrued for workforce reductions, lease terminations and other exit costs. The 2001 program was substantially completed during 2002 and the remaining liability will be substantially paid out in 2004.

Step change program

In October 2002, the Company announced the Step change program. The goals of the Step change program are to increase competitiveness of the Company's core businesses, reduce overhead costs and streamline operations by approximately \$900 million on an annual basis by 2005. As of June 30, 2004, the Step change program was substantially complete.

In the first half of 2004, related to the Step change program, the Company recognized restructuring charges of \$28 million related to workforce reductions and \$10 million related to lease terminations and other exit costs. Based on changes in management's original estimate, a \$3 million decrease in the amounts accrued for workforce reductions, lease terminations and other exit costs has been included in other income (expense), net. Termination benefits of \$85 million were paid to 582 employees and \$7 million were paid to cover costs associated with lease terminations and other exit costs. Workforce reductions include production, managerial and administrative employees. At June 30, 2004, accrued liabilities included \$35 million for termination benefits and \$39 million for lease terminations and other exit costs. Currency



fluctuations resulted in a \$3 million decrease in the liabilities accrued for workforce reductions, lease terminations and other exit costs.

As a result of the Step change program, certain assets, inventories and property, plant and equipment have been identified as impaired or will no longer be used in continuing operations. The Company recorded \$3 million in the first half of 2004, to write down these assets to their fair value. These costs are included in other income (expense), net.

Other

Certain other restructuring programs were initiated during 2003 and 2004 at specified locations not included in the Step change program. The goals of these programs are to increase efficiencies by reducing headcount and streamlining operations. These programs are expected to increase productivity of the non-core businesses as well as to improve results in the specified locations of the core divisions not covered by the Step change program.

In the first half of 2004, the Company recognized restructuring charges of \$32 million related to workforce reductions and \$7 million related to lease terminations and other exit costs. Termination benefits of \$31 million were paid to 436 employees and \$13 million were paid to cover costs associated with lease terminations and other exit costs. Workforce reductions include production, managerial and administrative employees. Based on changes in management's original estimate, a \$5 million decrease in the amounts accrued for workforce reductions, lease terminations and other exit costs has been included in other income (expense), net. At June 30, 2004, accrued liabilities included \$65 million for termination benefits and \$23 million for lease terminations and other exit costs. Currency fluctuations resulted in a \$4 million decrease in the liabilities accrued for workforce reductions, lease terminations and other exit costs.

Six months ended June 30, 2004	2001	Step	Other	Total
	program	change		
(in millions)				
Restructuring charge for workforce reduction	\$ --	\$ 28	\$ 32	\$ 60
Restructuring charge for lease terminations, writedown of property, plant and equipment, and other	--	13	7	20
Change in estimate	--	(3)	(5)	(8)
Total restructuring charges and related asset write-downs	\$ --	\$ 38	\$ 34	\$ 72

- Borrowings

The Company's total reported borrowings outstanding at June 30, 2004, March 31, 2004, and December 31, 2003, amounted to \$6,115 million, \$6,748 million and \$7,887 million, respectively. In the first six months of 2004, the Company bought back a portion of its public bonds with a total face value of \$458 million.

In November 2003, as part of the capital-strengthening program, the Company entered into a new unsecured syndicated \$1.0 billion 3-year revolving credit facility, which became available in December 2003 upon the fulfillment of certain conditions. No amount was drawn under this facility at June 30, 2004, March 31, 2004, or December 31, 2003.

The credit facility contains certain financial covenants in respect of minimum interest coverage, maximum net leverage and a minimum level of consolidated net worth. The Company is required to meet these covenants on a quarterly basis. As of June 30, 2004, the Company was in compliance with these covenants.

- Accounting for the USD convertible bond

In May 2002, the Company issued \$968 million aggregate principal amount of convertible unsubordinated bonds due 2007. Under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, a component of the convertible bonds had to be accounted for as a derivative as the shares to be issued upon conversion were denominated in Swiss francs, while the bonds are denominated in U.S. dollars. A portion of the issuance proceeds was deemed to relate to the value of the derivative on issuance and subsequent changes in value of the derivative were recorded through earnings and as an adjustment to the carrying value of the bond. The allocation of a portion of the proceeds to the derivative created a discount on issuance which was being amortized to earnings over the life of the bond.

On May 28, 2004, bondholders voted in favor of the Company's proposed amendment to the terms of the bonds whereby if the bonds are converted, the Company will deliver U.S. dollar-denominated American Depositary Shares rather than Swiss franc-denominated ordinary shares. As a result of this amendment, it is no longer required to account for a portion of the bonds as a derivative. Consequently, on May 28, 2004, the value of the derivative was fixed and added to the carrying value of the bonds at that date. The difference between this new carrying value of the bonds and par (\$968 million) will be amortized to earnings over the remaining life of the bonds, replacing, going forward, the discount calculated on issuance of the bonds.

The Company recorded a loss from the change in fair value of the derivative of \$16 million from January 1, 2004, up to the date of the bond amendment. When added to the amortization of the discount on the bonds for the six months ended June 30, 2004, of \$22 million, this resulted in an aggregate charge to earnings of \$38 million (\$36 million for the six months ended June 30, 2003) and a corresponding increase in borrowings.

For the three months ended June 30, 2004, the Company recorded a gain from the change in fair value of the derivative up to May 28, 2004, of \$7 million, which when netted with the amortization of the discount on the bonds for the three months ended June 30, 2004, resulted in a charge to earnings of \$3 million (\$12 million for the second quarter 2003) and a corresponding increase in borrowings.

- Discontinued operations and businesses held for sale

Discontinued businesses are accounted for in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*. The balance sheet and income statement data for all prior periods presented are reclassified to present the financial position and results of operations of businesses meeting the criteria of SFAS 144 as discontinued operations. In addition, the balance sheet data for all prior periods presented are reclassified to present the financial position of businesses meeting the criteria of SFAS 144 as assets and liabilities held for sale. In the statement of cash flows, the amounts related to businesses with assets and liabilities held for sale and in discontinued operations are not segregated, as permitted by Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*.

The following divestments are in line with the Company's strategy to focus on power and automation technologies for industry and utility customers.

In January 2004, the Company agreed to sell most of the upstream part of the Oil, Gas and Petrochemicals businesses (Upstream business) to a consortium of private equity investors consisting of Candover Partners Limited, JP Morgan Partners LLC and 3i Group PLC. In July 2004, the Company completed the sale of the Upstream business for an initial purchase price of \$925 million plus a potential deferred consideration of up to \$50 million. The potential deferred consideration of up to \$50 million can be realized by the Company if the Upstream business meets specified earnings targets in 2004. Net cash proceeds from the sale were approximately \$800 million, reflecting the initial sales price adjusted for unfunded pension liabilities of approximately \$85 million and changes in net working capital. The Company does not anticipate



recognizing a significant gain or loss on the sale of the Upstream business. The results of operations of the Upstream business and the remaining Oil, Gas and Petrochemicals businesses are reflected as discontinued operations in all periods presented.

In December 2003, the Company agreed to sell its Reinsurance business to White Mountains Insurance Group Limited, a Bermuda-based insurance holding company. As a result of the anticipated sale, the Company recorded an impairment charge of \$154 million in the fourth quarter of 2003. In April 2004, the Company completed the sale of its Reinsurance business for gross cash proceeds of \$415 million, including \$12 million received in July 2004. Consequently, in the first half of 2004, the Company recorded a loss of \$36 million in loss from discontinued operations, net of tax, related primarily to foreign exchange effects of the business from January 1, 2004, through the date of sale. The results of operations of this business are reflected as discontinued operations.

In March 2004, the Company sold its Swiss Building Systems business to CapVis Equity Partners AG, a Swiss private equity company, for approximately \$39 million and bought a 10% ownership interest in a subsidiary of CapVis Equity Partners AG. The Company recorded a net gain of approximately \$12 million from the sale of this business in other income (expense), net, in the first quarter of 2004. As of December 31, 2003, the assets and liabilities of the Swiss Building Systems business have been reflected in assets and liabilities held for sale and in discontinued operations. The results of operations have been reflected in continuing operations.

In January 2004, the Company sold its MDCV cable business, located in Germany, to the Wilms Group of Menden, Germany. The Company recorded \$10 million of impairment charges on this divestment in loss from discontinued operations, net of tax, in the fourth quarter of 2003. No additional significant losses were recorded in the first half of 2004 as a result of the sale of this business.

In addition, the Company has also reflected other minor operations and projects as discontinued operations, as appropriate.

In discontinued operations, the Company also recorded a charge of approximately \$17 million in the first six months of 2004 primarily related to the mark-to-market treatment of the 30 million shares of the Company that are reserved for use with the pre-packaged plan of reorganization for Combustion Engineering, Inc, under Chapter 11 of the United States Bankruptcy Code (see Note 2 – Commitments and contingencies).

The loss from discontinued operations, net of tax, of \$117 million recognized in the first six months of 2004 includes revenues of \$1,423 million, of which \$850 million relate to the Upstream business.

At June 30, 2004, the major classes of assets held for sale and in discontinued operations were: \$229 million of cash, equivalents and marketable securities; \$1,307 million of receivables, net; \$345 million of inventories, net; \$155 million of prepaid expenses and other; \$31 million of financing receivables, non-current; \$245 million of property, plant and equipment, net; \$519 million of goodwill; \$75 of other intangible assets, net; \$47 million of prepaid pension and other related benefits and \$159 million of investments and other assets. At June 30, 2004, the major classes of liabilities held for sale and in discontinued operations were: \$1,356 million of accounts payable; \$16 million of short-term borrowings and current maturities of long-term borrowings; \$331 million of accrued liabilities and other; \$20 million of long-term borrowings; \$88 million of pension and other related benefits; \$79 million of deferred taxes, non-current and \$90 million of other liabilities.



- Employee benefits

For the six months and three months ended June 30, 2004, net periodic benefit cost consists of the following:

(in millions)	Pension benefits		Other benefits	
	January-June 2004	April-June 2004	January-June 2004	April-June 2004
Service cost	\$ 94	\$ 47	\$ 2	\$ 1
Interest cost	178	92	11	5
Expected return on plan assets	(156)	(83)	--	--
Amortization of prior service cost	2	1	--	--
Amortization of net actuarial loss	17	6	4	2
Net periodic benefit cost	\$ 135	\$ 63	\$ 17	\$ 8

For the year ended December 31, 2003, net periodic benefit cost was \$296 million and \$39 million for pension benefits and other benefits, respectively.

The Company previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute \$248 million to its pension plans and \$27 million to its other postretirement benefit plans in 2004. For the six months ended June 30, 2004, \$110 million and \$16 million of contributions have been made to its pension plans and other postretirement plans, respectively. The Company anticipates contributing an additional \$96 million and \$14 million in 2004 for a revised expected total in 2004 of \$206 million and \$30 million to its pension plans and other postretirement plans, respectively.

- Earnings per share

Basic earnings per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing income (loss) by the weighted-average number of shares outstanding during the period, assuming that all potentially dilutive securities were exercised and that any proceeds from such exercises were used to acquire shares of the Company's stock at the average market price during the period or the period the securities were outstanding, if shorter. Potentially dilutive securities comprise: outstanding written call options, if dilutive; the securities issued under the Company's management incentive plan, to the extent the average market price of the Company's stock exceeded the exercise prices of such instruments; and shares issuable in relation to outstanding convertible bonds, if dilutive.

In the three and six months ended June 30, 2003, the potential shares from the warrants and options outstanding in connection with the Company's management incentive plan were excluded from the computation of diluted earnings (loss) per share, as their inclusion would have been antidilutive. In the three and six months ended June 30, 2004, only the potential shares from the warrants and options outstanding in connection with the Company's December 2003 launch under the management incentive plan were included in the computation of diluted earnings (loss) per share, as the inclusion of potential shares from the warrants and options of other launches under the management incentive plan would have been antidilutive.

The shares issuable in relation to the \$968 million aggregate principal amount of convertible unsubordinated bonds due 2007 and the shares issuable in relation to the CHF 1,000 million aggregate principal amount of convertible unsubordinated bonds due 2010 were excluded from the computation of diluted earnings per share in all periods presented, as their inclusion would have been antidilutive.



Basic earnings (loss) per share	January - June		April - June	
	2004	2003	2004	2003
	(in millions, except per share data)			
Income (loss) from continuing operations	\$ 207	\$ (14)	\$ 127	\$ 16
Loss from discontinued operations, net of tax	(117)	(86)	(41)	(71)
Net income (loss)	\$ 90	\$ (100)	\$ 86	\$ (55)
Weighted average number of shares outstanding	2,028	1,160	2,028	1,193
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.10	\$ (0.01)	\$ 0.06	\$ 0.01
Loss from discontinued operations, net of tax	(0.06)	(0.08)	(0.02)	(0.06)
Net income (loss)	\$ 0.04	\$ (0.09)	\$ 0.04	\$ (0.05)

Diluted earnings (loss) per share	January - June		April - June	
	2004	2003	2004	2003
	(in millions, except per share data)			
Income (loss) from continuing operations	\$ 207	\$ (14)	\$ 127	\$ 16
Loss from discontinued operations, net of tax	(117)	(86)	(41)	(71)
Net income (loss)	\$ 90	\$ (100)	\$ 86	\$ (55)
Weighted average number of shares outstanding	2,028	1,160	2,028	1,193
Dilution from warrants and options	1	--	1	--
Diluted weighted average number of shares outstanding	2,029	1,160	2,029	1,193
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.10	\$ (0.01)	\$ 0.06	\$ 0.01
Loss from discontinued operations, net of tax	\$ (0.06)	\$ (0.08)	\$ (0.02)	\$ (0.06)
Net income (loss)	\$ 0.04	\$ (0.09)	\$ 0.04	\$ (0.05)

- Stock-based compensation

The Company maintains a management incentive plan under which it offers stock warrants to key employees, for no consideration. The Company accounts for the warrants using the intrinsic value method of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, as permitted by Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock Based Compensation*. All warrants were issued with exercise prices greater than the market prices of the stock on the dates of grant. Accordingly, the Company has recorded no compensation expense related to the warrants, except in circumstances when a participant ceases to be employed by a consolidated subsidiary, such as after a divestment by the Company, and the employee retains the right to vest in the warrants. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation. Fair value of the warrants was determined on the date of grant by using the Binomial option model.



	January - June		April - June	
	2004	2003	2004	2003
	(in millions, except per share data)			
Net income (loss), as reported	\$ 90	\$ (100)	\$ 86	\$ (55)
Less: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(4)	(9)	(2)	(4)
Pro forma net income (loss)	\$ 86	\$ (109)	\$ 84	\$ (59)
Basic and diluted income (loss) per share:				
Basic - as reported	\$ 0.04	\$ (0.09)	\$ 0.04	\$ (0.05)
Basic - pro forma	\$ 0.04	\$ (0.09)	\$ 0.04	\$ (0.05)
Diluted - as reported	\$ 0.04	\$ (0.09)	\$ 0.04	\$ (0.05)
Diluted - pro forma	\$ 0.04	\$ (0.09)	\$ 0.04	\$ (0.05)

- Commitments and contingencies

Asbestos

The Company is awaiting the results of a hearing held on June 3, 2004, before the U.S. 3rd Circuit Court of Appeals to review a pre-packaged Chapter 11 protection plan that was filed in 2003 by a U.S. subsidiary of the Company, Combustion Engineering. The plan has already been approved by both a federal bankruptcy court and a U.S. district court and the Company remains confident that the Circuit Court will also approve the plan.

Note 3 New Accounting Standards

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. FIN 46 required variable interest entities (VIEs) to be consolidated by their primary beneficiaries. During 2003, the Company adopted the requirements of FIN 46 and applied the guidance to all VIEs in which the Company has an interest. In March 2003, the Company sold its aircraft-leasing portfolio in Sweden to a third party. The buyer established a VIE upon acquisition, exclusively for the purpose of servicing the aircraft-leasing portfolio. Subsequent to divestment, the Company continued its involvement in the VIE by providing significant financial support in the form of mezzanine and subordinated financing of approximately \$90 million. As the primary beneficiary, the Company retained \$182 million of assets and acquired \$76 million of third party long-term borrowings through consolidation of the VIE as of December 31, 2003. FIN 46 was revised in December 2003, which among various changes added additional scope exceptions. The December 2003 revision (FIN 46R) was adopted by March 2004. The Company completed its assessment of the effects of the adoption of FIN 46R and such effects were not material to its consolidated financial position.

**Note 4 Summary of Consolidated Stockholders' Equity**

(in millions)	
Stockholders' equity at January 1, 2004	\$ 3,026
Comprehensive loss:	
Net income	90
Foreign currency translation adjustments	(60)
Accumulated foreign currency translation adjustments allocated to divestment of businesses	32
Unrealized gain on available-for-sale securities, net of tax	2
Unrealized loss on cash flow hedge derivatives, net of tax	(62)
Total comprehensive loss	2
Stockholders' equity at June 30, 2004 (unaudited)	\$ 3,028

At June 30, 2004, the Company had 2,440,016,034 authorized shares. Of these, 2,070,314,947 shares are registered and issued, including 30,298,913 shares that are reserved for use with the pre-packaged plan of reorganization of the Company's U.S. subsidiary, Combustion Engineering, Inc. As these 30 million shares are presently held by one of the Company's subsidiaries and carry no participation rights, these shares are not treated as outstanding for the purposes of the Company's consolidated financial statements.

Note 5 Segment and Geographic Data

Effective January 1, 2004, the Group Processes activities, previously in the Non-core activities division, were integrated into the core divisions and the Substations business was transferred from the Automation Technologies division to the Power Technologies division.

- The Power Technologies division serves electric, gas, and water utilities as well as industrial and commercial customers, with a broad range of products, systems and services for power transmission, distribution and power plant automation. The division's principal customers are electric, gas and water utilities, owners and operators of power transmission systems, utilities that own or operate networks and owners and operators of power generating plants. Other customers include gas transmission companies, local distribution companies and multi-utilities, which are involved in the transmission or distribution of more than one commodity. The division also serves industrial and commercial customers, such as operators of large commercial buildings and heavy industrial plants.
- The Automation Technologies division provides products, systems, software and services for the automation and optimization of industrial and commercial processes. Key technologies include measurement and control, instrumentation, process analysis, drives and motors, power electronics, robots, and low voltage products. These technologies are sold to customers of the automotive, cement, chemical, distribution, electronics, food and beverage, life sciences, marine, metals, mining, paper, petroleum, printing and telecommunications industries with application-specific power and automation technology.
- The Non-core activities division includes the following activities and businesses of the Company: the remaining Equity Ventures business, the remaining Structured Finance business, the remaining Building Systems business, New Ventures, Customer Service and Logistic Systems.
- Corporate includes Headquarters, Central Research and Development, Real Estate, Group Treasury Operations and the Financial Advisory business. Inter-divisional transactions are eliminated in Corporate.



All periods presented have been restated to reflect the organizational structure of the Company at June 30, 2004.

The Company evaluates performance of its segments based on earnings before interest and taxes (operating income), which excludes interest and dividend income, interest and other finance expense, provision for taxes, minority interest, and loss from discontinued operations, net of tax. In accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company presents division and geographic revenues, earning before interest and taxes, depreciation and amortization, and capital expenditures, all of which have been restated to reflect the changes to the Company's internal structure.



Segment data*

(in millions)	Orders received			
	January - June		April - June	
	2004	2003	2004	2003
Power Technologies	\$ 5,122	\$ 3,974	\$ 2,734	\$ 1,928
Automation Technologies	5,898	4,850	2,892	2,418
Non-core activities	258	1,501	92	664
Corporate ⁽¹⁾	(370)	(669)	(189)	(283)
Total	\$ 10,908	\$ 9,656	\$ 5,529	\$ 4,727

(in millions)	Revenues			
	January - June		April - June	
	2004	2003	2004	2003
Power Technologies	\$ 4,134	\$ 3,700	\$ 2,282	\$ 1,933
Automation Technologies	5,207	4,584	2,700	2,404
Non-core activities	311	1,544	127	799
Corporate ⁽¹⁾	(383)	(668)	(196)	(293)
Total	\$ 9,269	\$ 9,160	\$ 4,913	\$ 4,843

(in millions)	Earnings before interest and taxes (operating income)			
	January - June		April - June	
	2004	2003	2004	2003
Power Technologies	\$ 307	\$ 291	\$ 168	\$ 155
Automation Technologies	473	346	260	191
Non-core activities	(11)	(116)	(9)	(61)
Corporate ⁽¹⁾	(248)	(286)	(131)	(145)
Total	\$ 521	\$ 235	\$ 288	\$ 140

(in millions)	Depreciation and amortization			
	January - June		April - June	
	2004	2003	2004	2003
Power Technologies	\$ 106	\$ 89	\$ 54	\$ 46
Automation Technologies	145	122	72	62
Non-core activities	7	39	3	19
Corporate	38	35	19	18
Total	\$ 296	\$ 285	\$ 148	\$ 145



(in millions)	Capital expenditures ⁽²⁾			
	January - June		April - June	
	2004	2003	2004	2003
Power Technologies	\$ 58	\$ 51	\$ 30	\$ 30
Automation Technologies	80	56	35	28
Non-core activities	7	10	4	6
Corporate	15	27	9	15
Total	\$ 160	\$ 144	\$ 78	\$ 79

	Number of employees ⁽³⁾	
	June 30, 2004	December 31, 2003
	Power Technologies	41,400
Automation Technologies	55,800	54,800
Non-core activities	3,100	8,300
Oil, Gas and Petrochemicals	10,900	11,100
Corporate	1,600	1,800
Total	112,800	116,500

Geographic Information*

(in millions)	Orders received ⁽⁴⁾			
	January - June		April - June	
	2004	2003	2004	2003
Europe	\$ 5,503	\$ 5,522	\$ 2,574	\$ 2,662
The Americas	1,748	1,604	893	788
Asia	2,837	1,462	1,577	712
Middle East and Africa	820	1,068	485	565
Total	\$ 10,908	\$ 9,656	\$ 5,529	\$ 4,727

(in millions)	Revenues ⁽⁴⁾			
	January - June		April - June	
	2004	2003	2004	2003
Europe	\$ 4,921	\$ 5,130	\$ 2,575	\$ 2,720
The Americas	1,653	1,757	845	908
Asia	1,899	1,572	1,058	826
Middle East and Africa	796	701	435	389
Total	\$ 9,269	\$ 9,160	\$ 4,913	\$ 4,843

* The periods presented have not yet been restated to correct misstatements in an Italian subsidiary. See Note 2 – Earnings overstatement in an Italian subsidiary.

⁽¹⁾ Includes adjustments to eliminate inter-division transactions.

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

⁽³⁾ Includes businesses in discontinued operations.

⁽⁴⁾ Orders received and revenues have been reflected in the regions based on the location of the customer, which may be different from the ultimate destination of the products' end use.