



## Summary Financial Information Nine Months Ended September 2004

### ABB Ltd Summary Consolidated Income Statements

	January - September		July - September	
	2004	2003*	2004	2003*
	(restated)		(restated)	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in millions, except per share data)			
Revenues	\$ 14,065	\$ 13,705	\$ 4,796	\$ 4,553
Cost of sales	(10,510)	(10,226)	(3,625)	(3,437)
<b>Gross profit</b>	<b>3,555</b>	<b>3,479</b>	<b>1,171</b>	<b>1,116</b>
Selling, general and administrative expenses	(2,731)	(2,927)	(895)	(934)
Amortization expense	(30)	(31)	(10)	(11)
Other income (expense), net	(18)	(61)	(11)	59
<b>Earnings before interest and taxes</b>	<b>776</b>	<b>460</b>	<b>255</b>	<b>230</b>
Interest and dividend income	119	107	43	38
Interest and other finance expense	(265)	(440)	(68)	(160)
<b>Income from continuing operations before taxes and minority interest</b>	<b>630</b>	<b>127</b>	<b>230</b>	<b>108</b>
Provision for taxes	(236)	(48)	(84)	(40)
Minority interest	(65)	(56)	(24)	(26)
<b>Income from continuing operations</b>	<b>329</b>	<b>23</b>	<b>122</b>	<b>42</b>
Loss from discontinued operations, net of tax	(141)	(411)	(24)	(325)
<b>Net income (loss)</b>	<b>\$ 188</b>	<b>\$ (388)</b>	<b>\$ 98</b>	<b>\$ (283)</b>

Basic earnings (loss) per share:

Income from continuing operations	\$ 0.16	\$ 0.02	\$ 0.06	\$ 0.04
Net income (loss)	\$ 0.09	\$ (0.33)	\$ 0.05	\$ (0.24)

Diluted earnings (loss) per share:

Income from continuing operations	\$ 0.16	\$ 0.02	\$ 0.06	\$ 0.04
Net income (loss)	\$ 0.09	\$ (0.33)	\$ 0.05	\$ (0.24)

\* The 2003 periods presented have been restated to correct misstatements in an Italian subsidiary. See Note 2 – Restatement for earnings overstatement in an Italian subsidiary.



**ABB Ltd**  
**Summary Consolidated Balance Sheets**

	At September 30 2004  (unaudited)	At June 30 2004* (restated) (unaudited)	At December 31 2003* (restated) (audited)
(in millions, except share data)			
Cash and equivalents	\$ 2,851	\$ 2,914	\$ 4,669
Marketable securities	745	491	473
Receivables, net	5,426	5,337	5,327
Inventories, net	2,965	2,836	2,617
Prepaid expenses and other	1,702	1,566	2,002
Assets held for sale and in discontinued operations	1,800	3,112	6,427
<b>Total current assets</b>	<b>15,489</b>	<b>16,256</b>	<b>21,515</b>
Financing receivables, non-current	1,185	1,249	1,330
Property, plant and equipment, net	2,712	2,695	2,840
Goodwill	2,310	2,306	2,331
Other intangible assets, net	444	466	549
Prepaid pension and other employee benefits	515	518	524
Investments and other	1,154	1,262	1,312
<b>Total assets</b>	<b>\$ 23,809</b>	<b>\$ 24,752</b>	<b>\$ 30,401</b>
Accounts payable, trade	\$ 3,075	\$ 2,963	\$ 2,999
Accounts payable, other	1,284	1,232	1,394
Short-term borrowings and current maturities of long-term borrowings	616	939	1,635
Accrued liabilities and other	4,845	4,688	5,145
Liabilities held for sale and in discontinued operations	1,471	1,980	5,100
<b>Total current liabilities</b>	<b>11,291</b>	<b>11,802</b>	<b>16,273</b>
Long-term borrowings	4,562	5,176	6,290
Pension and other employee benefits	1,824	1,778	1,794
Deferred taxes	901	958	969
Other liabilities	1,868	1,879	1,873
<b>Total liabilities</b>	<b>20,446</b>	<b>21,593</b>	<b>27,199</b>
Minority interest	242	237	285
Stockholders' equity:			
Capital stock and additional paid-in capital	3,067	3,067	3,067
Retained earnings	1,948	1,850	1,760
Accumulated other comprehensive loss	(1,756)	(1,857)	(1,772)
Less: Treasury stock, at cost (11,611,529 shares at September 30, 2004)	(138)	(138)	(138)
<b>Total stockholders' equity</b>	<b>3,121</b>	<b>2,922</b>	<b>2,917</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 23,809</b>	<b>\$ 24,752</b>	<b>\$ 30,401</b>

\* The June 30, 2004, and the December 31, 2003, balance sheets have been restated to correct misstatements in an Italian subsidiary. See Note 2 – Restatement for earnings overstatement in an Italian subsidiary.



**ABB Ltd**  
**Summary Consolidated Statements of Cash Flows**

	January - September 2004		July - September 2004	
	2004	2003*	2004	2003*
	(restated)		(restated)	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in millions)			
<b>Operating activities:</b>				
Net income (loss)	\$ 188	\$ (388)	\$ 98	\$ (283)
<i>Adjustments to reconcile net income (loss) to net cash from (used in) operating activities:</i>				
Depreciation and amortization	438	435	142	145
Provisions	(136)	(725)	6	(83)
Pension and post-retirement benefits	66	23	18	73
Deferred taxes	(5)	(129)	(18)	(44)
Net gain from sale of property, plant and equipment	(26)	(23)	(3)	(11)
Loss on sale of discontinued operations	43	--	7	--
Other	139	264	(17)	102
<i>Changes in operating assets and liabilities:</i>				
Marketable securities (trading)	42	29	(1)	(6)
Trade receivables	(156)	(127)	82	(103)
Inventories	(431)	(106)	(59)	17
Trade payables	(6)	(72)	14	(13)
Other assets and liabilities, net	(74)	(23)	53	323
<b>Net cash provided by (used in) operating activities</b>	<b>82</b>	<b>(842)</b>	<b>322</b>	<b>117</b>
<b>Investing activities:</b>				
Changes in financing receivables	107	181	56	22
Purchases of marketable securities (other than trading)	(2,283)	(2,309)	(653)	(424)
Purchases of property, plant and equipment	(344)	(391)	(109)	(161)
Acquisitions of businesses (net of cash acquired)	(23)	(49)	(7)	(5)
Proceeds from sales of marketable securities (other than trading)	1,965	2,482	403	479
Proceeds from sales of property, plant and equipment	93	96	30	34
Proceeds from sales of businesses (net of cash disposed)	1,128	465	813	208
<b>Net cash provided by investing activities</b>	<b>643</b>	<b>475</b>	<b>533</b>	<b>153</b>
<b>Financing activities:</b>				
Changes in borrowings	(2,781)	(221)	(1,027)	(175)
Treasury and capital stock transactions	(36)	156	--	--
Other	(23)	22	3	(20)
<b>Net cash used in financing activities</b>	<b>(2,840)</b>	<b>(43)</b>	<b>(1,024)</b>	<b>(195)</b>
Effects of exchange rate changes on cash and equivalents	(10)	95	17	34
Adjustment for the net change in cash and equivalents in assets held for sale and in discontinued operations	307	36	89	54
<b>Net change in cash and equivalents - continuing operations</b>	<b>(1,818)</b>	<b>(279)</b>	<b>(63)</b>	<b>163</b>
Cash and equivalents beginning of period	4,669	2,336	2,914	1,894
<b>Cash and equivalents end of period</b>	<b>\$ 2,851</b>	<b>\$ 2,057</b>	<b>\$ 2,851</b>	<b>\$ 2,057</b>
Interest paid	\$ 308	\$ 324	\$ 123	\$ 98
Taxes paid	\$ 304	\$ 157	\$ 98	\$ 50

\* The 2003 periods presented have been restated to correct misstatements in an Italian subsidiary. See Note 2 – Restatement for 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.

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

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

ABB Ltd (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 Restatement for earnings overstatement in an Italian subsidiary***

During the second quarter of 2004, the Company received information regarding earnings overstatements by the medium voltage business unit of its Power Technologies division (the "PT-MV BAU") in Italy. An investigation performed by the Company, with the assistance of outside counsel and forensic accountants, has shown that from the first quarter of 1998 through the first quarter of 2004, the PT-MV BAU overstated its earnings before interest and taxes (operating income) and net income through the early recognition of certain revenue from incomplete projects, improper capitalization of costs on certain projects, unrecorded liabilities and borrowings, and other improper journal entries. The Company disclosed the preliminary results of this investigation in a press release on June 11, 2004, filed with the United States Securities and Exchange Commission (SEC) on Form 6-K on June 14, 2004.

The cumulative effect of these overstatements on the Company's earnings before interest and taxes and net income was approximately \$73 million and \$89 million, respectively, from the first quarter of 1998 through the end of March 2004. The negative impact on income tax expense results from the inability to claim tax benefits under Italian tax law for adjustments made to improperly filed tax returns for the years 1998 through 2002, as well as a reassessment of the realizability of our deferred tax assets due to a cumulative loss position after the restatement.

The consolidated financial statements and related notes presented in this press release have been restated for the misstatements. The Company has restated its consolidated financial statements by means of an amended 2003 annual report on Form 20-F filed with the United States Securities and Exchange Commission on September 24, 2004. As compared with financial data provided in the Company's Annual Report on Form 20-F filed with the SEC on April 9, 2004, the corrections have increased net loss by \$12 million (\$0.01 per share basic and diluted), \$36 million (\$0.04 and \$0.03 per share basic and diluted, respectively) and \$14 million (\$0.02 per share basic and diluted) in 2003, 2002 and 2001, respectively, decreased net income by \$17 million (\$0.01 and \$0.02 per share basic and diluted, respectively) and \$6 million (\$0.01 per share basic and diluted) in 2000 and 1999, respectively, and decreased stockholders' equity by \$109 million at December 31, 2003. See Appendix 2 for 2003 and 2004 restated quarterly financial information.

The Company has undertaken measures, including termination of employment, with respect to the personnel involved in the earnings overstatement. In addition, ABB Power Technologies S.p.A., an Italian subsidiary carrying



out business within the PT-MV BAU in which these activities took place, has designed, and is implementing, an improved system of accounting controls. The Company may consider additional remedial measures in light of this investigation. In addition, the Company's investigation revealed that certain employees of ABB Power Technologies S.p.A. participated in arranging improper payments to an employee of an Italian power generation company in order to obtain a contract. The Company has reported this matter to the Italian Public Prosecutor's Office, which is conducting its own investigation, as well as to the SEC. The Company has terminated staff determined to be involved in arranging such improper payments.

### ***Note 3 Significant divestitures***

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 nine months ended September 30, 2004, as a result of the sale of this business.

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 nine months ended September 30, 2004, the Company recorded a loss of \$37 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. 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 and the purchasers of the Upstream business are currently involved in the process of finalizing the sales price which is primarily based on the net asset value development of the Upstream business up to closing. This is part of a customary, yet complex, process in such transactions and the Company has not recognized a significant loss nor does it anticipate recognizing a significant loss on the sale of the Upstream business. The results of operations of the Upstream business up to the time of sale and the remaining Oil, Gas and Petrochemicals businesses are reflected as discontinued operations in all periods presented. For additional information see Note 7 – Discontinued operations and businesses held for sale.

### ***Note 4 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 nine months of 2004, the Company paid termination benefits of \$11 million to 56 employees and \$4 million were paid to cover costs associated with lease terminations and other exit costs. At September 30, 2004, accrued liabilities included \$16 million for lease terminations and other exit costs. Based on changes in management's original estimate, a \$4 million decrease in the amounts accrued for workforce reductions, lease terminations and other exit costs has been included in other income (expense), net. Currency fluctuations resulted in a \$1 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 were 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 nine months of 2004, related to the Step change program, the Company recognized restructuring charges of \$35 million related to workforce reductions and \$13 million related to lease terminations and other exit costs. Based on changes in management's original estimate, a \$4 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 \$110 million were paid to 681 employees and \$7 million were paid to cover costs associated with lease terminations and other exit costs. Workforce reductions included production, managerial and administrative employees. At September 30, 2004, accrued liabilities included \$19 million for termination benefits and \$38 million for lease terminations and other exit costs. Currency fluctuations resulted in a \$1 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 \$4 million in the first nine months 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 nine months of 2004, the Company recognized restructuring charges of \$44 million related to workforce reductions and \$13 million related to lease terminations and other exit costs. 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. Termination benefits of \$57 million were paid to 981 employees and \$18 million were paid to cover costs associated with lease terminations and other exit costs. Workforce reductions included production, managerial and administrative employees. At September 30, 2004, accrued liabilities included \$53 million for termination benefits and \$25 million for lease terminations and other exit costs. Currency fluctuations resulted in a \$1 million decrease in the liabilities accrued for workforce reductions, lease terminations and other exit costs.



Nine months ended September 30, 2004	2001	Step	Other	Total
	program	change		
	(in millions)			
Restructuring charge for workforce reduction	\$ --	\$ 35	\$ 44	\$ 79
Restructuring charge for lease terminations, writedown of property, plant and equipment, and other	--	17	13	30
Change in estimate	(4)	(4)	(5)	(13)
<b>Total restructuring charges and related asset write-downs</b>	<b>\$ (4)</b>	<b>\$ 48</b>	<b>\$ 52</b>	<b>\$ 96</b>

### Note 5 Borrowings

The Company's total reported borrowings outstanding at September 30, 2004, June 30, 2004, and December 31, 2003, amounted to \$5,178 million, \$6,115 million, and \$7,925 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. On July 29, 2004, the Company announced tender offers to repurchase all of the outstanding 300 million euro 5.375% bonds due 2005 and 475 million euro 5.125% bonds due 2006, being approximately 275 million euro and approximately 368 million euro, respectively. In conjunction with the tender offers, the Company convened bondholders meetings to vote on amendments to these bonds to allow the Company to call and redeem those bonds that were not tendered under the respective tender offer. Bonds validly tendered and accepted under the tender offers were settled on September 14, 2004. On September 9, 2004, bondholders approved the resolutions which gave the Company the option to redeem early the remaining outstanding instruments. The Company exercised its options and the remaining instruments were redeemed on September 29, 2004. As a result of these bond buybacks in the nine months ended September 30, 2004, total borrowings decreased by approximately \$1,275 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 September 30, 2004, June 30, 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 September 30, 2004, the Company was in compliance with these covenants.

### Note 6 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) is being amortized to earnings over the remaining life of the bonds. At September 30, 2004, the outstanding carrying value of the bonds was \$882 million. 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 nine months ended September 30, 2004, of \$29 million, this resulted in an aggregate charge to earnings of \$45 million (\$79 million for the nine months ended September 30, 2003) and a corresponding increase in borrowings.

The Company recorded a charge to earnings in respect of the amortization of the discount on the bonds for the three months ended September 30, 2004, amounting to \$7 million (\$43 million for the third quarter 2003, including a loss of \$33 million from the change in fair value of the derivative) and a corresponding increase in borrowings.

### ***Note 7 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 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 and the purchasers of the Upstream business are currently involved in the process of finalizing the sales price which is primarily based on the net asset value development of the Upstream business up to closing. This is part of a customary, yet complex, process in such transactions and the Company has not recognized a significant loss nor does it anticipate recognizing a significant loss on the sale of the Upstream business. The results of operations of the Upstream business up to the time of sale and the remaining Oil, Gas and Petrochemicals businesses are reflected as discontinued operations in all periods presented.

ABB Vetco Gray Inc. and ABB Vetco Gray Ltd., two of our subsidiaries that were sold as part of the Upstream business, pleaded guilty on July 6, 2004, to violation of the Foreign Corrupt Practices Act (FCPA) and paid an aggregate fine totaling \$10.5 million. In addition, in July 2004, the Company agreed with the United States Securities and Exchange Commission to resolve civil charges relating to violations of the FCPA, including the payment of \$5.9 million in allegedly unlawful profits.

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 nine months ended September 30, 2004, the Company recorded a loss of \$37 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 were reflected in assets and liabilities held for sale and in discontinued operations up to the time of sale. The results of operations up to the time of sale were 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 nine months ended September 30, 2004, as a result of the sale of this business.

In November 2002, the Company completed the sale of most of its Structured Finance business to General Electric Capital Corporation (GE) and received cash proceeds of approximately \$2.0 billion, including a contingent payment of \$20 million to be released to the Company should amounts ultimately collected by GE, from a portfolio transferred by the Company to GE, reach specified targets. Collection of the last portion of the contingent payment amount took place on August 3, 2004.

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

In discontinued operations, the Company also recorded a charge of approximately \$42 million in the nine months ended September 30, 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 11 – Commitments and contingencies).

The loss from discontinued operations, net of tax, of \$141 million recognized in the nine months ended September 30, 2004, includes revenues of \$1,676 million, of which \$851 million relate to the Upstream business.

At September 30, 2004, the major classes of assets held for sale and in discontinued operations were: \$124 million of cash, equivalents and marketable securities; \$951 million of receivables, net; \$121 million of inventories, net; \$68 million of prepaid expenses and other; \$30 million of financing receivables, non-current; \$76 million of property, plant and equipment, net; \$195 million of goodwill; \$59 million of other intangible assets, net; \$39 million of prepaid pension and other related benefits and \$137 million of investments and other assets. At September 30, 2004, the major classes of liabilities held for sale and in discontinued operations were: \$1,038 million of accounts payable; \$16 million of short-term borrowings and current maturities of long-term borrowings; \$217 million of accrued liabilities and other; \$20 million of long-term borrowings; \$68 million of pension and other related benefits; \$71 million of deferred taxes, non-current and \$41 million of other liabilities.

### Note 8 Employee benefits

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

(in millions)	Pension benefits		Other benefits	
	January-September 2004		July-September 2004	
Service cost	\$ 141	\$ 3	\$ 47	\$ 1
Interest cost	269	16	91	5
Expected return on plan assets	(237)	--	(81)	--
Amortization of prior service cost	3	--	1	--
Amortization of net actuarial loss	26	6	9	2
<b>Net periodic benefit cost</b>	<b>\$ 202</b>	<b>\$ 25</b>	<b>\$ 67</b>	<b>\$ 8</b>

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 nine months ended September 30, 2004, \$165 million and \$24 million of contributions have been made to its pension plans and other postretirement plans, respectively. The Company anticipates contributing an additional \$53 million and \$6 million in 2004 for a revised expected total in 2004 of \$218 million and \$30 million to its pension plans and other postretirement plans, respectively.

**Note 9 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 nine months ended September 30, 2003, and in the three months ended September 30, 2004, 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 nine months ended September 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.

	January - September		July - September	
	2004	2003*	2004	2003*
<b>Basic earnings (loss) per share</b>	<b>(in millions, except per share data)</b>			
Income from continuing operations	\$ 329	\$ 23	\$ 122	\$ 42
Loss from discontinued operations, net of tax	(141)	(411)	(24)	(325)
<b>Net income (loss)</b>	<b>\$ 188</b>	<b>\$ (388)</b>	<b>\$ 98</b>	<b>\$ (283)</b>
Weighted average number of shares outstanding	2,028	1,171	2,028	1,193
Basic earnings (loss) per share:				
Income from continuing operations	\$ 0.16	\$ 0.02	\$ 0.06	\$ 0.04
Loss from discontinued operations, net of tax	(0.07)	(0.35)	(0.01)	(0.28)
<b>Net income (loss)</b>	<b>\$ 0.09</b>	<b>\$ (0.33)</b>	<b>\$ 0.05</b>	<b>\$ (0.24)</b>

\* The 2003 periods presented have been restated to correct misstatements in an Italian subsidiary. See Note 2 – Restatement for earnings overstatement in an Italian subsidiary.



<b>Diluted earnings (loss) per share</b>	<b>January - September</b>		<b>July - September</b>	
	<b>2004</b>	<b>2003*</b>	<b>2004</b>	<b>2003*</b>
	<b>(in millions, except per share data)</b>			
Income from continuing operations	\$ 329	\$ 23	\$ 122	\$ 42
Loss from discontinued operations, net of tax	(141)	(411)	(24)	(325)
<b>Net income (loss)</b>	<b>\$ 188</b>	<b>\$ (388)</b>	<b>\$ 98</b>	<b>\$ (283)</b>
Weighted average number of shares outstanding	2,028	1,171	2,028	1,193
Dilution from warrants and options	1	--	--	--
<b>Diluted weighted average number of shares outstanding</b>	<b>2,029</b>	<b>1,171</b>	<b>2,028</b>	<b>1,193</b>
Diluted earnings (loss) per share:				
Income from continuing operations	\$ 0.16	\$ 0.02	\$ 0.06	\$ 0.04
Loss from discontinued operations, net of tax	\$ (0.07)	\$ (0.35)	\$ (0.01)	\$ (0.28)
<b>Net income (loss)</b>	<b>\$ 0.09</b>	<b>\$ (0.33)</b>	<b>\$ 0.05</b>	<b>\$ (0.24)</b>

\* The 2003 periods presented have been restated to correct misstatements in an Italian subsidiary. See Note 2 – Restatement for earnings overstatement in an Italian subsidiary.

#### **Note 10 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 - September		July - September	
	2004	2003*	2004	2003*
	(in millions, except per share data)			
Net income (loss), as reported	\$ 188	\$ (388)	\$ 98	\$ (283)
Less: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(5)	(10)	(1)	(1)
<b>Pro forma net income (loss)</b>	<b>\$ 183</b>	<b>\$ (398)</b>	<b>\$ 97</b>	<b>\$ (284)</b>
Basic and diluted income (loss) per share:				
Basic - as reported	\$ 0.09	\$ (0.33)	\$ 0.05	\$ (0.24)
Basic - pro forma	\$ 0.09	\$ (0.34)	\$ 0.05	\$ (0.24)
Diluted - as reported	\$ 0.09	\$ (0.33)	\$ 0.05	\$ (0.24)
Diluted - pro forma	\$ 0.09	\$ (0.34)	\$ 0.05	\$ (0.24)

\* The 2003 periods presented have been restated to correct misstatements in an Italian subsidiary. See Note 2 – Restatement for earnings overstatement in an Italian subsidiary.

### Note 11 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 plan of reorganization that was filed in 2003 by a U.S. subsidiary of the Company, Combustion Engineering (the “Plan”). The Plan has already been approved by both a federal bankruptcy court and a U.S. district court and the Company. The Company cannot be certain of the duration or outcome of the appeals process.

### Note 12 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. At September 30, 2004, the outstanding financing provided by the Company to the VIE amounted to approximately \$71 million. 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 13 Summary of consolidated stockholders' equity**

(in millions)	
Stockholders' equity at January 1, 2004*	\$ 2,917
Comprehensive income:	
Net income	188
Foreign currency translation adjustments	24
Accumulated foreign currency translation adjustments allocated to divestment of businesses	20
Unrealized gain on available-for-sale securities, net of tax	13
Minimum pension liability adjustment, net of tax	25
Unrealized loss on cash flow hedge derivatives, net of tax	(66)
Total comprehensive income	204
<b>Stockholders' equity at September 30, 2004 (unaudited)</b>	<b>\$ 3,121</b>

\* Stockholders' equity at January 1, 2004, has been restated to correct misstatements in an Italian subsidiary. See Note 2 – Restatement for earnings overstatement in an Italian subsidiary.

At September 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 14 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. All periods presented have been restated to reflect the organizational structure of the Company at September 30, 2004.

- 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.

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.



**Segment data**

(in millions)	<b>Orders received</b>			
	<b>January - September</b>		<b>July - September</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Power Technologies	\$ 7,225	\$ 5,827	\$ 2,103	\$ 1,853
Automation Technologies	8,648	7,162	2,750	2,312
Non-core activities	362	1,928	104	427
Corporate <sup>(1)</sup>	(545)	(888)	(175)	(219)
<b>Total</b>	<b>\$ 15,690</b>	<b>\$ 14,029</b>	<b>\$ 4,782</b>	<b>\$ 4,373</b>

(in millions)	<b>Revenues</b>			
	<b>January - September</b>		<b>July - September</b>	
	<b>2004</b>	<b>2003*</b>	<b>2004</b>	<b>2003*</b>
Power Technologies	\$ 6,276	\$ 5,569	\$ 2,142	\$ 1,877
Automation Technologies	7,891	6,976	2,684	2,392
Non-core activities	456	2,034	145	490
Corporate <sup>(1)</sup>	(558)	(874)	(175)	(206)
<b>Total</b>	<b>\$ 14,065</b>	<b>\$ 13,705</b>	<b>\$ 4,796</b>	<b>\$ 4,553</b>

(in millions)	<b>Earnings before interest and taxes (operating income)</b>			
	<b>January - September</b>		<b>July - September</b>	
	<b>2004</b>	<b>2003*</b>	<b>2004</b>	<b>2003*</b>
Power Technologies	\$ 417	\$ 413	\$ 110	\$ 127
Automation Technologies	739	519	266	173
Non-core activities	(21)	(110)	(10)	6
Corporate <sup>(1)</sup>	(359)	(362)	(111)	(76)
<b>Total</b>	<b>\$ 776</b>	<b>\$ 460</b>	<b>\$ 255</b>	<b>\$ 230</b>

(in millions)	<b>Depreciation and amortization</b>			
	<b>January - September</b>		<b>July - September</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Power Technologies	\$ 156	\$ 135	\$ 50	\$ 46
Automation Technologies	213	186	68	64
Non-core activities	9	55	1	16
Corporate	60	52	23	17
<b>Total</b>	<b>\$ 438</b>	<b>\$ 428</b>	<b>\$ 142</b>	<b>\$ 143</b>



(in millions)	Capital expenditures <sup>(2)</sup>			
	January - September		July - September	
	2004	2003	2004	2003
Power Technologies	\$ 92	\$ 79	\$ 34	\$ 28
Automation Technologies	118	99	38	43
Non-core activities	12	51	5	41
Corporate	25	27	10	--
<b>Total</b>	<b>\$ 247</b>	<b>\$ 256</b>	<b>\$ 87</b>	<b>\$ 112</b>

	Number of employees <sup>(3)</sup>	
	September 30, 2004	December 31, 2003
Power Technologies	41,300	40,500
Automation Technologies	54,900	54,800
Non-core activities	2,900	8,300
Oil, Gas and Petrochemicals	2,600	11,100
Corporate	1,600	1,800
<b>Total</b>	<b>103,300</b>	<b>116,500</b>

### Geographic information

(in millions)	Orders received <sup>(4)</sup>			
	January - September		July - September	
	2004	2003	2004	2003
Europe	\$ 7,844	\$ 7,839	\$ 2,340	\$ 2,317
The Americas	2,742	2,362	995	758
Asia	3,889	2,352	1,052	890
Middle East and Africa	1,215	1,476	395	408
<b>Total</b>	<b>\$ 15,690</b>	<b>\$ 14,029</b>	<b>\$ 4,782</b>	<b>\$ 4,373</b>

(in millions)	Revenues <sup>(4)</sup>			
	January - September		July - September	
	2004	2003*	2004	2003*
Europe	\$ 7,323	\$ 7,637	\$ 2,402	\$ 2,510
The Americas	2,509	2,634	856	879
Asia	2,936	2,364	1,037	794
Middle East and Africa	1,297	1,070	501	370
<b>Total</b>	<b>\$ 14,065</b>	<b>\$ 13,705</b>	<b>\$ 4,796</b>	<b>\$ 4,553</b>

\* The 2003 periods presented have been restated to correct misstatements in an Italian subsidiary. See Note 2 – Restatement for earnings overstatement in an Italian subsidiary.

<sup>(1)</sup> Includes adjustments to eliminate inter-division transactions.

<sup>(2)</sup> Capital expenditures reflect purchases of fixed tangible assets.

<sup>(3)</sup> Includes businesses in discontinued operations.

<sup>(4)</sup> 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.