

Report of the statutory auditors
with financial statements as of December 31, 2003 of
ABB Ltd, Zurich

 **ERNST & YOUNG**

To the general meeting of
ABB Ltd, Zurich

Zurich, February 18, 2004

Report of the statutory auditors

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of ABB Ltd for the year ended December 31, 2003.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Charles Barone
Certified Public Accountant

Yves Vontobel
Certified Accountant

Auditors in charge

Enclosures:

As prepared by the company:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of available earnings

Financial Statements

Income Statement

Year ended December 31 (CHF in thousands)	2003	2002
Revenues	22	7
Personnel expenses	(32,555)	(33,609)
Other expenses	(22,828)	(34,432)
Dividend income	-	26,655
Interest income	90,632	103,688
Interest expense	(26,061)	(27,608)
Gain from sale of participations	-	307
Loss on sale of own shares	(19,976)	-
Write-down of participations	(1,050,000)	(4,898,780)
Write-down of own shares	-	(289,680)
Net loss	(1,060,766)	(5,153,452)

Balance Sheet

December 31 (CHF in thousands)	2003	2002
Cash and equivalents	57,020	152
Receivables	13,738	28,054
Total current assets	70,758	28,206
Long-term loans to subsidiary	4,470,000	3,570,000
Participations	5,300,910	3,750,910
Own shares	45,968	94,320
Total fixed assets	9,816,878	7,415,230
Total assets	9,887,636	7,443,436
Current liabilities	82,239	24,101
Short-term loan from subsidiary	-	72,228
Long-term loan from subsidiary	25,000	-
Provisions	238,628	-
Bonds	600,000	700,000
Total liabilities	945,867	796,329
Share capital	5,175,787	3,000,023
Legal reserve	1,779,669	600,005
Reserve for treasury shares	411,814	2,944,904
Other reserves	2,533,090	302,968
Retained earnings	102,175	4,952,659
Net loss	(1,060,766)	(5,153,452)
Total stockholders' equity	8,941,769	6,647,107
Total liabilities and stockholders' equity	9,887,636	7,443,436

Notes to Financial Statements

Note 1 General

ABB Ltd, Zurich (the Company) is the parent company of the ABB Group whose Consolidated Financial Statements include 100% of the assets, liabilities, revenues, expenses, income, loss and cash flows of ABB Ltd and companies in which the Company has a controlling interest, as if the Company and its subsidiaries were a single company. The Consolidated Financial Statements are of overriding importance for the purpose of the economic and financial assessment of the Company. The unconsolidated financial statements of the Company are prepared in accordance with Swiss law and serve as complementary information to the Consolidated Financial Statements.

Note 2 Cash and equivalents

(CHF in thousands)	2003	2002
Cash and bank	521	152
Cash with subsidiary	56,499	–
Total	57,020	152

Note 3 Receivables

(CHF in thousands)	2003	2002
Non-trade receivables	8,592	9,897
Prepaid expenses	–	4
Accrued income from subsidiary	5,146	18,153
Total	13,738	28,054

Note 4 Long-term loans to subsidiary

(CHF in thousands)	2003	2002
Long-term loans to subsidiary	4,470,000	3,570,000

In 2002, the Company entered into an interest bearing credit agreement with ABB Asea Brown Boveri Ltd, Zurich. The loans are valued at cost. At December 31, 2002 these loans were pledged in connection with an US\$ 1.5 billion credit facility. In December 2003, such facility was cancelled and the security released.

Note 5 Participations

Company name	Purpose	Domicile	Share capital	Ownership interest	
				2003	2002
ABB Asea Brown Boveri Ltd	Holding	CH-Zurich	CHF 2,768,000,000	100%	–
BBC Brown Boveri Ltd	Holding	CH-Zurich	CHF 570,580	100%	100%
ABB Holding Ltd	Holding	CH-Zurich	CHF 1,200,009,432	–	100%

ABB Holding Ltd was merged into ABB Asea Brown Boveri Ltd as per December 1, 2003. The increase in participations in 2003 consists of a contribution to an indirectly held subsidiary.

The investments in subsidiaries are valued at the lower of cost or fair value. Fair values are determined using the discounted cash flow method (DCF), based upon management's expectations as to the future cash flows and earnings of the subsidiaries for the years 2004 through 2008.

Note 6 Current liabilities

(CHF in thousands)	2003	2002
Non-trade payables	45,783	2,527
Non-trade payables to subsidiaries	4,479	3,202
Accrued expenses	28,688	18,310
Accrued expenses from subsidiaries	3,289	62
Total	82,239	24,101

Note 7 Provisions

In 2003, in conjunction with the issuance by a subsidiary of the Company of bonds convertible into ABB Ltd shares, the Company granted options to the subsidiary issuing the bonds to enable the subsidiary to meet its obligations to deliver shares when the bonds are converted. Provisions of CHF 238,628 thousand were recorded to reflect the value of the options in exchange for the receipt of cash. When the bonds are converted, or expire without conversion, the provisions will be released to other reserves in stockholders' equity.

Note 8 Bonds

(CHF in thousands)	2003	2002
Bond 1999–2009 3.75%	500,000	500,000
Note 2001–2008 3.75%	100,000	100,000
Note 2001–2003 3.25%	–	100,000
Total	600,000	700,000

Note 9 Stockholders' equity

(CHF in thousands)	Share capital	Legal reserve	Reserve for treasury shares	Other reserves	Retained earnings	Net loss	Total
Opening balance	3,000,023	600,005	2,944,904	302,968	4,952,659	(5,153,452)	6,647,107
Release of other reserves				(302,968)	302,968		–
Allocation to retained earnings					(5,153,452)	5,153,452	–
Share capital increase	2,175,764	1,179,664					3,355,428
Net release of reserve for treasury shares			(2,533,090)	2,533,090			–
Net loss for the year						(1,060,766)	(1,060,766)
Closing balance sheet	5,175,787	1,779,669	411,814	2,533,090	102,175	(1,060,766)	8,941,769

Share capital as per December 31, 2003	Number of registered shares	Par value	Total (CHF in thousands)
Issued shares	2,070,314,947	CHF 2.50	5,175,787
Contingent shares	300,000,000	CHF 2.50	750,000
Authorized shares	69,701,087	CHF 2.50	174,253

At the Company's Annual General Meeting held on May 16, 2003, the Company's shareholders approved amendments to its articles of incorporation providing for authorized share capital and an increase in contingent share capital.

The amendments included the creation of CHF 250 million in authorized share capital. This entitled the Company's Board of Directors to issue up to 100 million new shares of which approximately 30 million were allocated for use with the pre-packaged plan of reorganization of the Company's U.S. subsidiary, Combustion Engineering Inc. The amendments also included an increase of contingent capital from CHF 200 million to CHF 750 million, allowing the issue of up to 300 million new shares.

On November 20, 2003, at an Extraordinary General Meeting of the shareholders, it was resolved to increase the Company's share capital by approximately 840 million shares through a rights issue which the Company completed in December issuing 840,006,602 new shares at an offer price of CHF 4 per share.

Treasury shares	2003		2002	
	Number of shares	Avg. price per share / CHF	Number of shares	Avg. price per share / CHF
Opening balance	86,830,312	33.92	86,830,312	33.92
Sales	(80,000,000)	–	–	–
Subtotal	6,830,312	29.46	86,830,312	33.92
Purchase ⁽¹⁾	4,781,217	4.00	–	–
Purchase	30,298,913	6.32	–	–
Closing balance	41,910,442	9.83	86,830,312	33.92

⁽¹⁾ Rights exercised

In March 2003, the Company and its subsidiary, ABB Equity Limited sold 80,000,000 treasury shares for total gross proceeds of approximately CHF 217 million.

In connection with the 7-for-10 rights offering, the Company exercised, in December 2003, its rights in respect of the remaining 6,830,312 treasury shares and received 4,781,217 shares at the offer price of CHF 4 per share.

In December 2003, the Company issued to ABB Asea Brown Boveri Ltd 30,298,913 shares for use with the pre-packaged plan of reorganization of the Company's U.S. subsidiary, Combustion Engineering Inc. These shares will be held as treasury shares until used in connection with the pre-packaged plan.

The net equity value of the Company as reflected in these unconsolidated financial statements is approximately CHF 8.9 billion compared to a net equity value of approximately CHF 3.7 billion (approximately US\$ 3 billion) disclosed in the Consolidated Financial Statements of ABB Ltd. The difference derives from the separate accounting bases applied to the unconsolidated and consolidated financial statements. In the unconsolidated financial statements, the net equity value reflects the use of the lower of cost or fair value to value ABB Ltd's shares and participations in subsidiaries. Such fair values are determined using the discounted cash flow method (DCF), based upon management's expectations as to the future cash flows and earnings of the subsidiaries for the years 2004 through 2008. The net equity value disclosed in the Consolidated Financial Statements reflects the aggregation of the equity of ABB Ltd's subsidiaries.

Note 10 Contingent liabilities

(CHF in thousands)	2003	2002
Liability to pension fund	532	1,034
Financial guarantee to subsidiary ⁽¹⁾	333,762	333,275
Total	334,294	334,309

⁽¹⁾ Relates to an intra-group financing.

The Company has entered into Keep-well agreements with certain indirect subsidiaries. A Keep-well agreement is a shareholder agreement between the Company and a subsidiary. These agreements provide for maintenance of a minimum net worth in the subsidiary and the maintenance of 100% direct or indirect ownership by the Company.

For those subsidiaries acting on the capital markets, the agreements additionally provide that if at any time the subsidiary has insufficient liquid assets to meet any payment obligation on its debt (as defined in the agreements) and has insufficient unused commitments under its credit facilities with its lenders, the Company will make available to the subsidiary sufficient funds to enable it to fulfill such payment obligation as it falls due.

A Keep-well agreement is not a guarantee by the Company for payment of the indebtedness, or any other obligation, of a subsidiary. No party external to the ABB Group is a party to any of these Keep-well agreements.

Combustion Engineering Inc, an indirect wholly owned subsidiary of the Company is defendant in numerous asbestos-related claims in the United States. Some claimants have named the Company and certain of its subsidiaries in connection with claims against Combustion Engineering Inc, but there has been no adjudication that any such entity has liability for such claims. There are also a lesser number of asbestos-related claims against certain other subsidiaries of the Company, which are not related to Combustion Engineering Inc. Please refer to Note 18 of the Consolidated Financial Statements of ABB Ltd for more detailed information.

As further described in Note 18 of the Consolidated Financial Statements of ABB Ltd, it is contemplated that the Company and certain of its subsidiaries will be liable for payments ranging from US\$ 300 – 350 million. These payments will be set out in a promissory note to be issued on the effective date of the plan of reorganization of Combustion Engineering Inc under Chapter 11 of the U.S. Bankruptcy Code.

The Company is part of a value added tax group and therefore jointly liable to the federal tax department for the value added tax liabilities of the other members.

Note 11 Credit facility agreement

On November 17, 2003, the Company and certain of its subsidiaries entered into a new unsecured syndicated US\$ 1 billion 3 year revolving credit facility which became available in December 2003 after the fulfillment of certain conditions including the repayment and cancellation of the existing US\$ 1.5 billion credit facility. The Company is a guarantor of the new US\$ 1 billion facility, but nothing was drawn under this facility at December 31, 2003.

Proposed appropriation of available earnings

(CHF in thousands)	2003	2002
Net loss for the year	(1,060,766)	(5,153,452)
Carried forward from previous year	102,175	4,952,659
Release of other reserves	1,000,000	302,968
Profit available to the Annual General Meeting	41,409	102,175
Dividend	–	–
Balance to be carried forward	41,409	102,175

The Board of Directors proposes to release CHF 1,000,000,000 of the other reserves to retained earnings, to not declare the distribution of a dividend and to carry forward the profit available to the Annual General Meeting in the amount of CHF 41,409,139.