



ABB Annual General Meeting May 2007

Fred Kindle, ABB President and Chief Executive Officer

Embargoed

03.05.2007, 10:00 CET

Check against delivery

Shareholders,
Ladies and Gentlemen,

Last year I stood here and said that the outlook for our company for the year ahead was very satisfactory. That assessment has turned out to be an understatement. 2006 was a remarkable year, far exceeding what any of us expected.

Let me first take you briefly through the reasons for last year's success before I move on to give you a more detailed account of the figures for 2006 and for the first quarter of 2007. After that, I would like to outline some other key points of the current financial year.

But back to 2006. First, I would like to shine the spotlight on all our employees, whose enormous commitment and hard work has helped ensure that the past financial year was one of the most successful in our corporate history. Thanks to them, ABB has a reputation today for offering excellent and innovative technologies and products, and for being a reliable partner for our customers.

But I must also point out that we were very much helped last year by the powerful tail wind behind the global economy. Enormous support from the markets has enabled us to achieve our goals much more quickly than we had planned.

The global economy grew by 5.4 per cent in 2006, and for the fourth year in a row the growth rate was above 4 per cent. According to the International Monetary Fund, there hasn't been a growth phase of such magnitude since the early 1970s.

The entire company profited from this growth: Compared with the previous year, sales rose by 10 percent in local currencies to stand at \$24.4 billion. This magnificent performance is reflected in the success of all our business areas and regions.

Around the world utility companies are investing in equipment and systems that will enable them to supply reliable power with a low environmental impact. And our industrial customers need solutions that will raise productivity while saving energy.

All our divisions posted outstanding results, with the exception of the Robotics division, which had to contend with continuing weak demand in the automotive industry. And each of our eight geographical regions also contributed to the growth. Incoming orders at ABB recorded double-digit growth rates in all regions. Seen as a whole, new orders increased by 22 per cent to more than \$28 billion.

The markets are very buoyant, and yet ABB grew even faster than the market. The decisive reason for this is that we have been rigorously focusing on our core business. Here we truly have outstanding expertise and know-how. This focusing of the company is paying off today. ABB is a clearly oriented engineering company, not a diversified enterprise.

Today we are number one or two in our most important business fields. Even in the crisis years – as Jürgen Dormann mentioned – ABB consistently invested in research and development, so that it would further consolidate this leadership role. As a result, our spending on research and development rose by another ten percent last year.

Numerous measures taken to systematically improve our day-to-day operations also contributed to the success. They include, for example:

- disciplined, proactive, forward-looking cost- and risk-management,
- clear decision-making and rigorous implementation of decisions,
- constant monitoring of customers' projects, especially of large-scale and complex projects,
- but, above all, clear guidelines for the cooperation between divisions, countries and functions.

To put it in a nutshell: we underscore clear assignment of responsibilities and teamwork across the board.

In 2005, we designed a new organizational structure, rolling it out at the beginning of 2006. It was intended to support the overall goals that I have just mentioned, and today we have a structure that is simple and with clear areas of responsibility and accountability. There are five global divisions, which work hand in hand with the regions and Group functions. What is important is that they all know – and act upon the knowledge – that the good and the interest of ABB as a whole comes first, not that of any individual unit.

The fact that this also functions well in practice we owe to the team spirit that pervades ABB today. I am proud to work in a company in which transparency and trust are the key factors of the corporate culture. It is only in such an environment that people can work creatively and effectively, without losing sight of what is important.

A corporate culture that reflects our values and supports our decision-making and communication processes is often more crucial to a company's success than its formal hierarchical organizational

structure. ABB's current corporate culture is both ensuring our success and helping our employees work together effectively.

All these factors had a clear impact on our results for 2006. Let us now take a look at ABB's five individual divisions:

In the Power Products division, revenues grew by 16 percent. Its transformer business in particular performed well, following the consolidation program initiated in 2005. Increased global demand for an improved power infrastructure resulted in a robust advance in orders and sales. Earnings before interest and tax, or EBIT, rose by a remarkable 56 percent.

The revenues of our Power Systems division rose by 10 percent and incoming orders by an impressive 28 percent, due to continuing strong demand for power transmission and distribution systems. Improved capacity utilization but also better project selection and realization were the driving factors behind an EBIT that was 49 percent higher than in 2005.

ABB's Automation Products division grew by 15 percent. Orders from industrial customers wanting to boost their operational efficiency increased in all of the division's business areas. Especially major orders from, among others, the railway sector – for locomotive engines – and from the wind power industry – for generators and low voltage systems – contributed to the strong growth.

Our Process Automation division showed a growth in revenues of 8 percent in 2006, which is mainly attributable to its growing systems business in the mining, oil & gas, and marine segments. The division's new orders reached a record level of 21 percent, driven by brisk demand in almost all of its business areas.

Only in the company's Robotics division were revenues and orders significantly below year-earlier values, which can be attributed to the generally sluggish economic activity of automobile manufacturers and their major suppliers. Nevertheless, the division's comprehensive restructuring program is bearing its first tender fruits. Customer support revenues and sales in branches other than the automotive industry improved in 2006, with the result that the division was able to achieve a balanced EBIT result.

Further improvement of the results of the Robotics division remains a clear objective for this year as well. We have taken numerous measures to put it on a better footing, to develop solutions for customers in other branches of industry (such as the food industry), and hence to reduce the division's dependence on the automotive sector. But we are also working on further streamlining production cycles and working processes. We are convinced that all these activities will yield the first positive results this year, and the results of the first quarter of 2007 show that we are on the right track.

If we now look at the geographical units, we can see growth broadly based across the regions. ABB's revenues in China, for example, rose by 19 percent to \$2.8 billion. In terms of sales, therefore, China now represents the company's biggest market. In Asia as a whole, revenues reached \$6.1 billion – an increase of 18 percent.

But our traditional markets also performed very well. Revenues from the European market rose by 6 percent to \$11.4 billion, while sales growth in the Americas gained 7 percent to stand at \$4.5 billion.

The Middle East and Africa saw the biggest jump in growth – a 21 percent revenue increase – as income from the oil business was invested in the local infrastructure.

I would also like to say that while this growth was being notched up, we were able simultaneously to make further reductions in Group costs. In the year under review, 2006, these costs amounted to \$321 million compared with \$401 million in 2005 and more than \$500 million in 2004. Despite the massive growth of the last two years, we have managed to make Group headquarters fitter and stronger.

All in all, our operational improvements are bearing fruit: Group net income for the year increased by 89 percent to \$1.4 billion, while the EBIT margin (i.e. earnings before interest and tax as a percentage of revenues) rose to a record 10.6 percent.

As Mr. Dormann has already mentioned, we can show a much stronger Group balance sheet than in previous years. It is fair to say that the current ABB balance sheet is the healthiest the company has ever had.

These improvements have been recognized by the financial markets. After doubling in 2005, our share price rose a further 71 percent last year. In addition, our credit rating today has a very solid investment grade – which means that once again we enjoy the complete confidence of the financial world.

From a financial point of view, 2006 was a very remarkable year. When I joined ABB in September 2004, we managed to complete the turnaround of the company and were in the process of stabilizing it. Gradually the Group's earnings position started to improve, but there were still some doubts about our financial and operating stability. By far the most urgent issue was that of resolving the asbestos affair. The completely unexpected rejection by an American court of our carefully worked-out asbestos settlement cast a dark shadow over ABB at the beginning of 2005.

Fortunately, in spring 2005, we managed to restructure the asbestos settlement and negotiate it with the parties concerned. Then the company entered a period of profitable growth. Who would have guessed that after having just emerged from this period of crisis we would be breaking records in 2006?

The resolution of the asbestos problem removed risks and threats, thus paving the way for the sale of our subsidiary Lummus Global. Early this year, we started the process of this divestment, which is in line with our strategy of concentrating on our areas of expertise in automation and power technologies.

Last year we also came a big step closer to our objective of becoming a truly global company. Developing into a global enterprise is not a goal in itself but an absolute necessity in today's world. A global presence enables us to take advantage of growth opportunities wherever they arise. We are in a position to reach our customers locally and provide them with competent

support. At the same time we can lower our costs and improve our competitiveness by procuring and producing on the spot. We can also lessen our risks through having several footholds from which to operate, and through not being dependent on any one country or region.

In addition, a global presence gives us access to talented employees, particularly to engineers, whom we urgently need, and who unfortunately are increasingly hard to find in Europe. If we are to successfully implement our medium-term plans, we will have to recruit an extra 10,000 employees in the next few years. Taking on employees from all over the world makes our staff at ABB – and we welcome this very much – ever more diverse.

Ladies and Gentlemen,

Diversity is also a key feature in the topmost echelon in the Group. Today the ABB Group executive committee consists of 11 members with nine different nationalities.

But we are also keen on promoting diversity in other respects. Thus, last year we were able to appoint women to some key positions in management.

Last year, for example, Jasmin Staiblin took over as head of ABB Switzerland, which is one of our largest and most successful country operations. Since last October, Corporate Communications has been led by Clarissa Haller. And since January of this year, Diane de Saint Victor – whom you can see at the front here up on the podium – has been ABB's new General Counsel. She is also responsible for overseeing compliance with our business ethics guidelines. Mrs. de Saint Victor is a member of the ABB Group executive committee, which underlines the special importance that the issue of ethics and combating corruption in our business processes will continue to have for us in the future.

Besides Diane de Saint Victor, another new member has joined the ABB executive committee. At the beginning of this year, Peter Leupp was appointed to the ABB executive committee.

Prior to that, Peter Leupp worked for six years as the country manager of our China operations and also as the manager of our North Asia region. He has contributed significantly to our success in China and the region, and brings to his new position as head of ABB's Power Systems division a wealth of experience gained from 30 years of working at ABB.

While we are on the subject, it is interesting to note that no fewer than four members of today's ABB executive committee have spent several years living and working in China. This is a reflection, on the one hand, of our global culture and, on the other, of the growing importance of that region.

I would like to return briefly to the important subject of combating corruption. In the past few years, we have taken numerous steps to ensure that the strict guidelines and rules applying to corporate ethics are complied with. Last year we revised and expanded our ABB Code of Conduct. This Code was translated into 45 languages and distributed to every employee. Training courses were held throughout the company to ensure that the document had been read and understood.

We also beefed up our internal warning system for exposing instances of corruption. Among other things, we set up a hotline in all the countries in which we operate, which employees can use to report suspicious behavior or dubious activities.

Ladies and Gentlemen,

Unethical behavior is harmful to the company and must be prevented. It is immoral, illegal and expensive. I am very ashamed that ABB has in the past been involved in various breaches of the Code of Conduct, among other things by participating in a cartel to fix the prices of gas-insulated switchgear. We were lucky to escape a fine because we discovered the conspiracy and immediately reported it to the authorities. But our involvement means that we can expect to be punished severely if our employees ever again participate in a similar cartel.

My job – and the job of every manager at ABB – is to make sure that ABB becomes an outstanding organization in every respect. Attractive financial results are imperative, but they cannot be the only criterion for measuring our company. We would like every ABB employee to be able to feel proud not only of **what** we achieve at ABB but also of **how** we achieve it. Breaking the rules of conduct is absolutely counterproductive to this goal.

Unfortunately, even the best rules and enforcement mechanisms cannot completely prevent unethical business behavior. There is no society without crime, and ABB is a reflection of society, a smaller microcosm. So it would be unrealistic and naïve to maintain that our company is immune to all temptation. Nevertheless, I am convinced that our policy of “zero tolerance” regarding breaches of ethical business conduct is the best way to counter temptation, and to ensure that these measures will pay off in the long term.

I would just like to touch now on an equally important issue, namely the improvement in safety at work. We took some major steps forward in this field during 2006. All ABB facilities today have procedures and systems in place to ensure that the number of occupational accidents is reduced and - in the best-case scenario - that we can avoid accidents completely.

Although the decrease in work-related deaths and serious injuries in the last year is an indication that the measures we have introduced are bearing fruit, there are still too many accidents taking place. The fact that we are unfortunately only slowly managing to reduce the number of incidents shows us how much hard work there is still to do in order to change modes of behavior that in some cases seem to be stuck in a rut. The most common serious injuries are due to one of three causes: Traffic accidents, falls from a great height and electric shock. Apart from extensive training and information campaigns on these issues, the focus now is on monitoring compliance with regulations. One of the most important tasks of management, after all, consists in making sure that people who work for and with us can return home safe and sound at the end of their day's work.

Our commitment in these two areas – anti-corruption and occupational safety – also remain right at the top of our agenda this year. Sustainable success in these two areas will benefit everyone in the company in the long term.

So, Ladies and Gentlemen,
what can we expect in 2007 and beyond?

The mood on financial markets has been subject to some swings since February, which reflects concerns about the future stability of economic growth and corporate profits. Our divisions, however, show a very healthy level of order intake, and we continue to enjoy strong demand in all regions.

The first quarter of 2007 was at the same time the strongest quarter in the entire corporate history of ABB. In local currency terms, orders increased by 20 percent over the same quarter in the previous year, while sales grew by 15 percent.

Group profit more than doubled during this period, and the EBIT margin reached a record level of 13.2 percent.

Our order intake at the end of March was 34 percent higher than a year earlier. In the short term, our most important challenge consists in keeping pace with demand and keeping our promises to our customers. To do this, we need to focus on activities in the core business areas.

We have now sold off almost all the operations that do not belong to the core business. In the past year, we not only found buyers for power-plant holdings in Morocco and India but also for the remainder of the building services business. We also announced – as I have already mentioned – that we intend to divest our subsidiary Lummus. We expect that the sale of this company will be completed in the course of this year.

Dear Shareholders,

We have already achieved almost all the goals we set ourselves when we developed our medium-term strategy in 2005 to the year 2009. This is one good reason for us to revise the strategy this year and set ourselves some new ambitious targets. The process for this has already begun, and we plan to present an updated strategy in the fall of this year.

But let me just say straight away that, as far as the strategy is concerned, we are looking for evolution, not a revolution. What goes without saying, for example, is that the strategy review will not alter the fact that power and automation technologies remain at the heart of our range of products and services.

We have at our disposal today a very successful portfolio – and we intend to build on this. We are in the enviable position of being a leader in almost all our business areas. Our products and services are enjoying exceptionally strong demand. For this reason, we do not in principle need any acquisitions for further healthy growth.

At the same time, ABB has both the financial resources and the necessary management capacity to make some major acquisitions. We have shown that we can shape our business operations in a manner that leads to substantial value added. We believe that, with the right acquisitions, we can increase this value added even further.

By this I mean concrete acquisitions which broaden our present range with new product lines or technologies or which serve to close gaps in our geographic presence. But to achieve an attractive return on equity, the price also has to be right. I firmly believe that, as salaried managers, we have to act as if this company were our own. An entrepreneur usually thinks twice about whether

to make an acquisition, because in the final analysis it is his own personal money at stake. And we at ABB have to act in exactly the same way.

We are not under any pressure today to make acquisitions, and we shall therefore exercise the necessary discipline in the use of the funds at our disposal. We have worked hard for our reputation as a company that keeps its promises, and we are not about to put this at risk.

The business prospects of ABB are not dependent on acquisitions, but are bolstered by numerous longer-term achievements and trends.

A rapid increase in the demand for energy and growing concerns about climate change have made our sector a very promising industry.

According to the International Energy Agency, energy consumption is set to increase 50 percent by 2030, while electricity consumption will double.

At the same time, studies indicate an increase in global temperature with possibly grave consequences.

Is it possible to meet these two challenges of the 21st century at the same time?

We believe it is, and with its technologies ABB is in a good position to make its contribution in both areas. We have the necessary technologies to facilitate reliable energy supplies for industrial plants and population centers, and we also have the technologies needed to allow a more efficient use of energy. The most environmentally friendly form of energy is still energy saved.

I would like to illustrate this with an example from one of our business areas:

- About 65 percent of the electricity consumed by industry is used for electrical motors.
- So-called variable-speed drives can halve the electricity consumption of an electrical motor in a conventional application by adjusting its speed to the requirements of ongoing processes.
- But only 10 percent of motors worldwide are equipped with variable-speed drives.
- For ABB, as one of the world's leading manufacturers of such drives, this represents an enormous opportunity.

You can learn more about this and other energy-efficient products if you take a look at the product and information panels outside in the entrance hall. ABB is proud to be able to offer solutions to some of humanity's greatest challenges of the 21st century. Our corporate slogan sums this up quite accurately: "Power and productivity for a better world".

Ladies and Gentlemen,

The challenges we face are not only huge, they are global. Over 70 percent of the increase in energy consumption will be attributable to developing countries in 2030. A further long-term trend is becoming apparent here: Most of the predicted economic growth will take place in the emerging markets of Asia, Latin America, the Middle East, Africa and Eastern Europe.

Most of the new companies will be based in these regions. And ABB will also see stronger growth here because our operations are traditionally based in western Europe. However, our increased activities in emerging markets does not necessarily mean that we will cut back or wind down our operations in mature markets. It is not a question of “either/or”, but of “both ... and”.

Generally, the “traditional” business centers of ABB also profit from growth in the emerging markets. Here in Switzerland, for example, we have just enlarged a factory for variable-speed drives for the second time in two years as a result of strong global demand, and the order books at our gas-insulated switchgear factory here in Oerlikon are also well filled.

But this rapid pace of change can also lead to possible problems. If the advantages of globalization are not evenly distributed, some countries could be tempted to erect trade barriers and slip into protectionism. And there is further potential for risk if energy-driven nationalism starts to grow or conflicts arise out of the need for security of energy supplies.

For this reason, we feel it is important to build a balanced global presence in order to guard against the geographical or political concentration of risk. In 2006 we created new jobs in every region and will continue to do so in 2007.

In this regard, I am pleased to note that we are seen worldwide as a company people like to work for. For example, ABB is seen as **the** ideal employer by young engineering graduates in Sweden, and the same is true of India and China. Engineering and economics students in Switzerland also number ABB among their preferred employers, as was recently reported in a study.

This is of enormous importance for us, because a company is only as good as its employees. It must be our objective to make sure that ABB also remains an attractive employer in the future. One of my priorities as CEO of this company is to shape a company for which talented people like to work and to do so for many years. We want to be the best contact partner for our customers, so we also aim to employ the best people in the industry.

Ladies and Gentlemen,

The crisis at ABB is history, the phase of profitable growth is now entering its third year. We are growing faster than the market and are among the most profitable companies in the markets where we are competing. This graph shows the development of ABB since its foundation in 1988 and illustrates that for the first time in the history of ABB we are enjoying a period in which both sales and profitability have been growing over several years.

For us, the positive development shown in this graph is a commitment for the future:

- A commitment not to rest smugly on laurels that have been acquired so recently that they are still quite delicate,
- A commitment to act with discipline and with a sense of proportion, and
- A commitment not to forget what can happen when precisely this discipline and sense of proportion are lost.

Ladies and Gentlemen,

Jürgen Dormann, who is stepping down as Chairman of the Board of ABB, has without a doubt always served to date as guarantor that all of us who work in this company never forget what can happen when ignorance and arrogance are allowed to prevail.

So I am happy that in Hubertus von Grünberg – subject to your approval, my dear shareholders – we have again been able to attract a personality to assume the function of Chairman who knows from his own experience what it means to lead a company out of a crisis and to establish it again in the position of market leader. Mr. von Grünberg succeeded in achieving precisely this with Continental: He was chief executive with that company when it went through the deepest crisis in its history, he restructured it and got it back on the path of success. He has experienced how much discipline and teamwork are needed to achieve a development of this kind on a sustainable basis. We in operational management are looking forward to working with Hubertus von Grünberg.

Dear Shareholders,

Ladies and Gentlemen,

My address today would not be complete without a few words of thanks.

The fact that I can stand here before you today and speak in such positive tones about the future of ABB is due in large measure to the outstanding performance of Jürgen Dormann.

Jürgen, you step down as Chairman of the Board today. But you will always occupy a firm and special place in the history of ABB.

What you have done for the company called for extraordinary courage. When you became Chairman in 2002, ABB was in deep crisis. There was a real possibility that the company would go to the wall, and you knew this when you took over the helm.

You had the vision to recognize that this company is worth being saved, and your sense of social responsibility drove you to secure the jobs on which so many families depend.

This was not only far-sighted, but also an honorable step, because experience shows that managers leave in droves as soon as their company finds itself in a crisis. But you stayed and took responsibility. With your open and direct manner, you motivated our people to get the best of them. Together with your team, you led ABB out of the crisis.

It is quite clear to all of us today, and underlined by the figures, that you were not only responsible for, but were also the driver behind, important measures such as refinancing ABB and refocusing the company on its core business. You and your team brought about the restructuring of the company in the shortest time possible.

But you also laid the foundation for long-term success. You initiated and supported the change in our corporate culture - personal responsibility and transparency, communication and commitment have been writ large at ABB since the Dormann era. Not only our financial results, but also our reputation, show the fruits of your work. It is a source of pride to me that, as CEO, I can continue a part of your legacy.

And this brings me to a further point: Jürgen, I would like to take this opportunity to thank you personally for the trust you placed in me. Without your trust in me, without your support, I would not be head of this wonderful organization today.

From the outset, you gave me the freedom to shape the structures and processes in ABB in the way I considered appropriate in order to meet the challenges of the future. That made a great impression on me – because it is not always easy for a former CEO to grant his successor this leeway when he becomes Chairman of the Board – especially when the successor is new to the company. For this freedom and this trust I would like to thank you most sincerely.

My dear Jürgen, ABB and I thank you from the bottom of our hearts.

-- End --