



## **ABB Annual General Meeting May 2007**

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Jürgen Dormann, Chairman of the ABB Board of Directors

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Dear Shareholders,  
Ladies and Gentlemen,

Today, I am chairing an ABB Annual General Meeting for the last time. And so this seems to me a suitable time and place to take stock, after having been Chairman of the Board of Directors of ABB for more than five years.

I would like to do this from two perspectives that seem to me important in connection with recent years: the point of view of responsibility and the point of view of confidence.

Twice I was asked by the Board of Directors to take over responsibility. Both times I made it my duty to fulfill the trust that had been placed in me and to help lead ABB out of crisis into a successful future.

When in November 2001 I took over the chairmanship of the Board of Directors, ABB was already in a very difficult position. But one thing surprised me back then: the scale of the crisis, which soon proved to be life-threatening. The Board of Directors did not appreciate the scale of the problem because it was not properly provided with transparent information about the real state of the company.

So, when on September 5, 2002, I then also took over as chief executive, there was only one possible way for me to deal with the difficulties: with absolute openness and transparency vis-à-vis everyone concerned.

We had to make clear just how grave things were for ABB – to the Board of Directors, its employees, our customers, and also to you, the company's shareholders.

In a very short space of time ABB had crashed from being the darling of the business world to being an utter lame duck in need of rescue. Analysts advised against buying ABB shares. Our

finances were in a parlous state. Operating margins were far too low. Our structure was unclear, too complex and overblown. There were no clear responsibilities. Processes were complicated and lacked transparency. Our internal costs were enormous – there were overlaps and inefficiencies.

At the height of the crisis, in October 2002, the ABB share stood at 1.41 Swiss francs. ABB's strategic focus was unclear, and it was not even clear what the ABB brand stood for after the rail and turbine businesses had been sold. The scandal concerning pension payments to former members of the ABB Group Executive Committee did one last thing – ABB's reputation was severely tarnished and the credibility of its management pushed to an all-time low. Morale within the company was also low.

The pressure weighing down on us was great. But we were able to cope with it because we knew that the very survival of ABB was at stake and hence the futures of more than 100,000 employees and their families.

We accepted this responsibility. In doing so, we had two very clear priorities:

- The first was to restore confidence. A company cannot function if it does not enjoy the confidence of its employees and customers, of the capital market and society at large. We had to create confidence in our ability to respond quickly, in our ability to make fundamental long-term changes. We had to create confidence in the quality of our portfolio and in our capacity to constantly innovate. And this had to be done judiciously because there can also be a temptation to change too much too quickly.
- This leads me to the second priority. We had to tackle the right things, concentrate on the really important issues. I have said it here, at this venue, many times. It was of vital importance to set the right focus and then concentrate all our energies on it.

Today we can see that we successfully tackled and overcame the problems. We found the right focus, and since the end of 2001 the ABB team has achieved a great deal.

Our biggest challenges were:

- ensuring liquidity,
- reducing our debts,
- refocussing on our core business,
- the asbestos problem,
- a cost base that was too high.

The restructuring of the company succeeded for three reasons:

- firstly, we were quickly able to mobilize a high degree of motivation in the company,
- secondly, we had the loyalty of our customers and the asset of our technological pre-eminence,
- and thirdly, we enjoyed your confidence – the confidence of our shareholders.

The positive development of ABB can be graphically illustrated by comparing the situation today with our position at the end of 2001:

- We have managed to focus ABB on its core business areas of power and automation technologies. Back then, these core areas only accounted for slightly more than 70 percent of ABB's activities. Today they make up 95 percent of our business. Peripheral areas, such as our building systems and financial services businesses were sold. The final business to be sold, namely Lummus Global, is, as you know, scheduled for this year.
- ABB's balance sheet has been successfully rehabilitated. Compared to our sound equity ratio today of 26 percent, ABB's balance sheet at the end of 2001 had only 7 percent equity. And compared with today's net cash value of \$2.5 billion, ABB had net debt of \$6 billion at the end of 2001, with many of these debts having extremely short maturities. Here our chief financial officer during the crisis years, Peter Voser, rendered outstanding services to the company.
- ABB has made great progress with its earnings power. In 2001 the margin was a mere 1.8 percent, whereas in the first quarter of 2007 we managed to achieve a margin of 13.2 percent.
- And compared with a loss of \$691 million in the financial year 2001, ABB posted a net profit of \$1.4 billion in 2006.

Let me say once again: your confidence in the team at ABB during the implementation of the strategy in difficult times was indispensable. So I am very pleased that you too as shareholders have been able to profit from the positive development of your company:

- ABB's market value has risen from a low on October 23, 2002, of approximately 1.7 billion Swiss francs to a value today of more than 53 billion Swiss francs.
- The price per share has advanced to 24.50 francs at the end of April, even though 840 million new shares at 4 francs were issued at the end of 2003.
- Last year, ABB was able to pay you a dividend once again, for the first time in five years. This year – subject to your consent – we will double the dividend.

Ladies and Gentlemen,

Allow me say a few words about the asbestos problem – a problem that had a very considerable impact on the years 2001 to 2006 and led to considerable uncertainty and unease due to the escalating costs.

We are very pleased that last year we finally managed to provide a solution to this issue, and here I would like to thank especially Beat Hess, who for many years was head of our legal department. It was he who initiated the solution that we then jointly implemented.

During this protracted dispute, our U.S. subsidiaries Combustion Engineering and – to a much lesser extent – Lummus Global saw themselves facing more and more asbestos lawsuits and a dramatic increase in corresponding financial claims.

Particularly disconcerting was the wave of lawsuits in the late 1990s, which was largely triggered by the rapid increase in plaintiffs with no actual injuries. This meant that it became ever more difficult to seriously estimate the probable burden.

To give you an idea again of the scale of the problem: between ABB's acquisition of the company in 1990 and the coming into force of the restructuring plan in April 2006, more than 430,000 lawsuits were filed against Combustion Engineering, which cost ABB a total of \$1.1 billion. On top of this came costs of \$1.4 billion for the settlement achieved.

Ladies and Gentlemen – ABB had to live with the asbestos risk for 16 years. Now that this issue has been successfully resolved, ABB is a company with normal risk but above-average opportunities.

Today, ABB is thoroughly healthy. Its excellent and profitable growth stems from our core businesses. Revenues in 2006 grew by more than ten percent, with growth actually accelerating in the process. Thus in the first quarter of 2007 sales were fully 21 per cent more than in the same quarter last year. Incoming orders rose by no less than 26 per cent.

We have managed to capitalize on the excellent global demand for power and automation technologies – our core business areas and the dominant topics in business in the years ahead. Today, we are global market leaders in almost all areas and in 2006 even managed to outstrip the market in many segments.

In order to cope with the growth, ABB is also today creating many new jobs. Before the crisis, ABB had more than 200,000 employees. During the restructuring phase we had to separate from some of our colleagues.

Please believe me that these were decisions which we did not take lightly. Nor did we sell the activities lying outside ABB's core business merely so that money would flow into our coffers. Rather we did so above all because we knew just how important it was for ABB to concentrate on its core businesses. However, we have never – and this is important for me – sold at any price. We have always been careful to ensure that our colleagues in the corporate divisions affected would also have a promising future outside ABB under a new owner. And in most cases we have managed to achieve this.

And so I am pleased to see that in 2006 we created 4,000 new jobs in our core businesses – and not just in Asia. We also created 650 in Europe.

However, ABB's current success is also an expression of its capacity for innovation. Our long-term investment in research and development is paying off. Today we can profit from the fact that even in times when we were not sure whether the company would survive we have always banked on technological progress, investing roughly 5 percent of our revenues in research and development. To ensure that as a technology company we would also be well placed in the future, in 2006 we boosted our investment in innovation by a further 10 percent.

After I have finished my comments, Fred Kindle will provide you with a more detailed account of our successful financial year 2006 and of the first quarter of 2007. I will say only this: the first quarter of 2007 was the best first quarter in ABB's corporate history.

Ladies and Gentlemen,  
Is there a key to, or a recipe for this development? I think there is.

I am convinced that the key lies in the two issues that I mentioned at the start of my remarks: responsibility and confidence or trust.

What is needed for such changes? Clarity about strategic orientation is required, as well as a feeling for what is feasible – and no less for the right moment in time. Active organization as well as active molding of the corporate culture is needed, and therefore – not least – communication.

The first thing you have to do is put together a team with those responsible for leadership, with management. Only in this way can you create a different form of cooperation for realigning the culture, strategy and structures, and thus penetrate into every last corner of such a global organization. Confidence then comes with predictability and reliability.

Teamwork means achieving successes together and shouldering problems in a climate of mutual trust. The country managers and regional heads were integrated by us into the management teams of the international divisions. It was important for us to bring colleagues into global teams that bear local responsibility. After all, in the last analysis, higher-level goals and plans are always implemented at local level. This also means that each individual ultimately takes responsibility for the goals and projected results.

And one more important detail in this context: these days a global management team is judged not in terms of country or divisional results, but by the result of the whole corporation. That also has the effect of welding or knitting together.

But today an altered cooperation also informs the way the Board of Directors works together with the ABB Group executive committee. Corporate strategy is worked out in a constant dialog, and implementation constructively supported.

This is an expression of the new culture which we wanted for ABB. We wanted a culture characterized by values and motivation – an open style of management.

Another example of this constructive cooperation is that, in the interests of continuity, the Board of Directors is putting itself forward for re-election in its entirety – with the exception of myself – and likewise is unanimously proposing the first-time nomination of Hubertus von Grünberg for election to the Board of Directors.

We are convinced that Hubertus von Grünberg will not only bring to our company the external perspective that is needed from time to time to see things and processes in a different light or to call them into question. We also believe that he brings with him all the qualities needed for quickly and pragmatically acquiring the equally necessary internal perspective that is important when it comes to making decisions or allowing scope for decision-making.

Ladies and Gentlemen,

Over the years ABB's most important asset has been for me not only our relations with our customers but also the motivation of our employees. It has been and remains the task of management to mobilize the team. Managers must actively and repeatedly communicate and exemplify: this is the direction in which we are heading, these are our goals, that is where we want to be. They must "tell it like it is" and should not leave employees in the dark – especially in times of uncertainty. But they must also do this when business is going well. Because where there

is a lack of information, rumors arise. And that does not create an atmosphere of openness and productivity. It ties up energies in the wrong places. Communicating means taking responsibility – and openness and clarity create enormous trust. That is my experience.

In this way we have transformed ABB into *one* enterprise – from a confederation of more than a thousand individual companies. We have formed a team which pulls together in the same direction – in contrast to a multitude of solo units, each fighting its own corner without any sense of responsibility for the overall whole. We have developed a clear strategy and conveyed to each individual what he or she can do to help realize this strategy.

And in this way we have achieved almost everything that we promised at the start of this process:

- We have developed and implemented a clear strategy
- We have got a grip on costs
- We have managed to refinance ABB
- We have solved the asbestos problem
- We have changed the culture of ABB.

Dear shareholders,

Today your company, ABB, is in extremely good shape. This is borne out by the figures that we have now presented at the end of the first quarter. It is evidenced by the strategic orientation that the company is pursuing after the conclusion of the restructuring phase. It is demonstrated by an excellent global economic situation, which gives our business a powerful tail wind. And it is shown by the culture of our enterprise, which continues to develop under the purposeful leadership of Fred Kindle and his team.

As a result, the future of ABB is in the very best hands. All that remains for me to do is express my thanks. I would like to thank all our customers, who have remained loyal to us even in difficult times. And I want to thank the ABB management team, which took responsibility, as well as all the employees of ABB, who throughout the turmoil kept faith that we would overcome the crisis.

But I also owe a debt of gratitude to my colleagues on the Board of Directors: for believing in my ability to take on a great responsibility, and for providing me and everyone involved with stability, reliability and trust – this has been very important for us. Here I would like to single out for special thanks my colleagues Bernd Voss and Hans-Ulrich Märki, who as chairmen of the two board committees invested a very considerable amount of their time and energy on the company's behalf.

And last – but not least – I would like to thank you, our shareholders, who each year have re-expressed your confidence in us here, reinforcing us in our view that the path we have chosen is the right one.

ABB is a very special company and will always remain so for me. Not because of the successes that we have achieved – there had also been successes in the past. ABB will always be special for me because of its employees.

During the years of the turnaround, the ABB team constantly reminded me why it was important that we should overcome the crisis and who we were doing all this for. The sometimes very emotional, enthusiastic, encouraging, but also critical reactions of ABB's employees to my "Friday letters" to the organization are among the most impressive that I have experienced in my long professional career. I am very grateful for them too.

It remains only for me to wish this company and its employees, its customers and you, our shareholders, all the best for the future. I am convinced that it will be a good future.

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