

Peter Voser
Chief financial officer



Financial results 2002

February 27, 2003



ABB

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Presentation outline



- ✍ Group financial review
- ✍ Non-core activities, Corporate and Discontinued operations
- ✍ Equity
- ✍ Cash flow
- ✍ Debt
- ✍ Priorities 2003

Accounting changes since Q3

- ✍ 4 former divisions combined into 2 core divisions
 - ✍ Utilities and Power Technology Products combined into Power Technologies
 - ✍ Industries and Automation Technology Products combined into Automation Technologies
- ✍ Former Oil, Gas and Petrochemicals division moved to Discontinued operations
 - ✍ Results shown in Income Statement as Net income (after interest expense and tax) in Discontinued operations
 - ✍ Assets and liabilities collapsed into one-line “assets in discontinued operations” and “liabilities in discontinued operations” on Balance Sheet
 - ✍ Cash flow still reflected in individual line items (included in Cash from operations)
- ✍ Building Systems in Non-core activities, not Discontinued operations
- ✍ Former Treasury Centers reported in Corporate – 2002 at cost, 2001 as profit center
 - ✍ All other remaining Financial Services businesses in Non-core activities
- ✍ Combustion Engineering treated as if already in pre-packaged Chapter 11 at December 31, 2002

Fourth quarter results



- ✍ Orders down 8 percent
 - ✍ Core divisions flat
 - ✍ Non-core down 19 percent
- ✍ Revenues down 5 percent
 - ✍ Core divisions flat
 - ✍ Non-core down 25 percent
- ✍ EBIT zero
 - ✍ Core divisions up 38 percent, EBIT margin up to 4.5%
 - ✍ Non-core activities and corporate costs lower
- ✍ Net income loss US\$ 838 million after discontinued operations at -US\$ 710 million
 - ✍ Asbestos provisions, Structured Finance and businesses held for sale, including Oil, Gas and Petrochemicals
- ✍ Net cash from operations positive at US\$ 361 million

Fourth quarter highlights

Q4
2002



- ✍ **Sale of Structured Finance and Metering completed**
 - ✍ US\$ 2.4 billion received in December
- ✍ **New US\$ 1.5 billion secured credit facility signed**
 - ✍ US\$ 1 billion outstanding under previous facility fully repaid in December
- ✍ **Pre-packaged Chapter 11 for Combustion Engineering filed**
 - ✍ US\$ 420 million provision, including US\$ 86 million for share contribution
- ✍ **Continuing portfolio actions**
 - ✍ US\$ 112 million in software and goodwill write-downs
 - ✍ Additional provisions/write-downs taken in non-core activities (US\$ 109 million) and discontinued operations (US\$ 183 million, excluding currency translation adj.)



2002 full-year results



- ✍ Orders down 8 percent
 - ✍ Core divisions down 2 percent
 - ✍ Non-core down 18 percent
- ✍ Revenues down 6 percent
 - ✍ Core divisions up slightly
 - ✍ Non-core down 18 percent
- ✍ EBIT up 88 percent to US\$ 336 million
 - ✍ Core divisions up 4.3 percent
 - ✍ Non-core activities and corporate costs lower
- ✍ EBIT margin at 1.8 percent
 - ✍ Core divisions improved from 5.9 to 6.1 percent
- ✍ Net income loss US\$ 787 million after discontinued operations at –US\$ 853
- ✍ Net cash from operations positive at US\$ 126 million

2002 full-year highlights



- ✍ Completed financing program announced in March
 - ✍ Exited volatile short-term commercial paper market
 - ✍ Lengthened long-term debt to 2/3 of total debt
 - ✍ Negotiated committed bank facilities
 - ✍ Placed US\$ 1.7 billion in straight and convertible bonds
- ✍ Reduced net debt by US\$ 1.5 billion, before asbestos settlement
 - ✍ Asset sales contributed ~US\$ 2.4 billion of net debt reduction in 2002
 - ✍ ~ US\$ 400 million cash in Combustion Engineering now excluded from net debt, following Chapter 11 filing
- ✍ Expected decrease in pension underfunding for 2002
 - ✍ US\$ 198 million contributed to plan

Key figures

(MUS\$)	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Orders	4,501	4,893	18,112	19,672
Revenues	5,268	5,530	18,295	19,382
EBIT	0	-438	336	179
Net interest expense	-161	-57	-129	-190
Discontinued operations	-710	-525	-853	-501
Net income	-838	-980	-787	-691
Net cash from operations	361	1,796	126	1,983
Net debt*			3,262	4,338

*Excluding Oil, Gas & Petrochemicals, and after asbestos settlement



EBIT

(MUS\$)

	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Automation Technologies	107	64	518	515
Power Technologies	91	80	428	392
Core businesses	198	144	946	907
Non-core activities	-110	-480	-217	-397
Corporate	-88	-102	-393	-331
Group EBIT	0	-438	336	179
EBIT margin	n.a.	n.a.	1.8%	0.9%

Non-core activities - EBIT

(MUS\$)

	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Equity Ventures/remaining Structured Finance	-6	50	96	158
Insurance	-3	-354	40	-342
Building Systems	-42	-6	-114	20
Other activities (1)	-59	-170	-239	-233
Total	-110	-480	-217	-397

- ✍ Net loss for 2003 to be reduced to US\$ 100 million
- ✍ Zero loss by 2005

(1) Includes Group Processes, New Ventures, Air Handling, Logistic Systems, Semiconductors, and Repair Workshops

Corporate - EBIT

(MUS\$)

	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Headquarters/Stewardship	7	25	-156	-137
Research and development	-24	-39	-93	-103
Other ⁽¹⁾	-71	-88	-144	-91
Total	-88	-102	-393	-331

- ✍ Reduce HQ/Stewardship costs to
~ US\$ 130 million per year by 2005
- ✍ Streamline R&D, steer by divisions,
~ US\$ 90 million per year

Discontinued operations – Net income impact

(MUS\$)	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Combustion Engineering	-420	-470	-420	-470
Oil, Gas and Petrochemicals	-93	-26	-86	-4
Structured Finance	-23	12	-135	8
Other	-85	-41	-123	-35
Currency translation adj. (1)	-89	0	-89	0
Total	-710	-525	-853	-501

- ✍ **Combustion Engineering provision includes costs, US\$ 86 million in shares**
- ✍ **Oil, Gas and Petrochemicals includes US\$ 104 million in provisions against downstream projects in Q4 (FY 2002: US\$ 167 million)**

(1) Currency translation already recognized in equity transferred on divestment to Income Statement

Asbestos pre-packaged Chapter 11 settlement

- ✍ In Q4 2002, provisions totalled US\$ 420 million, of which app. US\$ 300 million is cash-effective. Provisions include
 - ✍ app. US\$ 260 million for the cash contribution (payable from 2004 – 2006)
 - ✍ app. US\$ 86 million for the share contribution (valued at Dec 31, 2002 price)
 - ✍ app. US\$ 25 million for Lummus/Basics (payable 2004 – 2014)
 - ✍ equity write-down (US\$ 29 million) and fees (US\$ 20 million)
- ✍ US\$ 100 million contingent liability for additional contributions from 2005 onwards, performance-related:
 - ✍ ABB must achieve a minimum EBIT margin of 8 percent in 2005 – 2006, and 12 percent in 2007 – 2008
 - ✍ amounts payable would be US\$ 25 million p.a. from 2006 – 2009
- ✍ In 2002, asbestos cash payments were US\$ 206 million (Q4 2002: US\$ 45 million), included in cash from operations
- ✍ In 2002, deconsolidated cash amounted to app. US\$ 400 million, negatively impacting net debt



Cash flow

(MUS\$)

	Q4 2002	Q4 2001	Full year 2002	Full year 2001
Cash-effective earnings (1)	-226	367	-293	1,252
Marketable securities	0	-7	498	72
Net operating working capital	587	1,436	-79	659
Cash from operations	361	1,796	126	1,983
Net marketable securities and financing receivables	-251	271	161	-314
Net PP & E	-72	-129	-126	-609
Net businesses sold	2,281	249	2,439	-295
Free Cash Flow	2,319	2,187	2,600	765

(1) Includes changes in provisions (including asbestos)

Stockholders' equity

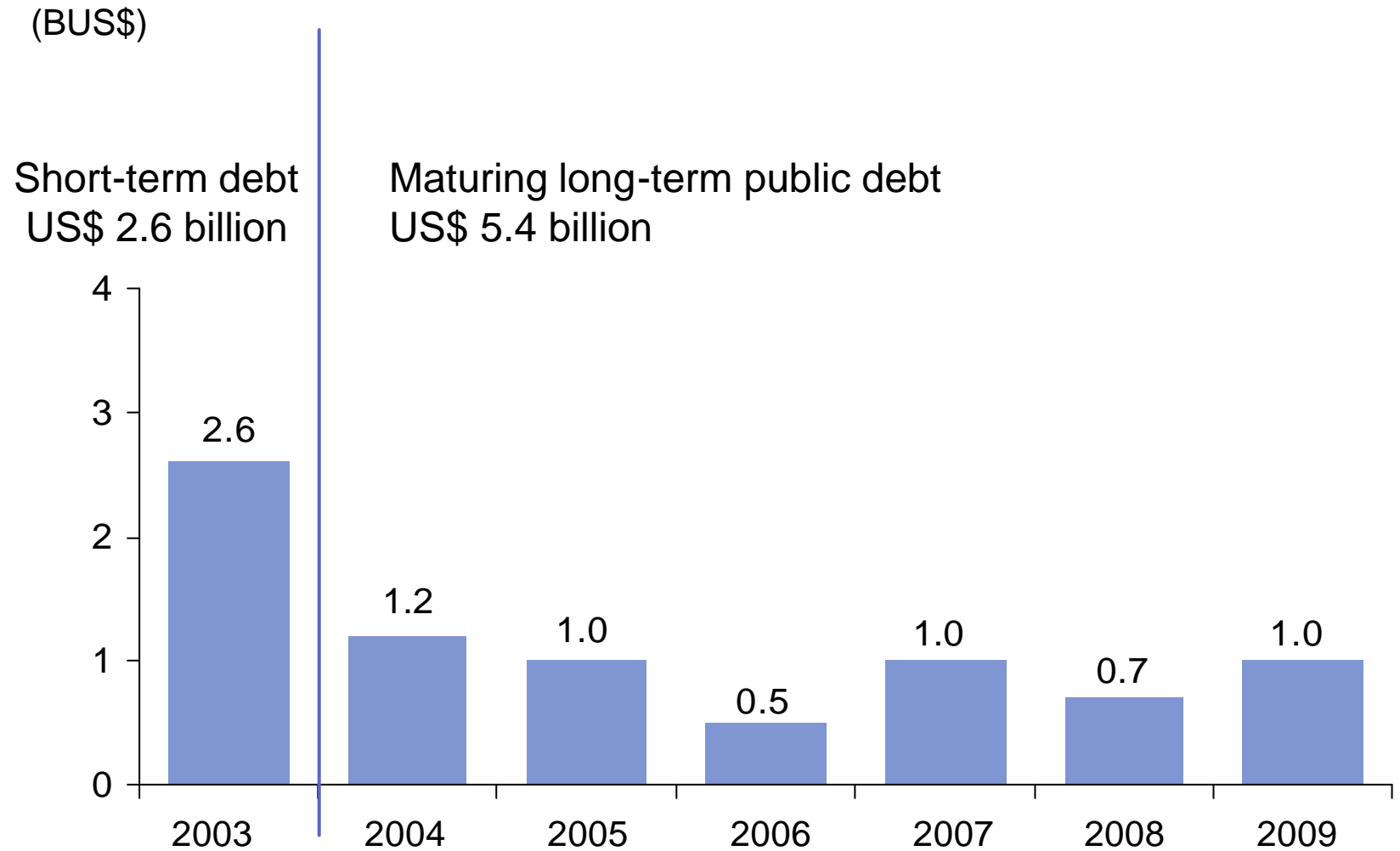
- ✍ Equity has decreased by US\$ 962 million, to US\$ 1,052 million
- ✍ Main items include:
 - ✍ Net loss: - US\$ 787 million
 - ✍ Foreign currency translation adjustments: - US\$ 201 million
 - ✍ Derivatives qualifying as hedges (SFAS 133): + US\$ 131 million
 - ✍ Minimum pension liabilities adjustments: - US\$ 107 million

Net debt reconciliation

	Before disc ops	Disc ops	Restated
Net debt end 2001 as reported	-4,077	-261	-4,338
Cash from operations (exc. marketable sec.)	-372		
Investment in PP & E	-126		
Proceeds from businesses sold/purchased	2,439		
Financing receivables/other	86		
Net debt after operational items	-2,050		
Non-cash impacts			
FX effect	-596		
Pension transfer	-187		
Other	-168		
Net debt after asbestos settlement	-3,005	-257	-3,262
Reversal of asbestos settlement	380		
Net debt before asbestos settlement	-2,625		



Maturity profile of debt at December 31, 2002



Medium-term financing goals

2003

- ✍ Reduce total debt from US\$ 7.95 billion at Dec 2002 to app. US\$ 6.5 billion, gearing (total debt/total debt + equity) to approximately 70 percent
 - ✍ Proceeds from divestment of Oil, Gas and Petrochemicals division, Building Systems and other businesses will significantly reduce debt by year-end 2003

2005

- ✍ Reduce total debt to approximately US\$ 4 billion, gearing to approximately 50 percent
 - ✍ Debt reduction to come primarily through increased operational cash-effective earnings

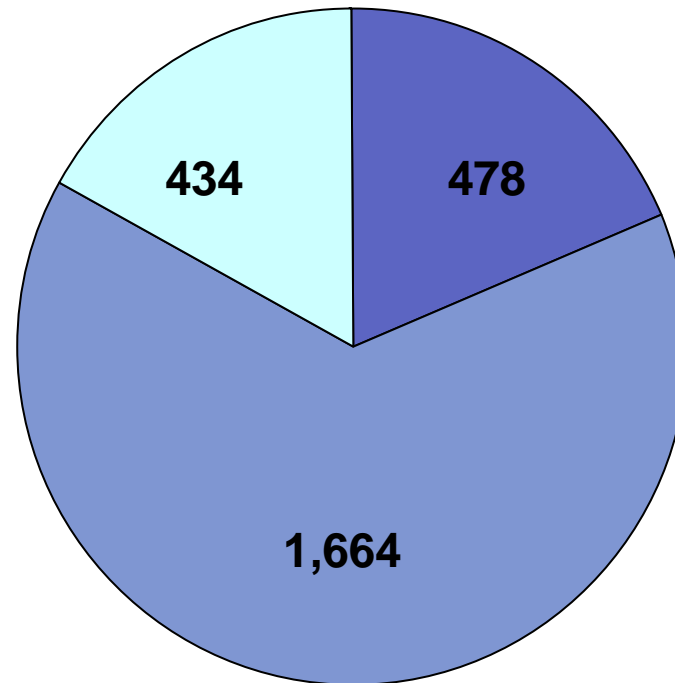
Priorities 2003

- ✍ Focus on divestments (US\$ 2 billion +) in 2003 to reduce total debt
 - ✍ OGP and Building Systems in negotiations
 - ✍ Remaining part of Structured Finance, Equity Ventures
- ✍ Reduce volatility in quarterly cash flow from operations
- ✍ Implement cost reduction program in Non-core activities and Corporate
 - ✍ Sharply reduce Discontinued operations costs, after closure of asbestos issue, sale of OGP, and disposal/closure of smaller units

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Composition of short-term debt at Dec 31, 2002

Total ST debt: MUS\$ 2,576



all figures in MUS\$

■ Commercial paper

■ Maturing LT bonds

■ Other ST debt

