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2004 Q4 and full-year results

Power Technologies



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Outline

- Market review and financial results
- 2005 priorities and outlook



Q4 2004 and full-year developments

Fourth quarter

- Continued good base order growth
- Strong revenue increase driven by product business
- EBIT-margin decreased mainly due to non-recurring costs
- Cash flow improved slightly
- Majority of Power Lines operations reclassified to discontinued operations

Full year

- 15% order growth
- Revenue up 9%
- EBIT-margin burdened by non-recurring costs
- Cash flow decreased due to lower customer advances
- Global market share increased from 18% to 20%

All comments on growth refer to local currency development



Q4 2004 summary - Power Technologies

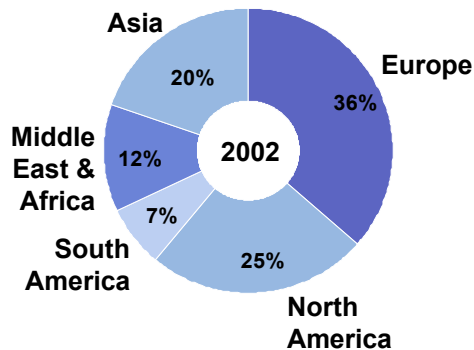
US\$ millions	Q4 2004	Q4 2003	Change Nominal	Change Local
Orders	2,216	1,972	12%	5%
Revenues	2,574	2,178	18%	12%
EBIT	164	174	-5%	
EBIT Margin	6.4%	8.0%		
Restructuring	(11)	(14)		
Cash flow from operations	454	439		

- Order increase fueled by growth in North America and Europe
- Revenues grew at double-digit pace in the product business areas
- EBIT margin decreased from 8.0 to 6.4%, mainly due to:
 - Write-down of notes receivable
 - project-related hedging losses
 - some remaining under-utilization in HVDC
 - some impact of raw material price increases which have not yet been passed through to customers
 - the above items decrease the EBIT margin by about 2%-points
- Cash flow from operations higher driven by improved net working capital management, mainly lower inventories

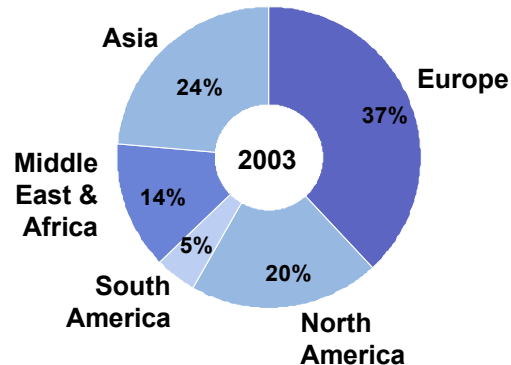


Full year regional overview

Nominal revenues by region (destination) - consolidated

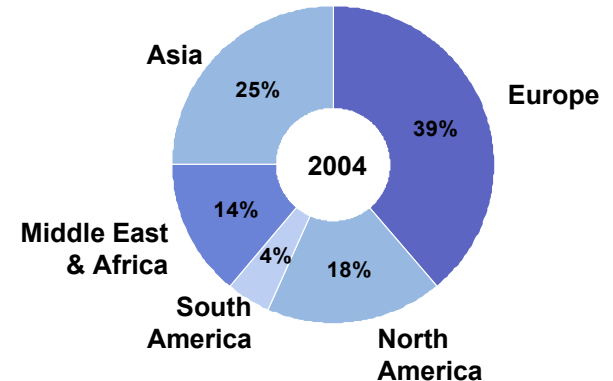


Total: \$ 6.9 billion



Total: \$ 7.6 billion

+10% vs. prev. year



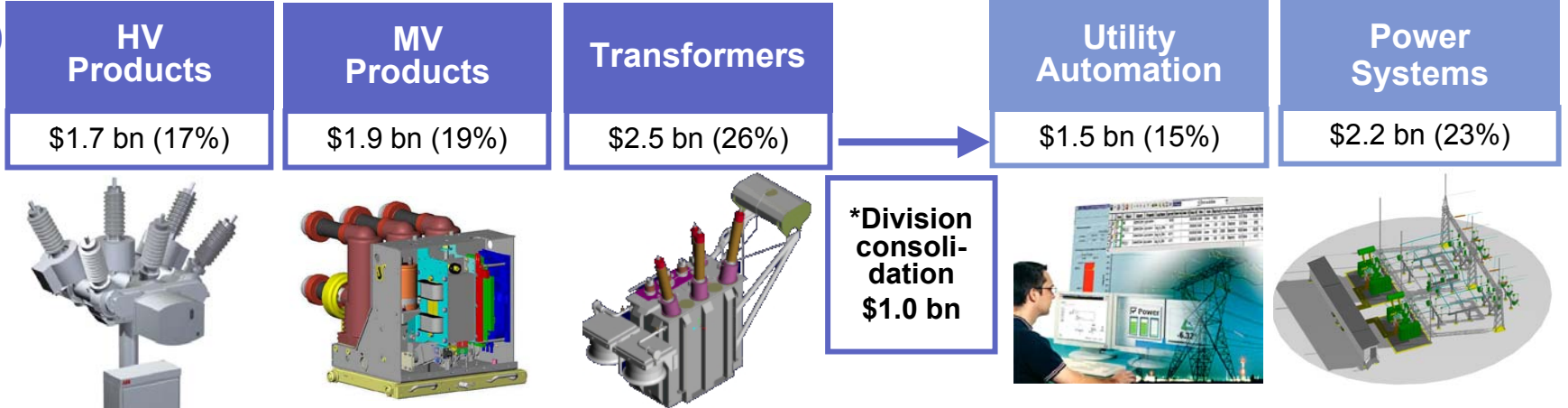
Total: \$ 8.8 billion

+13% vs. prev. year

- Asia up, driven by strong revenue growth in India
- China revenue growth below division average due to high 2003 project revenues in Power Systems
- Revenue growth in both Western and Eastern Europe

Full-year business overview

1)



2)

Power Technology Products

- Revenue growth in all regions, strong in Asia and Europe
 - High-Voltage: Revenue growth led by higher base orders; China, Russia
 - Medium-Voltage: China and India driving revenue growth, Europe improving
 - Transformers: Asia key revenue driver

Power Technology Systems

- Revenues flat; growth in Utility Automation offset by decrease in Power Systems
 - Utility Automation: revenue growth in Asia, Europe
 - Power Systems: revenues down in China (high project revenues 2003), growth in India, MEA and Western Europe

1) Structure as of December 2004

2) Structure as of January 2005

All comments on growth refer to local currency development and destination markets



FY 2004 summary - Power Technologies

US\$ millions	2004	2003	Change Nominal	Change Local
Orders	9,372	7,682	22%	15%
Revenues	8,755	7,598	15%	9%
EBIT	610	595	3%	
EBIT Margin	7.0%	7.8%		
Restructuring	(51)	(61)		
Cash flow from operations	499	639		

- Order growth driven by China, India, Central and Eastern Europe
- Revenue up on strong base business development
- EBIT increase driven mainly by High Voltage Products and Medium Voltage Products
- EBIT margin affected by;
 - low capacity utilization (systems business, HVDC)
 - Write-down of notes receivable
 - project-related hedging losses
 - impact of raw material price increases which have not been passed through to customers
- Cash flow from operations affected by lower customer advances
- Net working capital in % of revenues* improved from 13.2% to 12.4%, triggered by reduced inventory levels

* Calculated as avg. NWC / consolidated division revenues



Development of Power Lines business

- Q4 2004: decision to exit business
- Reclassified to discontinued operations*:
 - Italy (near completion), Nigeria (sold), Brazil (closed), Germany (in progress)
 - Q4 revenues ca. \$30 million, operational EBIT loss ca. \$6 million, divestment EBIT loss ca. \$30 million
 - 2004 revenues ca. \$125 million, operational EBIT loss ca. \$35 million
- Remaining business
 - Q4 revenues ca. \$20 million, around break-even result
 - 2004 revenues ca. \$50 million, low single digit loss
- Expect to complete business exit in H1 2005
 - Minor negative EBIT impact in H1 2005

* For 2004 as well as historical periods



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Increased utilization from large orders in 2004

- Large order awards (>\$50 million) and improved revenues 2005/2006

12/2003	2004	12/2004	2005	12/2005	2006	12/2006	2007
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Major revenue recognition:

4 orders > \$50m awarded in 2003

2004/2005

June 04: \$390m Three Gorges HVDC link

2005/2006

July 04: \$85m substations, Algeria

2005/2006

Oct. 04: \$60m Three Gorges power plant

2005 to 2007

Nov. 04: \$70m substations & FACTS, Mexico

2005/2006

Dec. 04 (go-ahead received): \$270m NorNed HVDC link

2005 to 2007

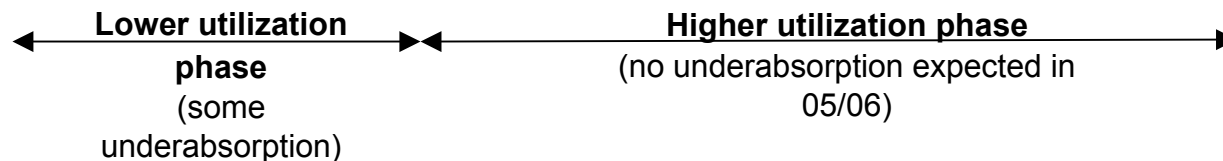
Feb. 05: \$110m Estlink HVDC link

2005 to 2007

Total 03:
~\$ 250
million

Total
06/04 to
02/05:
~\$ 990
million

- Strong backlog as of year-end 2004
- Backlog increased by 14% 2004- vs. 2003 year-end



Market expectations for 2005

Regions

- **W. Europe:** Utility investments mixed, depending on regulatory and political factors
- **E. Europe:** Strong growth led by need for infrastructure upgrade
- **Americas:** Reliability concerns drive U.S. transmission investments, increased investments in Latin America
- **Asia:** Continued strong demand, led by China and India
- **Middle East and Africa:** Positive market environment continuing

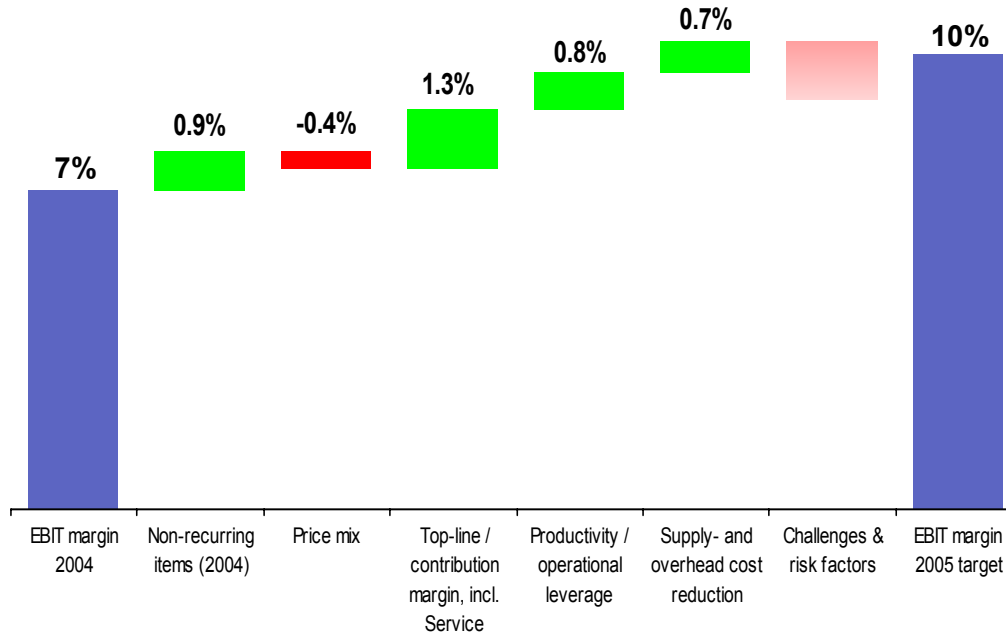
Business Areas

- **Power Technology Products:** Growing demand for high-voltage and medium-voltage products and transformers in Asia, Middle East, North America and Europe; increased demand for service and retrofit in mature markets
- **Power Technology Systems:** Increase due to need for interconnections, especially in Asia, Middle East and Eastern Europe



EBIT margin target 2005 vs. actual 2004

MUSD nominal



■ Non-recurring items 2004

- low capacity utilization (systems business, HVDC)
- Write-down of notes receivable
- project-related hedging losses

■ Target improvements 2005

- higher revenues, contribution margin
- on-going productivity improvements
- lower cost base (personnel expenses, overheads)
- impact from supply chain management

Targets 2005*	Revenue growth	5.3%**
	EBIT margin	10.0%

*Targets exclude major acquisitions, divestments and business closures

**Compound annual growth rate 2002-2005



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