

ABB Annual General Meeting May 2006

Fred Kindle, ABB President and CEO

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Dear shareholders, ladies and gentlemen.

2005 was my first year as President and CEO of the ABB group. It was an intensive, challenging, and rewarding year, but most importantly, it has been a very good year for the company.

Mr Dormann has already described the overall 2005 results for the group as well as the historical asbestos agreement.

I will speak about some of the key actions we took in 2005 to lay the groundwork for the future success of the company, and will go into some detail about how the positive trend has continued in 2006

In 2005, we focused on the consequent and disciplined realization of our targets. I am speaking here of our focus on organic growth and optimization of our operational activities, such as improvements in project execution and increased cost efficiencies.

Business is not only about doing the right things but also about doing them well. Focusing on our “internal homework” rather than making fancy acquisitions or changes to our portfolio was possibly the key work of the last 18 months.

These measures had a very positive impact on our results last year and have laid the groundwork to ensure this trend continues.

In 2005 our two core divisions – Power Technologies and Automation Technologies – performed strongly.

In the Power Technologies division, orders rose by 14 percent in local currencies to \$10.7 billion, revenues by 11 percent in local currencies to \$9.8 billion, earnings before interest and taxes (EBIT) by 30 percent to \$789 million, and the EBIT margin increased from 7.0 to 8.1 percent.

We are not only the biggest in this field, but that EBIT margin in Power Technologies is also the highest in the world among companies in the same business, and highlights our position as a global leader.

In the Automation Technologies division, orders rose by 11 percent in local currencies to \$12.7 billion, revenues by 9 percent in local currencies to \$12.2 billion, earnings before interest and taxes (EBIT) by 28 percent to \$1.3 billion, and the EBIT margin increased from 9.3 to 10.8 percent.

This was also a very impressive performance, particularly in view of the fact that this improvement has been ongoing for the last three years.

Ladies and gentlemen, we are proud of the impressive turnaround of our subsidiary ABB Lummus. Lummus is an engineering and technology company working mainly in the refinery and petrochemicals fields.

We have managed to turn this previously loss-making unit into a profitable unit. Lummus is today a highly productive company in an interesting industry sector and made a profit of \$48 million in 2005.

Dear shareholders,

Our strict focus on cost control has paid off well. Total cost for the corporate center was reduced from \$523 million to \$393 million despite the roughly \$50 million additional cost we incurred from introducing the Sarbanes-Oxley regulatory measures.

This reduction in corporate costs will continue in 2006. In the long-term we are seeking to ensure that corporate costs will be no more than one percent of revenues. That means we will be very comparable to the competition.

I would also like to mention the important improvements we made in our balance sheet and in lowering our liability exposure in 2005 - of course, with the help of significantly improved results from our operations.

The positive results we saw in 2005 have continued into this year.

The first quarter results for 2006 – which we released last week - are very encouraging.

Group orders in the first three months increased by more than \$900 million. Orders were nearly \$7.1 billion – 21 percent up on the same period last year.

Revenues were \$5.4 billion – an increase of 13 percent in local currencies on the same period for 2005.

This growth has come with a sharp rise in profitability.

Overall, our earnings before interest and taxes (EBIT) in the first quarter of 2006 were \$509 million – up by 30 percent over Q1 2005.

As earnings developed even more positively than revenues, our EBIT margin rose to 9.4 percent, compared to 7.7 percent in the same period of 2005.

Net income was \$204 million – despite an \$89 million charge for the increased valuation of the roughly 30 million shares we need to contribute to the Asbestos Fund.

Another significant reason for the company's success is our cash flow

Cash flow again improved markedly. In the first quarter of the year cash flow from operating activities is normally negative.

It was at \$-210 million in Q1 2005, but as a result of higher earnings and continuously improved cash flow management, we were able to improve it to \$39 million in the first quarter of 2006.

In the first quarter of 2006, we were able to further strengthen our balance sheet. The ratio of equity to debt or "Gearing" was about 50% on March 31, 2006.

As you may have heard last week, we offered bondholders an early opportunity to convert the \$968 million convertible bond due in 2007 into shares and therefore equity.

If all bondholders accept the offer, the gearing level will be down to about 40 %. The balance sheet would be the most stable it has been since the 1990s.

And we continued to reduce our net debt. It now stands at \$427 million – about \$81 million less than in the last quarter of 2005.

Compared to the first quarter of 2005, we have reduced net debt by two-thirds. ABB is today a thoroughly healthy company, not only in terms of its operations but also its balance sheet.

The finalization of the Combustion Engineering settlement plan, the dramatic improvement of operational results, and the strengthening of the balance sheet led the ratings agencies to once again give ABB the valuable investment grade rating.

I think this milestone is a good summary of our accomplishments in 2005.

And on April 27, the ratings agency Standard and Poor's reacted again to the very good first quarter results and the proposed strengthening of our capital resources, and held up the possibility of a further improvement in our investment grade rating.

Dear shareholders, ladies and gentlemen,

In 2005 we took a series of measures to build on our strengths and ensure competitive success over the next five years and beyond.

In September 2005, we unveiled new business targets for the group and our five divisions for the years 2005-2009.

This is supported by a realistic strategy for the next five years and organizational changes, which took effect on January 1, 2006.

The strategy includes a focus on our core businesses and aims to strengthen our operational performance, based on an organization and a company culture which fully supports the business strategy

The new organizational structure, enables us through the removal of a layer of management, to simplify our decision-making processes, speed them up to become more efficient.

We have also strengthened our operational effectiveness in different regions around the world by creating eight regional management teams reporting to a new key function in the Executive Committee.

These changes are designed to pave the way for further success.

They represent an evolution for ABB to a company that achieves excellent results in every area of activity.

Ladies and gentlemen,

We have four priorities for 2006. Our first goal is to deliver on the 2006 business targets. As I have just mentioned, we have made a very good start in the first quarter of the year.

Second, we must enforce an even stronger compliance with ethical business rules and behavioral principles.

Third, we have to improve our occupational health and safety performance at work.

And fourth, we are seeking to optimize our global footprint.

I have already spoken about the first topic, so I would like to comment briefly on the other three topics.

ABB has strong starting positions: We are leaders in favorable markets in highly promising countries like China and India, and benefit from that.

We have top quality power and automation technologies; and we have strong credibility among customers, the financial markets and other stakeholders.

We do, however, face challenges.

One of them – and this is something Mr Dormann touched on briefly – concerns full compliance in our business ethics behavior.

We are not prepared to accept any breaches of laws or company guidelines, and respond to any violations.

Proper business conduct is the hallmark of a sound organization. Our stakeholders – customers, suppliers, shareholders, employees, authorities and the media – have a right to expect that we conduct our business with integrity.

Our employees must be able to feel proud about what they have achieved at ABB and how they have achieved it.

There can be no compromises.

We will continue to go public in future on our actions and problematic cases, and report breaches to the relevant legal authorities.

We insist on doing the right thing. ABB wants to have an excellent record in all areas. Correct behavior by employees is an absolute imperative. And correct behavior will only be achieved if one speaks about it openly and honestly.

On the other hand, it is unfortunately illusory to think there will never be any more compliance issues.

Every country and every society has a crime rate, no matter how advanced or enlightened they are. There are unfortunately no countries without crime. And the same goes for companies with ten thousand or a hundred thousand employees.

It is unfortunately not possible to ensure a completely crime-free climate in a company that does business around the world. Like countries, business is about people. In essence, we face similar challenges.

We are nonetheless seeking to minimize and eventually eliminate the crime rate, and are working very hard to achieve this.

We have appropriate mechanisms in place – to educate and train people in correct behaviour, to encourage whistleblowers to disclose wrongdoing, and hotlines to help employees seek advice or report malpractice, and also to take action to punish violations

So, ladies and gentlemen, do not be surprised if you read further stories in newspapers about ABB taking steps to ensure full compliance throughout the company. There is no other way for us to proceed.

Ladies and gentlemen,

One of our other priorities is to improve health and safety performance. Every incident involving ABB personnel, subcontractors or members of the public, is unacceptable to us.

We took a number of measures in 2004 and 2005, including training for senior executives and local managers around the world to ensure that safety consciousness is embedded in the company.

This training work is being pursued around the world in 2006 and there is increased focus on health and safety as a key responsibility of line management.

We are committed to improve our performance also in this field.

Our fourth target for 2006 is to accelerate measures to strengthen our global footprint.

Essentially this means, making decisions about where we operate around the world, where we manufacture or purchase, where in the world there is growth now and in the future, and the other critical elements that contribute to becoming even more competitive and successful in an increasingly globalized business world.

We took a series of measures in 2005 and this year as well to strengthen our business positions and competitiveness.

I am happy to say that ABB is on the verge of becoming a truly global company. Of course our roots are in Switzerland, Sweden, Germany and other European countries. But the days are past when Swiss and Swedish stakeholders could focus only on their own business activities.

Today's challenges go beyond single locations; they are truly global in nature. Fortunately, ABB is today one of the most global companies that exist.

Just look, for example, at the multinational composition of our new Executive Committee. We are committed to serving our customers worldwide with a global strategy and organizational set-up.

The world is changing rapidly. We can only be successful long-term if we accept this fact and act accordingly. Our locations in Switzerland and Europe also benefit from this.

Ladies and gentlemen, the outlook for ABB is very good.

ABB has the substance to ensure success. We have a great range of technology, a pipeline of innovation, and state of the art products reinforcing power grid reliability and raising industrial productivity around the world.

We have a very strong understanding of the markets and excellent global market positions which also enables us to expand business activities - such as the service business - that are less prone to cyclical swings.

We have established ourselves in China and India, and other emerging economies, but at the same time we are working hard to strengthen our positions in mature markets, such as Europe and North America.

You can see from our business results that our revenues are well distributed around the world.

Dear shareholders,

I think we can justifiably say that the famous red ABB logo is truly shining once again.

The most important factor which allows us to make this assertion are our committed, skilful and very loyal employees working for the company's success in some 100 countries around the world. Having the right employees means everything for a company's success.

ABB is an employer of choice around the world. We have built a strong reputation, and command strong loyalties.

In China, for example, we were named as one of the top ten foreign employers last year; in Switzerland and Sweden we continue to be rated as the employer of choice for engineering graduates.

There are many other examples of how we have built up our brand reputation around the world.

Our power and automation technologies, our strong positions in the markets, and our committed employees all make us feel very confident about the future.

ABB will continue to move forward diligently. We will for the time being only make small-scale acquisitions where they are suitable and make sense strategically, and where the price is right.

We can feel proud of what has been achieved, but we will not exaggerate our success – it speaks for itself.

A sense of modesty and a willingness to keep our feet on the ground has served us well recently, and we will maintain this attitude irrespective of our growing success.

The current market situation is very satisfactory. Most regions and industry sectors are buoyant and are growing. This was clearly a reason for our success in the first quarter of 2006.

The world is, however, full of challenges – such as energy and environmental issues or political risks - to which we may become exposed.

In fact, these challenges may lead to business opportunities for ABB since our company is all about “power and productivity for a better world.” While this catchy phrase may sound like a slogan, there is a lot of truth and substance to it.

ABB is a global company with a global culture, tremendous engineering prowess, and excellent customer relationships.

These are very important assets, also for the world of tomorrow. We have the substance and the diversity to face up to challenges and convert them into business opportunities.

We have proved in the past we are able to master challenges, and will continue to do so.

ABB once again has the trust of our key stakeholders – you, our shareholders, the markets, our customers, our employees.

I thank you for the trust that you are showing us. We will not take that trust for granted; we will continue to work to earn it.

Thank you.