

ABB Annual General Meeting May 2004

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Speech as delivered

Ladies and gentlemen

A year ago I said in this room that the year under review at that time - 2002 - had been difficult for the economy in general, and for ABB in particular, and that major efforts would need to be made in the year ahead.

The last financial year, 2003, did indeed present us with great challenges.

But together we rose to these challenges and, looking back, we can say that the situation of our company improved markedly in 2003 despite a number of tasks that remain to be carried out.

Thanks to good team spirit and a series of considered measures the position of our company today is once again sound enabling us to concentrate fully on the business of helping our customers achieve success, which in turn helps us secure our own success.

Let us look first at how our financial position developed:

At the end of August 2003 we managed to stage a successful comeback on the capital market by issuing a convertible bond of approximately 1 billion francs.

The new bond was oversubscribed several times.

In the fourth quarter we were able to raise more than 4 billion dollars on the capital markets.

The most important element was increasing our equity by a good 3.25 billion francs - or 2.5 billion US dollars - through issuing new shares.

We are using these funds to strengthen our balance-sheet structure and to grow our two core businesses - power technologies and automation technologies.

Progress was also made with the ongoing asbestos claims.

As you know, we are waiting to draw a line under this difficult matter. After several postponements of the hearing date in the court of appeal, the long road through the American courts should come to a conclusion in the second half of the year.

So far, two instances have approved our proposed plan. We continue to remain confident that the court of appeal will confirm the decisions taken in the other courts.

In our estimation, the chances are slim that the case will go on to the Federal Supreme Court. The next hearing at the court of appeal has now been set for 3 June, 2004.

Ladies and gentlemen, the increase in earnings in our core divisions is the most significant progress we made in 2003.

For the last six quarterly reporting periods, including the first quarter of 2004, we have been able to post improved results.

Our core businesses ... power technologies and automation technologies are "healthy to the core" and now account for over 95 percent of the company's turnover.

I would like now to give you a brief overview of our results for 2003 which you have already read about in much more detail in the annual report and in the quarterly shareholders' letter "ABB Update".

Incoming orders worth 18.7 billion dollars were more than a billion up on the preceding year. Sales also grew by more than a billion, to almost 18.8 billion dollars.

Earnings before interest and taxes, or EBIT, rose from 346 million dollars in 2002 to 656 million dollars.

In the core businesses, the Power Technologies division increased EBIT by 30 percent from 433 million dollars in 2002 to 563 million dollars in 2003.

The Automation Technologies division improved its EBIT by 50 percent from 517 million dollars to 773 million dollars.

Our Step Change program to reduce our cost base certainly contributed to our success in 2003. We were able to lower our running costs by 655 million dollars.

We will achieve our objective to reduce our costs on an annual basis by 900 million dollars by the middle of the year.

Although the ABB Group improved its sales and earnings in 2003, we posted an overall loss of 767 million US dollars. This was the result of very high losses in our discontinued operations.

Last year, we indicated at the annual general meeting that 2003 could end in a positive result. This did not come about because of the already-mentioned heavy losses in discontinued operations.

Here it is important to mention the 496 million dollar loss in the oil, gas and petrochemicals business, and a 97 million dollar loss in the reinsurance business.

In the first quarter of 2004, we broke even and the second quarter also looks like being stable. On that basis, I believe we will return to the black this year.

On the one hand we expect stronger demand in the second half of the year. And on the other hand, the results from the first quarter - and in particular the favorable development in cash flow and the marked improvement in incoming orders - can be seen as positive signs.

But the future of ABB, ladies and gentlemen, the future of your company depends above all on the implementation of our strategy.

After a period of strategic adjustments, we need to concentrate on above-average profitable growth.

I would like to inform you today of the strategic direction which the board of directors and the executive committee have discussed and decided upon.

Basically, we will not take on new activities which are not close to power technologies and automation technologies.

The analysis has shown that we have the best prospects for growth in those activities and markets where ABB already has a clear leadership position.

As a technology-based company in power and automation technologies, ABB will strive for profitable organic growth by exhausting its full market potential and by a better use of our leading-edge technology and global resources.

From today's standpoint, there are no prospects of large-scale acquisitions.

The strategic analysis was primarily concerned with four crucial questions whose answers should help us to grow profitably.

1. How do we define our core business?
2. What potential does our core business have?
3. What external changes are taking place in our core business?

We are thinking here, for example, of major changes in technology itself, or in key markets, or of a considerable consolidation of the competition.

4. What options are open to us to grow profitably by expanding in areas that are closely related to the ABB core?

We came up with the following answers to these questions:

Our core competence lies in power and automation technology. Our market analysis showed that ABB has the potential to grow twice as fast as the market with our EBIT margin growing at the same time.

We do not see any exceptional or radical technological changes that might jeopardize us in our key markets.

We intend to participate actively but reasonably in the consolidation process in order to round out the ABB core portfolio.

It is a mixture of country and product strategies. With the country strategy, we are thinking especially of Asia, in particular of China and India, but also of the USA.

In the USA we have good market shares in both core businesses but we are not profitable.

In 2002, with sales of 2.7 billion dollars in the USA, our earnings before interest and taxes (EBIT) were more than 100 million dollars in the red. And in 2003, with sales of 2.4 billion dollars, EBIT was a double digit million dollar loss.

The unsatisfactory situation was one of the primary reasons I asked Dinesh Paliwal to take over as country manager for the USA, in addition to his other tasks.

In China and India we need to efficiently exploit the available potential.

In our view, there are also real opportunities in the new member states of the EU, as well as in Russia, where ABB established itself early through acquisitions but has grown at a modest rate since then.

Ladies and gentlemen, our employees, and you our shareholders, are asking the question: What will happen with ABB in Europe? What will happen with Switzerland, Germany or Sweden, where we currently carry out a major part of our capital-intensive production?

Due its strong growth, the importance of Asian business for ABB will expand in relation to regions which grow more slowly, such as Europe.

On the other hand, we will continue to strongly develop our innovation capabilities which are largely the result of research in Europe.

We have gained considerable experience in Europe over the past decades through our industrial activity.

This experience means a lot to us. I understand the worries of employees in our hemisphere who are faced with strong competition.

But we have to retain the basic value of flexibility. Innovations know no national boundaries.

Ladies and gentlemen, we must not lose sight of three basic principles: the need to be close to the customer, to be where growth markets are and where cost structures are advantageous.

The growth in Asia, ladies and gentlemen, is not a threat but, on the contrary, a major opportunity for expansion.

Our major industrial clients in Asia - as everywhere in the world - are often global enterprises.

I repeat: the basis of our future is technology. Our technology guarantees our competitive edge and we maintain our high quality standards - embodied in the phrase "Made in ABB" - to ensure we meet the needs of our customers.

Despite all the upheavals, we have unwaveringly built on our technological edge, investing roughly 5 per cent of our turnover in research and development. In 2003 this investment amounted to 930 million dollars.

Our research and development strategy rests on three pillars:

On observing and developing new technologies as the foundation of a long-term and sustainable technological base for ABB.

On developing technological platforms that facilitate efficient product design for customers in the energy and industrial sector.

And, finally, on developing the next generation of products and systems for driving profitable growth.

Here are two examples from a list of 50 pioneering ABB technologies that you can read about in the annual report.

We see here part of a modern HVDC system in China. HVDC stands for high-voltage direct current transmission.

This technology was developed by ABB 50 years ago. Today, with a transmission capacity of 40,000 megawatts installed worldwide, we have a market share of over 50 per cent.

On the right you can see the cable of a new HVDC Light link which is suitable, for example, for underground power transmission.

Another important ABB innovation is currently being launched on the market.

The new 800xA system is part of a long tradition of similar process control systems, already purchased by our customers, from BBC, Asea, Elsas Bailey or other companies that are today part of ABB.

A process control system is the heart of an industrial plant or power station.

The 800xA system allows maintenance technicians or the plant manager to monitor and control a drive, a valve or a complete plant unit with a mouse click.

The first orders for this powerful systems technology have already come in.

Ladies and gentlemen, as you can see, ABB is based on solid technological base - our roots in quality technology go back some 120 years.

So it is that we describe our journey into the future as an evolutionary process - as a logical development of ABB from of its core.

Revolutions with rapid abrupt changes or other adventures are not on our agenda.

In the operational sphere, it is a matter of fine tuning, and continuous measurable improvement, but not of any fundamental reorientation in our portfolio.

ABB enjoys very strong market positions, and often it is a matter of structure and internal coordination that diminish our result, and push it below that of the competition.

Ladies and gentlemen, we must also take care of our corporate culture and our leadership culture.

In the last few years ABB's employees and shareholders have suffered a lot - too much. We know that we have not lived according to our values.

Reviving a productive corporate culture has a lot to do with the quality of its leadership and with the values and attitudes that it embodies.

I am impressed by the enthusiasm of ABB's workforce, which has been rejuvenated, thanks to a new climate of openness.

We want a culture imbued with values and motivation, and an open style of leadership.

This should enable each one of us to behave as an example in his or her particular area, and act with initiative and entrepreneurial spirit.

Today at ABB we speak of three basic values, or business principles, which should characterize the attitude of all employees at ABB.

We must accept responsibility vis-à-vis customers and in society, and show determination and respect.

Leadership figures must combine ability, purposefulness and integrity. Where that is not forthcoming, we must act - just as we did last week - when we removed two leading managers from their posts because they infringed existing guidelines. In matters such as these we pursue a policy of "zero tolerance".

Another inglorious example: In the oil and gas business, we took measures when first in West Africa and then in other regions, dishonest business practices came to light.

The investigation launched by the US authorities - in the form of an in-depth examination of the books - affected our business results by 40 million dollars.

Everyone in the company has to be aware that dubious or illegal behavior not only damages the reputation of the company but also the business itself.

There is no way to success other than through real competition, and fair dealings with everyone who comes into contact with us.

Ladies and gentlemen, the motivation of our employees depends a lot on the trustworthiness of our company's executives and so we must and will attend to the corporate culture and the accountability of management.

A good company culture enables us to be constructive and act sustainably in the communities where we operate.

Thanks to these strengths, we also contribute to economic, ecological and social development wherever we are involved in business.

Ladies and gentlemen, let me say in conclusion: Our objectives for 2005 ... are key milestones on our road to profitable growth and to reach a credit rating that allows ABB as a leading industrial corporation to thrive commercially.

You know our objectives, but let me repeat them once more.

First: average compound annual growth in local currencies of 4 per cent for the years 2002-2005.

Second, EBIT margin: 8 per cent in US dollars for 2005.

Third: total debt: 4 billion US dollars by year-end 2005.

Fourth: level of gearing - 50 per cent in 2005.

These are the objectives on ABB's road to the future, as the leading power and automation technologies company.

The Group Executive Committee team that you see before you, supported by the board of directors, this team has engineered the turnaround and this team - supported in future by Fred Kindle - will lead ABB back into a period of profitable growth.

Ladies and gentlemen, thank you for your kind attention.