



# **Chairman's Statement**

At the  
56th Annual General Meeting  
26th May 2006

**Statement made by Mr. Dinesh Paliwal, Chairman, ABB Limited, at its 56th Annual General Meeting held at Bangalore on 26th May 2006**

*Ladies and Gentlemen*

*I cordially welcome you all to this 56th Annual General Meeting of the Company. Before proceeding with the agenda items as per Notice convening this meeting, I would like to share with you some views on the current business environment, the Company's operations during the year 2005 and throw some light on future business prospects.*

**Business Environment**

The growth in India's GDP (Gross Domestic Product), estimated at 8.1% for the year 2005-06 is expected to be maintained around the same level in the year 2006-07. This sustained growth, coupled with reducing fiscal deficit augurs well for the economy. Rising income level and higher discretionary consumer spending is expected to create further demand 'pull' in the economy. Meanwhile, the ongoing focus on infrastructure spending adds to demand creation.

The power sector continues to be a key driver of growth. The Government has recently announced several initiatives to spur new generation capacity addition, including seven ultra mega power projects of 4000 MW each. The Electricity Act 2003 is also beginning to bear fruit. The National Electricity Policy aims at providing reliable, affordable and quality power for all by the year 2012. During 2005, the Central Government launched the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) for building rural power infrastructure and bringing access to electricity for millions of households. Other areas that need to be addressed include speedy implementation of hydro and other generation projects, fuel linkages for power plants, reduction of T&D losses and acceleration of distribution reforms at the state level.

The industrial sector continues to remain buoyant. Industrial growth at 8 to 10% with a strong performance by the manufacturing industry and capital goods sector remains a key driver for the Indian economy. Extensive investment programmes are underway in many sectors like ferrous and non-ferrous metals, construction, oil and gas, cement, pharmaceuticals, automobiles and pulp & paper. The new Special Economic Zones (SEZ) Act, 2005 has thrown open several new opportunities for development of SEZ units and this proposed investment will act as a further catalyst to India's economic growth.

Exports crossed the 100 BUSD mark in 2005-06. FDI inflows increased more than 40% during 2005-06 to 7.5 BUSD and are expected to touch 10 BUSD in 2006-07. The financial climate remains conducive and stock markets have been at an all time high. Foreign exchange reserves have crossed US \$ 150 billion. Inflation levels have remained under control although rising prices of oil and other basic raw materials like steel, copper and aluminium in the international and domestic markets continue to be an area of concern. With increase in demand for credit, interest rates have recently started increasing after remaining stable for the last couple of years.

The government has set its sights on a 10% GDP growth vision. Macro economic trends are encouraging and the business climate continues to be positive.

**Operations**

During the year 2005, the Company secured orders worth Rs 37,645 million, 45 per cent higher in comparison to Rs 25,878 million in the previous year. This resulted from macro economic growth, continued power sector reforms, and increased momentum in the

industrial and building sectors, leading to higher orders across divisions. In addition to the success in project orders, the standard product business grew rapidly, supported by services and exports. The channel partner network for standard products was further extended during the year, and 'e'-initiatives continued to yield good results. A dedicated Channel Business team has been constituted to provide focus to this fast growing business. Revenues at Rs 30,141 million were higher by 31 per cent compared to 23,056 million in the year 2004. As a result of the strong order intake, the order backlog was further augmented by 57 per cent to Rs 21,032 million as compared to Rs 13,356 million at the beginning of 2005. This will continue to support strong revenue growth in the future.

Profit before tax and exceptional items was Rs 3,395 million as compared to Rs 2,365 million the previous year resulting from volume growth, operational efficiencies and higher financial income. Net profit after tax at Rs 2,187 million for the year was 42 per cent higher than the previous year. Earnings per equity share (face value Rs 10) were also significantly higher at Rs 51.60 compared to Rs 36.41 the previous year. The Company continued to focus on working capital and inspite of significant revenue growth and higher capital expenditure, the cash position further improved during the year.

The Company carried out significant expansion of manufacturing capacities and continued to expand its range of offering, introducing several new products during the year. In addition to capacity and range expansion, the Company also upgraded and modernised many of its facilities, further enhancing efficiency and productivity. A new insulation kit manufacturing facility for power transformers was commissioned in Halol, Gujarat, and a new manufacturing facility for Ring Main Units established at Nashik to help meet growing market needs. Product range expansion during the year included a new range of drives, contactors and PLCs among others. During his recent visit, ABB Group President and CEO Mr. Fred Kindle inaugurated the Global Operations and Engineering Centre and new manufacturing facilities for LV Motors and Control Products at Bangalore. A new unit for low voltage Distribution Electricals is also being established at Haridwar to cater to rising market demand.

Given the growth of the Company and the buoyancy in the Indian economy, the human resource function focused mainly on recruitment, integration, development and retention of human talent. Around 1,000 employees were recruited during the year. Strengthening of internal controls and compliance, maximising of operational efficiencies and optimising working capital were other key management focus areas, fostering sustainable and profitable growth.

ABB continues to invest in research and development to maintain its high intensity of innovation and stay ahead in an increasingly competitive and networked world. The Global R&D center at Bangalore is being significantly enhanced as part of the philosophy of having R&D close to markets and manufacturing hubs.

Occupational health and safety continued to remain a key focus area. An extensive safety policy and dedicated safety organization is in place, across locations. All manufacturing units of the Company have been OHSAS 18001 certified. Regular factory and project site safety reviews are in place. The company has also conducted a number of safety training programmes and initiated several communication measures to enhance awareness and ensure a safe working environment for all stakeholders.

As part of its sustainability commitment, the Company continued to be actively involved in several community development projects. Some of the initiatives underway, include 'Project Roshni' to facilitate employment opportunities for the physically and mentally challenged. The company also initiated its 'access to electricity' programme for providing power to remote areas, starting with a project in Rajasthan. The education thrust continues with infrastructure and other support being provided to ten schools for

underprivileged children, across the country. The midday meal programme and health camp initiatives also continued. Environmental initiatives undertaken include greening programmes, recycling, energy conservation and rainwater harvesting. The company also continued to strengthen its relationship with academia, working with leading engineering colleges and universities, as well as supporting lab facilities and educational exchanges.

The company's growth and achievements have been well acknowledged by all its internal and external stakeholders. Amongst the acknowledgements, the company was adjudged 'Star MNC of the year' by a leading financial daily and a top stock performer by a leading business channel, besides being ranked among India's leading corporates across several prominent independent ratings. The Company also recently received the Helen Keller award from the National Centre for Promotion of Employment for Disabled People (NCPEDP) for facilitating gainful employment of people with disabilities.

### **Future Prospects**

With India's economic growth gathering pace, increased focus on infrastructure development, accelerating power reforms and resurgence of several core industrial sectors, the domestic market presents several growth opportunities. The Company is well poised to further strengthen its leadership position across the businesses it represents. Meanwhile, the ABB Group continues to focus on India both as a market and a key resource base for projects, products, services and R&D skills and shall leverage the Indian operations to optimise its 'global footprint'. The Company is expected to continue to grow its core businesses, expand its portfolio, increase market penetration and augment manufacturing and engineering capacities to maximise business opportunities. The Company remains committed in its objective to pursue the path of profitable and sustainable growth, maximising operational efficiencies and striving to attain the highest standards of customer focus, quality, technology and innovation, productivity, corporate governance and social responsibility. The overall outlook for the Company continues to be positive.

### **Acknowledgement**

I would like to place on record my sincere thanks to all customers, channel partners, shareholders, suppliers, the Government, banks and financial institutions and other stakeholders for their support, partnership and invaluable contribution in facilitating the success of the company. I would also like to thank the ABB Group for their unstinted support to the Company's operations and my colleagues on the Board for their guidance and support. Before I conclude, I would like to convey, on behalf of the entire Board and all shareholders, our sincere appreciation to the Management and employees for their hard work, commitment and continued dedication in nurturing the Company's business principles and taking it from strength to strength.

I thank you all for your kind attention.