

Joe Hogan
ABB Chief Executive Officer
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Check against delivery

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Dear shareholders,
Ladies and gentlemen,

Business and team sports have much in common. Both are competitive and rely on good teamwork. The goal is to win, and only those who play fairly are widely admired. This is what we aim for at ABB. We want to be the best company in our sector and we want to be recognized for our fair play and integrity. This is what makes us attractive to investors and to the talented people we want to have working for us.

I want to focus today on how we are performing against this measure, starting with our recent performance before looking ahead to the opportunities and challenges we face.

Managing the downturn

The 2 ½ years since I joined ABB have been quite extraordinary. In fact, I don't think anyone in business today has experienced such turbulence on a global scale as we've seen in this period. All major economies shrank, with Japan and the euro area leading the way with contractions in 2009 of 6.3 percent and 4.1 percent, respectively. World trade collapsed, falling by 11 percent. Credit was hard to get.

The most severe downturn in 70 years now has its own name: economists are calling it the Great Recession.

But every crisis is also an opportunity. Over the past two years, we have accelerated programs to build up our operations in the fastest-growing markets of eastern Europe, Asia and Latin America in particular so that we can be competitive with local players and so that we can better serve the growing number of customers that we have in these markets.

We have also accelerated programs to improve productivity in our own plants, and to streamline procurement by using our scale to obtain the best conditions and by tapping suppliers in lower-cost countries.

These programs have saved us more than \$3 billion over the past two years, giving us the flexibility to invest more in activities that drive growth. We increased spending on research and development once again in 2010, bringing the rise in R&D spending over the last four years to 24 percent, and we increased spending on sales and service activities. This is paying off in order growth and a steady rise in service revenue.

We have spent about \$6.3 billion in the past year on acquisitions and on the equity stake in our Indian business. These have helped to better position the business in key markets and product areas, and I'll come back to these later.

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In addition, we established a venture capital unit, which has been very active. Through this unit, we have made a series of strategic investments in companies with promising technology in the areas of wave and wind energy, electric vehicle infrastructure, cyber security and power security. These investments ensure that ABB is well positioned as these markets mature and grow. This is not only our opinion: we last month won a major award in the US in recognition of the environmental benefits of our technology.

The benefits of all these activities are already showing. We experienced a smaller decline in our revenue over the past two years than any of our main competitors and remain one of the most profitable companies in the sector. Our revenue in 2010 was just 5.7 percent lower than in 2008, which after several years of booming economic growth worldwide was ABB's best year ever.

On other measures we set new records in 2010. We ended the year with a record order backlog of more than \$26 billion and achieved our highest-ever free cash flow at almost \$3.4 billion. Our cash flow is the best in the sector and our balance sheet remains one of the strongest.

Our savings have given us lower administrative costs than most of our peers and we believe we can do better still.

The past two years have been outstandingly tough: Our ability to reduce costs and maintain the levels of orders, revenue and profitability close to those of record years has ensured that we are succeeding in our quest to be the best company in our sector.

The first-quarter results that we announced two days ago confirm that we're gaining traction in terms of both growth and profitability.

We generated a double-digit rise in orders and revenue in the quarter compared with the same period last year, even excluding the impact of the acquisitions we made. Orders were higher in all divisions and revenue rose in four of the five divisions.

The strong demand, combined with our success in executing orders and in managing costs, also contributed to a strong increase in earnings in the first quarter.

A changing world

Without a doubt, we have seized the opportunity offered by the downturn and have emerged as a fitter, leaner, more competitive company. Why is this so important? It matters because the world is changing very rapidly, and this presents us both with enormous opportunities and with challenges. We will need to be adaptable and dynamic to make the best of the chances at hand and to overcome the hurdles.

Let me talk about some of the opportunities. China, the world's most populous country, is a good place to start. The economy of China has been growing at an average of more than 10 percent for the last few years. China now has eight cities with a population of more than 10 million, and a staggering 93 with more than 5 million. By comparison, in the US only New York City has a population of more than 5 million!

Even so, just 47 percent of the Chinese population lives in cities, compared with 60 to 70 percent in mature economies. With so many fast-growing megacities, many Chinese provinces have very ambitious plans for the expansion of their rail networks and clean energy activities, for example. China's economy is forecast to continue growing at about 8 percent per year, which means that by 2020, it will have six provinces generating goods and services worth more than \$1 trillion per year, equal to six economies the size of Russia, Spain or Canada.

China is becoming a powerhouse, but the story is much the same everywhere: India, Brazil, the Middle East and also – though receiving much less attention – South Asia and Sub-Saharan Africa.

It is clear why such growth is a major opportunity for ABB. Despite their recent advances, these regions continue to suffer from an underdeveloped infrastructure and require unprecedented investment.

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McKinsey, the consultant, estimates that around \$8 trillion dollars will be committed to infrastructure projects over the next decade in Asia alone. It says that more than 80 percent of infrastructure investment in the region over this period will be in energy and transport, the sectors most critical to supporting heightened economic activity.

The McKinsey analysis also suggests that much of the new investment will be in advanced technologies, an assessment reflected in research on China's power network by the bank UniCredit: development of the Chinese ultrahigh-voltage backbone to transmit large volumes of power over long distances will be the most important part of domestic grid development over the next five years, it says. Investments are likely to exceed \$76 billion for 11 projects with a total length of 40,000 kilometers.

This technology is of course one of ABB's specialties. We last year commissioned the world's first ultrahigh-voltage DC transmission link in China and we are currently building the world's longest in Brazil. Last month we were selected to deliver a similar project in India, which at close to \$1 billion would be the biggest order in our history.

The economic growth of these regions translates into better standards of living, higher consumption and more factories to produce the goods. As one of the world's biggest factory automation companies, the rapid growth in industrial production is also fueling demand for our factory control systems, robots, sensors and of course motors. Two-thirds of the electricity consumed in industry is used to run processes driven by motors, and ABB is one of the largest makers of electric motors worldwide.

Industrial growth is also driving a global boom in the mining and minerals sector. Every car that's built, for example, requires about 20 kilos of copper, and 10 kilos each of zinc and lead. Every mobile phone contains copper, silver and gold, among other metals. ABB is a significant player in the mining sector and it has been a very active industry generating strong demand around the world: as an example, we last year completed a project to expand and increase the productivity of a mine in Sweden that represented \$84 million worth of orders from across our portfolio, including low-voltage products, motors, gearless mill drives, transformers, harmonic filters and a control system to manage the mining operations.

Cement is another industry that is benefiting from the massive investment in infrastructure and housing. Our motors and drives are extensively used in the industry, and we have several solutions specifically developed for cement makers, such as software that improves the productivity and energy efficiency of their plants. We are currently working with Holcim to install ABB's newly developed heat recovery and electrical power production system at a cement plant here in Switzerland. This innovative solution based on Organic Rankine Cycle technology will allow the plant to considerably reduce its energy costs and operate more efficiently.

The growth of emerging markets is currently driving the global economy, but this is certainly not the only major trend that is relevant to our business. The world economy is less homogeneous than it was before the crisis. Broadly speaking, we are seeing a world with three zones that have quite different prospects and that are making quite different policy choices. The US is pursuing an expansionary monetary policy to revive its economy, and this is affecting the whole of the Americas because of the importance of the dollar to this zone. Europe, dominated by the euro, is taking an approach focused more on austerity to reduce its debt and restore competitiveness. As for the emerging markets of Asia, the Middle East and Africa, inflows of money and rising prices are driving growth and inflation, but may well lead to tighter monetary policy and rising currencies in the near future.

For ABB, these trends mean that we will intensify our efforts to be self-sufficient within these three areas. Our goal is to strengthen the capability to design, engineer, manufacture and sell in each region the goods intended for that region, as well as to source the related materials that we need within the region. This will minimize our trade between the three blocks and thereby minimize a number of risks and costs.

It will clearly reduce transport and logistics costs, as well as our carbon footprint. In an era of rising energy prices this is an important factor. A greater proximity to our end markets will also allow us to further increase the speed and flexibility with which we respond to our customers' needs. Another important consideration is that self-sufficiency within the zones will help to protect us against any major shifts in the

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currencies that dominate the different blocks as a result of the different policies adopted in each zone. Finally, self-sufficiency within the zones will provide greater protection for ABB in the event that policy makers raise market barriers around such trading blocks.

We have come a long way in the past few years toward balancing our presence globally, with about half our revenue, employees and suppliers in mature markets and the other half in emerging markets. The next stage is to ensure that we also have an adequate regional balance to reflect the diverging trends in these regions.

A third major trend I'd like to highlight is concern about climate change. In an effort to accelerate the transition to a low-carbon energy system, governments around the world are introducing programs, standards and other measures to improve energy efficiency and support renewable energy.

The European Union is committed to cutting emissions by 20 percent by 2020, compared with 1990 levels. The United States, although often seen as a laggard when it comes to tackling climate change, introduced regulations on high-efficiency motors last December ahead of similar measures in Canada, Mexico and the EU this year. This is one of the reasons why the acquisition of Baldor, a leading North American maker of high-efficiency motors, was so attractive. The US is also poised to regulate emissions from coal-fired power plants that would require significant investments.

Emerging markets are equally focused on the climate change issue. India, currently the world's third-largest producer of carbon dioxide emissions, is committed to limiting future carbon output with strategies that include new fuel-efficiency standards for cars and trucks, a green building code, and a mandate that 20 percent of India's energy come from renewable sources by 2020. China is already a leader in this field and accounted, for example, for 46 percent of the wind power capacity installed worldwide in 2010.

The focus on climate change measures is more relevant to ABB than most people realize. We are one of the largest suppliers of electrical products and services to makers of wind turbines, and have contributed to many solar plants, yet wind turbines and solar panels are just the tip of the iceberg when it comes to creating a low-carbon energy system.

First, the greatest opportunity for reducing emissions comes from using energy more efficiently, and ABB derives a larger share of revenue from energy-efficient products than most of our competitors. Second, the real challenge with new sources of renewable energy is integrating the power they generate into the grid. Sometimes the challenge is distance, because the best source of wind is out at sea and best source of sun is in the desert: this is where our DC transmission technology is in demand. Mostly, however, the challenge is intermittency: how can we turn energy that can only be harvested in the right weather conditions into a stable and predictable supply?

In other words, the really big change that needs to happen to create a low-carbon energy system is the evolution of our power networks to manage these challenges. They need to become more flexible, reliable and efficient. This evolution is what is meant when people talk of "smart grids," and it is to remain at the forefront of their development that we acquired Ventyx last year. The Ventyx software solutions for utilities and industry complement our own energy management offerings and strengthen our contribution to the development of such smart grids.

So you can see that there is no shortage of opportunities. At the same time, we are aware that the way the world is changing also brings considerable challenges. As emerging markets grow and develop they are bringing forth new competitors keen to expand globally and typically benefiting from a lower cost base. In this environment, our traditional competitors are also changing fast so that we can expect new challenges on this front as well.

Strengthening our culture

Business as usual is not an option to deal with either the opportunities or the challenges that we face today. I spoke earlier about how we had taken advantage of the crisis to become a leaner company, and I want to finish my remarks here today with an overview of the ways in which we have also used this turbulent period as a chance to refocus our culture to be successful in this new environment.

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First and foremost we are making sure our attention is firmly focused on the world outside ABB. This is one of the main roles of the team set up last year under Brice Koch and of the position taken up by Frank Duggan on the Executive Committee in March. As head of Global Markets, Frank will ensure the regional perspective and opportunities receive our full attention, while Brice is working to ensure that we serve our customers the way they want to be served and to harness what we have to offer across the Group.

As part of our ambition to be better focused on the outside world we have developed a new method of measuring customer satisfaction. To keep it simple for customers and ensure participation is high we mainly ask them whether they would recommend ABB to colleagues or not. The simplicity of the system means that we can get quick and frequent feedback, and a unique opportunity to address their concerns.

We've already had some notable successes. In one case, a customer complained about continued shipping damage of ABB products. The customer response team worked with him, the freight carrier and the factory to get to the root causes of the problem. Now that the issue is resolved, this customer has a completely new perception of ABB and our business has seen significant growth from this customer. Problems are inevitable from time to time: the issue is how we address them, and we have made this a metric that we will be tracking closely this year.

A second area in which our culture is evolving is the way we work together. As we expand and serve more and more customers that have complex, global operations, our various business units and country operations are learning to work together more efficiently. Our customers rightly view ABB as a single entity, and although we need separate organizational units to make the company manageable, these must not get in the way of how we interact with customers. This One ABB approach to the market requires changes in behavior and attitude. We are putting in place structures, incentives and tools to speed this up.

Third, faced with a rapidly changing world, we need to be very adaptable which is why we are also creating a climate of innovation. ABB has always been outstanding at technical innovation, but innovation doesn't stop there. Being flexible and adaptable requires us to innovate in management, marketing, service and every other area of the company. One example of this type of innovation is our ABB root cause analysis and problem solving methodology. We call it 4Q and it brings together the best of Six Sigma and Lean tools together with some neat change management learning. Building widespread skills and competences in these tools and techniques is key to embedding a real spirit and capability in continuous improvement throughout the Group. It is a pragmatic, fact-based and systematic way of identifying and solving the root causes of operational problems and delivering lasting improvements. It allows us to work on improvements across all businesses and geographies using a common language and approach. We have recently promoted the 4Q program through worldwide communication workshops and are now driving it across the Group.

We can also win by being innovative in the way we approach the market. Our Robotics business, for example, is currently doing very well in China, with good growth since the beginning of 2011. In part, this is because we were a first mover in the industry with a strong local presence and a team that overall has better application competence than the competition, and thanks to a sales team with very good customer relations. Our medium-voltage drives business, on the other hand, is still underrepresented in the Chinese market but by localizing production we have managed to lower labor, transport and customs costs, and most importantly have shortened delivery times. This has all translated into a higher order intake in the first quarter.

Innovation in the way we approach the market is also a reason behind the acquisitions of Baldor and Ventyx. These two companies have been extremely successful with business models that are quite different to ours, and we believe it is important to our ability to accelerate innovation to have this variety of experience within the Group. Learning from each other in this way, however, will only work if there is a strong vision binding us together, and it was important for us that Baldor and Ventyx share many fundamental elements of our culture, such as a commitment to quality and technological leadership.

Of course, technical innovation remains paramount for a technology company such as ABB. Our product development activities aim to maintain our lead in conventional technologies, but also to open new

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markets. HVDC, the transmission technology developed by ABB, has opened new possibilities in the areas of hydropower, offshore wind and energy trading, for example.

Innovation has been a hallmark of our turbochargers business and is one of the main reasons why we remain the world leader in this technology. One of the notable achievements of this business last year was the successful testing of two-stage turbocharging on diesel engines and its commercial introduction on gas engines. Both applications achieved the attractive combination of low emissions of nitrogen oxides, enhanced fuel efficiency and higher power density.

We are also innovating in the motors business. At the Hanover Fair earlier this month, we launched a new motor concept that makes it possible to increase the output of a motor compared with its frame size and thereby reduce the size of equipment. Alternatively, the same technology can be used to build very efficient motors.

Technical innovation therefore remains key, even as we extend the concept of innovation to all of our activities.

The fourth element of the ABB culture that we are seeking to entrench is the evolution of compliance from a rules-based function into a behavior-based business activity. What I mean by this is that we are working to embed integrity into the way we think about and conduct business, so that employees act with integrity because it's the right thing to do rather than because they are simply following rules.

To do this, we are combining business targets with clear priorities based around the central idea that to work at ABB, one must work with integrity. This approach to business must become second nature and requires good leadership and training.

Pursuing our ambition

Ladies and gentlemen, a successful business is also like a successful sports team in another way to those I mentioned earlier: people work well together because they enjoy what they are doing and have fun together. One of the great strengths of ABB is the passion of employees for what they do. I have rarely seen so much enthusiasm and commitment. There is also a tremendous cultural diversity throughout the senior leadership that gives us a broader understanding of the opportunities and challenges we face in a rapidly changing environment.

And if ABB is like a successful sports team, you are the fans. It is a very exciting time to be in this business and I'd like to thank you all for continuing to support us. ABB is an excellent company in very good health. We have navigated the downturn of the past two years extremely well and improved our competitive position. Over the past five years, ABB has delivered a higher return for shareholders than any of our international competitors. We have outperformed our peers on many measures and will pursue our ambition to remain among the best-performing companies in our industry. We will achieve this goal by benchmarking our activities and performance against those of others, and through our culture of continuous improvement.

Given the tremendous opportunities open to ABB in core areas of our power and automation activities, we will continue investing aggressively in growth initiatives, from equity investments to acquisitions, and from R&D to sales. As in 2010, we will continue to maximize our flexibility and our ability to generate cash by keeping a tight rein on costs.

We see the world changing fast, but we also believe in shaping the way it is changing by developing technology that will help to solve one of the great challenges of the 21st century: raising living standards for billions in a sustainable way. How we use energy, water and other resources is at the core of this challenge.

Thanks for your attention.