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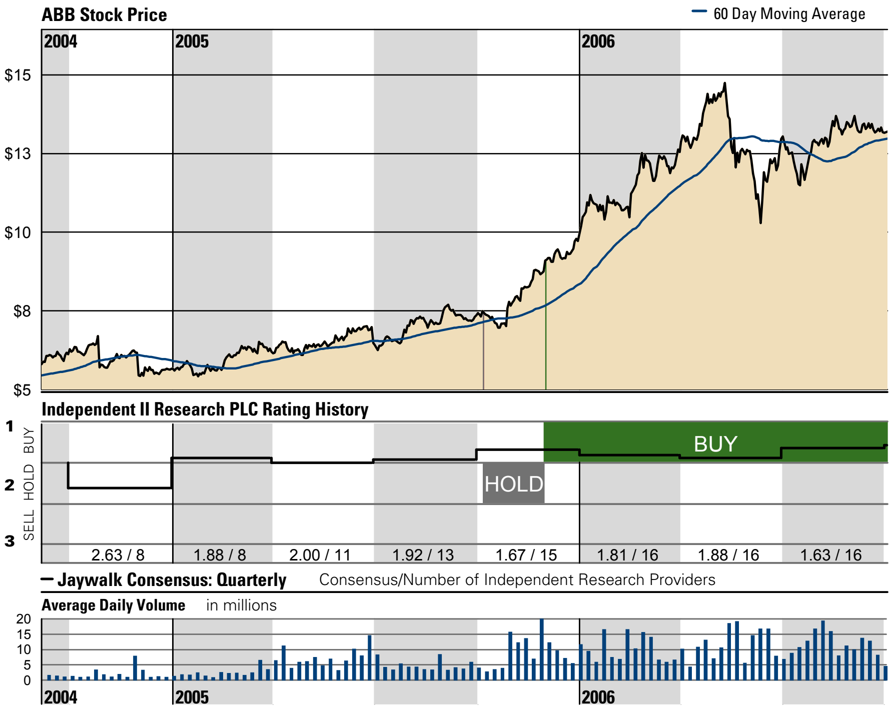
Research selected from

**INDEPENDENT II RESEARCH PLC**

# ABB, Limited ADR (NYSE: ABB)

## Rating History vs. Stock Price




## Company Description

ABB Ltd. was incorporated on March 5, 1999, under the laws of Switzerland. The Company is a provider of power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. It serves electric, gas and water utilities, as well as industrial and commercial customers, with a range of products, systems and services for power transmission, distribution and power plant automation. The Company also delivers automation systems for measurement, control, motion, protection and plant optimization across a full range of industries. The Company applies its expertise to develop creative ways of integrating its products and systems with its customers' business processes to enhance their productivity and efficiency. The Company manages its business based on a divisional structure. As of December 31, 2005, its core businesses comprised two divisions: Power Technologies and Automation Technologies. These, in turn, were subdivided into a total of five business areas, two in Power Technologies division and three in Automation Technologies division. The Company's Power Technologies division serves electric, gas and water utilities, as well as industrial and commercial customers, with a range of products, systems and services for power generation, transmission and distribution. Power Technologies Products business area includes the Company's medium-voltage products, high-voltage products and transformers businesses, develops, manufactures and sells a range of products, such as high- and medium-voltage switchgear, breakers for all current and voltage levels, power and distribution transformers and cables, apparatus and sensors.

## Overview of Independent II Research PLC

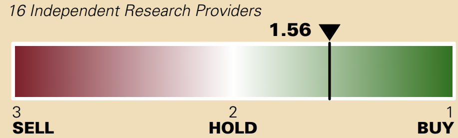
Independent II Research PLC (LSE:IIR) is a London-based research group which specializes in non-US company research. The Group and its offshore research units have been delivering currency research since 1996, and equity research to the global investment community since 2000. Generally, each investment opportunity in the common stock is assessed for potential to rise or fall by 10% or more on company fundamentals, before examining the technical condition for the stock in order to reach a rating conclusion for the common stock. The currency impact is then assessed, to determine whether a negative or positive impact will drive a different rating for the ADR. An overall rating is provided, but the three key components in the rating are all articulated individually in order to maximize visibility of the drivers. A stock with a fundamental buy view, supported by technical buy or hold view, will be given a BUY rating; whereas a fundamental buy that fails the technical test will be downgraded to a HOLD rating. A second "filter" is then applied to examine the currency risk to determine the real prospective US$ return. It is essential to consider that local currency returns can be boosted - or undermined - by currency fluctuations. IIR applies a 6-24 month time horizon to ratings, which are reviewed quarterly. Ratings may also be updated on any technical change in the company's stock or the market, and on any unanticipated company announcement.

### INDEPENDENT II RESEARCH PLC OPINION ON 10/04/2006:

| NEGATIVE SELL | NEUTRAL HOLD | POSITIVE **BUY** |
|---|---|---|
| 3 | 2 | 1 |

### JAYWALK CONSENSUS ON 10/04/2006:

*16 Independent Research Providers*




### KEY STATISTICS

as of 10/03/2006

*Fundamentals correspond to any company factor that could be important to the understanding of a business and its value. Yield is the annual dividend divided by the stock price from the beginning of the fiscal year. Liquidity ratio is a measure of how much dollar volume is required to move a stock's price up or down by one percentage point.*

| | |
|---|---|
| Industry | **Industrial Electrical Equipment** |
| Sector | **INDUSTRIAL GOODS** |
| Close Price | **$13.18** |
| 52-Week Price Range | **$6.92 - $14.85** |
| Volume | **1,742,600** |
| Average Daily Volume | **2,394,800** |
| Market Capitalization | **$27.41 Billion** |
| Enterprise Value | **$27.55 Billion** |
| P/E (Trailing) | **29.30** |
| Dividend as of 05/04/2006 | **$0.08** |
| Dividend Yield | **0.6 %** |
| 5-year Historical EPS Growth Rate | **--** |
| Liquidity Ratio | **$30,994** |
| Shares Outstanding | **2.08 Billion** |
| Employees | **103,500** |

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1. Jaywalk operates a network of Independent Research Providers who post stock reports and recommendations to the Jaywalk platform.

2. An Independent Consultant has been appointed to your financial service firm to select IRPs from this network based upon an evaluation of IRP merits. Considerations include independence, stock coverage, research background and philosophy, performance of past stock recommendations, and report usability.

3. Selected IRPs produce stock-specific research reports that Jaywalk "wraps" with a uniform first page (this page) and two pages (at the end of this report) containing standard financial data and Jaywalk Consensus data on the stock.

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Jaywalk

INDEPENDENT INTERNATIONAL INVESTMENT RESEARCH PLC
Registered in England and traded on AIM, part of the London Stock Exchange (LSE:IIR)

| Update Report – 2Q 06 Results* | ADR: BUY | Target Price: US$15.85 |
|---|---|---|
| | Common Stock: BUY | Target Price: CHF23.14 |

# ABB Ltd.

ADR (ABB): US$13.18
(ABBN.VX Common Stock: CHF16.40)

***Sharp increase in orders and profitability***

04 October 2006

**Fundamental research** indicates a **20% upside** in the ADR for the coming 6-12 months. The company reports in US dollars, which is assumed to be its major trading currency. As a result, the impact of currency movements on the ADR is assumed to be neutral. The technical condition of the ADR is reiterated a HOLD. **We reiterate the ADR (1 ADR = 1 share) a BUY based on fundamental factors, with a 6-12 month target of US$15.85.**

**Commentary: The Swiss common stock is expected to rise approximately 41% over the next 6-12 months. Approximately 21 percentage points of this upside is attributable purely to the anticipated depreciation of the Swiss franc against the US dollar over the same period** (see 'Currency impact', below). We continue to take a 6-12 month investment horizon for this stock as we expect a significant currency impact on the common stock over the medium term[1]. **We reiterate the common stock a BUY with a 6-12 month target of CHF23.14.**

**Next news due: 3Q 06 results, 26 October 2006**

Ratings are for a 6-12 month horizon: **Buy recommendations** are expected to improve in US dollar terms based on consideration of the fundamental view, the technical overlay and the currency view overlay by at least 10%. **Hold recommendations** assume that value is fully reflected in the current share price or that the technical overlay contradicts the fundamental view or that the overall view on the stock is fully compensated by the currency view overlay. **Sell recommendations** are expected to deteriorate in US dollar terms, based on consideration of the fundamental view, the technical overlay and the currency view overlay, by at least 10%.

**Currency impact for US investors:**

The company reports in US dollars, which we assume is its major trading currency. Earnings forecasts are therefore also expressed in US dollars. Although the company may have costs as well as revenues in other currencies, we assume that the net risk is minimized through effective hedging strategies. As a result, the impact of the currency movements on the price of the ADR is **assumed to be neutral**. Where specific currency risks are identified these will be highlighted in the report.

**Currency impact on the common stock:**

The impact by itself of the anticipated currency movements on the Swiss common stock (now CHF16.40), without considering changes in the share price, is **positive** and is expected to be:

**Over 6 months: CHF17.66**

**Over 12 months: CHF19.24**

# INVESTMENT THESIS

### 2Q 06 results review

ABB Ltd. (ABB) announced its 2Q 06 results, reported under IFRS, on 27 July 2006. While revenues were marginally below market expectations, EBIT and net income were above expectations.

*Strong order growth:*
In 2Q 06, ABB witnessed strong growth in order book across most of its divisions and regions. The group's order book increased 18.8% y-o-y to US$7,279 mn. The strong order growth was driven by demand growth in ABB's power and automation markets across regions. In 2Q 06, group revenues increased 5.4% y-o-y to US$6,001 mn. The significant difference between order and revenue growth is because of the high proportion of large orders in the order book, for which order execution and therefore revenue recognition may extend over several quarters. Continued investments by Western European utility companies to refurbish their existing power infrastructure, high demand in the US utility market to replace aging equipment, to meet increasing load requirements, and robust economic growth in Asia and Middle East supported by higher consumer spending, aided ABB's order book growth.

*Improved profitability:*
ABB's consolidated EBITDA increased 51.0% y-o-y to US$779 mn in 2Q 06. The growth was primarily driven by impressive top-line growth in Power Products and Automation Products divisions and improved project quality and execution in Power Systems and Process Automation divisions. The company also achieved significant margin expansion due to the positive impact of higher prices, improved operating efficiency and capacity utilization in the Power Products and Power Systems divisions. Further, the company has achieved significant cost saving due to its restructuring initiatives, resulting in total operating cost, as percentage of revenue, falling from 75.6% in 2Q 05 to 71.9% in 2Q 06. Consequently, ABB's consolidated EBITDA margins increased 3.9 percentage points to 13.0% in 2Q 06 from 9.1% in 2Q 05. The group's EBIT also increased significantly to US$640 mn, registering 72.5% y-o-y growth. However, the company's net income, excluding non-recurring items, increased at an even faster rate of 147.9% y-o-y to US$357 mn due to lower finance costs and higher non-operating income.

Note: Refer to page 9 for all footnotes.

In 2Q 06, ABB's diluted Earnings Per ADR (EPADR), excluding non-recurring items[2], was US$0.16 compared to US$0.07 in 2Q 05. Consensus EPADR estimate for 2Q 06 is not available.

**Management has reiterated strong growth expectation for 2H 06**

*Management's outlook for 2H 06*

Management expects the demand for power transmission and distribution infrastructure to continue growing in Asia and Middle East during 2H 06. The drive to replace equipment and improve network efficiency and reliability in Europe and North America is expected to drive demand for utility infrastructure equipments. Management expects automation-related industrial investment to be strong in Asia and Americas and modest in Europe for the remaining part of the year.

**Quarterly comparison (IFRS)**

| All figures in US$ mn, unless specified | | 2Q 05A | 1Q 06A | 2Q 06A | q-o-q growth | y-o-y growth |
|---|---|---|---|---|---|---|
| Net revenues | | 5,696 | 5,420 | 6,001 | 10.7% | 5.4% |
| EBITDA | | 516 | 644 | 779 | 21.0% | 51.0% |
| | Margin | 9.1% | 11.9% | 13.0% | 110 | 392 |
| Net income* | | 144** | 294** | 357** | 21.4% | 147.9% |
| | Margin | 2.5% | 5.4% | 5.9% | 52 | 342 |
| Diluted EPADR (US$)* | | 0.07** | 0.14** | 0.16** | 14.3% | 128.6% |

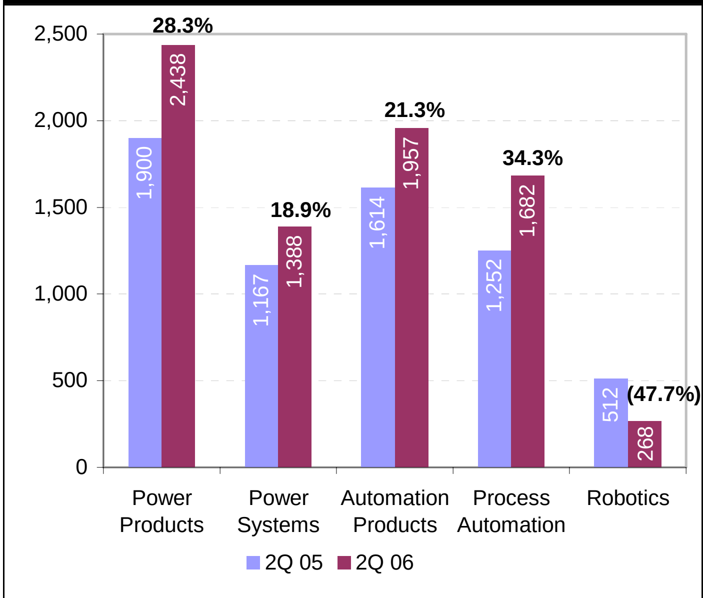
**Excluding non-recurring items, **IIIR adjusted to exclude non-recurring items*
*Source: Company data, IIIR estimates, Bloomberg*

**ABB posted strong order growth in four out of its five business divisions in 2Q 06**

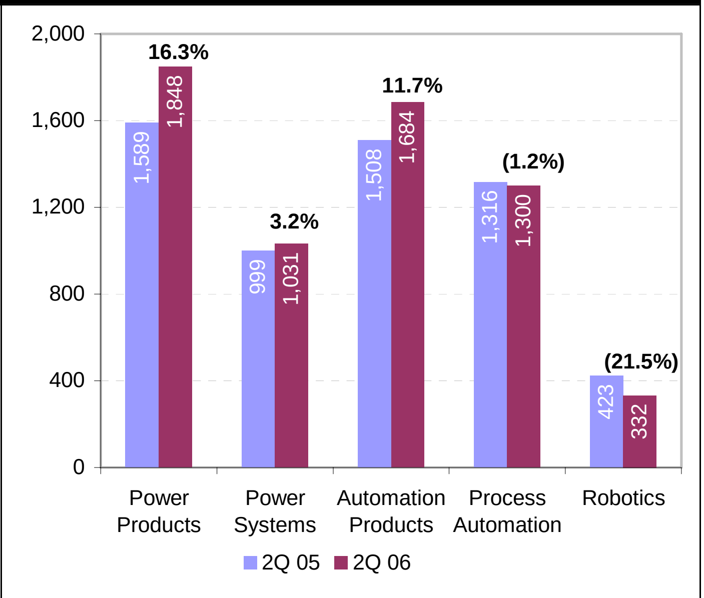
### Healthy growth across segments continued in 2Q 06

The internal restructuring of ABB's business divisions, implemented with effect from 1Q 06, has achieved results for the company. Under the new organizational structure the company's erstwhile Power Technologies division is re-organized into Power Products and Power Systems divisions, whilst the Automation Technology division is re-organized into Automation Products, Process Automation and Robotics divisions. In 2Q 06, all the business divisions except the Robotics division achieved healthy growth in order book.

**Order book by division (US$ mn)**




**Revenue by division (US$ mn)**




*Source: Company data*

**The Power Products division registered 28.3% y-o-y growth in orders in 2Q 06**

*Power Products division: strong order and revenue growth*

The Power Products division registered healthy growth in order book, with 28.3% y-o-y growth driven by strong growth in Europe, Asia and Middle East. The refurbishment of existing power infrastructure in Western Europe and strong economic growth in Asia were the main growth drivers. Orders in the Americas were marginally higher due to large scale replacement initiatives of ageing power equipments in the US, but which was partially offset by lower order intake in Latin America. The division's revenues grew 16.3% y-o-y in 2Q 06, reflecting both volume growth and higher prices. The positive impact of favourable pricing, operational improvements and higher capacity utilization more than compensated for the higher raw material costs, resulting in 119.8% y-o-y growth in EBIT for the division. Consequently, EBIT margins also improved 6.2 percentage points y-o-y to 13.2% in 2Q 06. However, 2Q 05 EBIT includes the impact of US$66 mn charges relating to the transformer consolidation program, whereas concurrent charges on the same head in 2Q 06 were only US$3 mn. Excluding this one-off charge, EBIT increased by 40.0% y-o-y in 2Q 06. We believe revenue growth in the division will be strong in the coming 6-12 months aided by the already strong existing order book and scope of further order growth aided by strong macroeconomic conditions across most geographies in which the company operates.

**The Power Systems division registered 18.9% y-o-y growth in orders in 2Q 06**

*Power Systems division: strong order growth across businesses*

Aided by sharp increase in large orders, the division's order book increased 18.9% y-o-y. Order growth was strongest in Europe as utilities in Western Europe upgraded infrastructure to improve system efficiency. The need for new power infrastructure drove order growth in Middle East and Africa. However, orders remained flat in Asia as higher growth in India was offset by lower orders in some other countries, including China. In the Americas there was an overall decrease in orders as growth in North America was more than offset by lower orders in Latin America. In 2Q 06, revenue growth for the division was slower at 3.2% y-o-y compared to the strong order growth due to a high proportion of large orders in the order book, for which revenues will be recognized over several quarters. The division's EBIT increased significantly, registering 138.5% y-o-y growth due to higher capacity utilization and improved project selection and execution. Consequently, EBIT margins were up 3.4 percentage points to 6.0% in 2Q 06. We believe that with the execution of the existing large orders the division will witness strong top-line growth in the coming 6-12 months. Further, higher efficiency levels and better utilization is expected to result in bottom-line growth as well.

*Automation Products division: favourable market developments*

Positive market developments helped to increase orders across businesses and regions. The division registered 21.3% y-o-y growth in orders in 2Q 06. Regionally, both Eastern and Western Europe witnessed order growth. In the Middle East and Africa, growth was driven by demand from the oil and gas sector. In Asia, growth was led by India and China and in the Americas by the US. The division reported 11.7% y-o-y revenue growth aided by higher volumes and price increases. Top-line growth and better utilization also resulted in a 29.7% y-o-y growth in EBIT for the division. EBIT margins increased 2.2 percentage points to 15.6% in 2Q 06.

**The Process Automation division registered 34.3% y-o-y growth in orders in 2Q 06**

*Process Automation division: showing signs of improvement*

The division witnessed 34.3% y-o-y growth in orders, driven by strong growth in marine, oil and gas, chemical and pharmaceutical and pulp and paper businesses. Regionally, orders increased in Europe, Asia and the Americas. However, orders were lower in the Middle East and Africa compared to same quarter last year. Reveneues from the division were down 1.2% y-o-y reflecting the time lag in revenue recognition on projects. However, despite almost flat revenues, EBIT from the division increased 15.4% y-oy and EBIT margins increased 1.3 percentage points to 9.2% in 2Q 06, due to improved operational efficiencies. We believe that the revenue growth in the division will recover in the coming 6-12 months aided by an existing order book which includes quiet a few long term projects for which revenues will be recognised over the coming 6-12 months.

*Robotics division: performed poorly*

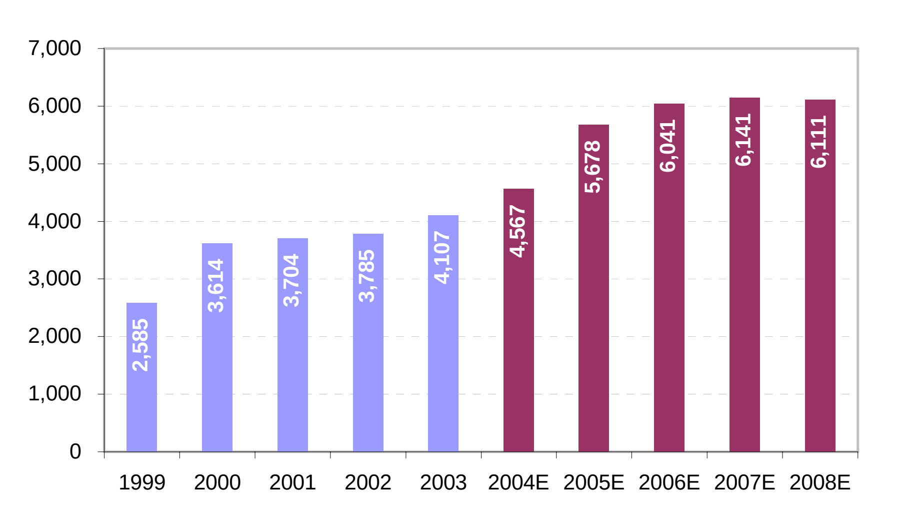
The Robotics division continued to perform poorly in 2Q 06, with 47.7% y-o-y fall in orders and 21.5% y-o-y fall in revenues in 2Q 06 due to weak demand in the automation market, which accounts for 75-80% of the division's business. Due to implementation of certain operational measures to improve performance, the division incurred certain additional costs, resulting in a 74.1% y-o-y drop in EBIT and a 4.3 percentage point fall in the EBITDA margins to 2.1%. Management expects the division's weak performance to continue for the remainder of the year.

**US power transmission investment is expected to be US$28 bn over 2004-2008**

### Favourable developments in US power sector

The US power sector accounts for approximately 10% of ABB's group revenues. Currently, the US power sector is experiencing grid congestion and power shortages due to ageing infrastructure and under-investment. This is evident from the fact that the current average transformer age for US transmission companies is 42 years as against a design life of 30 years. In view of this, industry regulators and the transmission and distribution equipment vendors have outlined significant investments in the US power infrastructure sector. Investment in the US power sector is expected to increase from approximately US$18 bn over the period 1999-2003 to approximately US$28 bn over the period 2004-2008. We believe that this increase in transmission investment in the US will be a positive growth driver for ABB.

**Actual & planned transmission investment by US transmission companies (US$ mn)**




*Note: Figures in real term, with 2003 as base year*

*Source: Edison Electric Institute (EEI)*

*Note: Edison Electric Institute (EEI) is the association of United States shareholder-owned electric companies, international affiliates, and industry associates worldwide.*

### Our outlook for the ABB ADR is reiterated a BUY based on fundamental factors

ABB witnessed strong growth in order book across most of its divisions and regions in 2Q 06 aided by demand growth in ABB's power and automation markets in most of the geographies in which the company operates. However, revenue growth was relatively slow due to the high proportion of large orders in the order book. The Power Products division was the fastest growing division with 28.3% y-o-y growth in orders and 16.3% y-o-y growth in revenues. Order growth was also strong in Power Systems, Automation Products and Process Automation divisions. We believe that the existing strong order book in most of ABB's divisions will drive top-line growth in the coming 6-12 months. Further, there is noticeable improvement in margins in most of its business divisions except the Robotics division. Management has also reiterated its positive demand outlook for the remaining part of the year. The positive developments in the US power sector are also expected to drive growth for the company. Based on these factors, our outlook for the ABB ADR is reiterated a **BUY** on fundamental grounds. The technical condition of the ADR is reiterated a HOLD (see page 10). The common stock is also reiterated a BUY (see 'Commentary' on page 1). We continue to take a 6-12 month investment horizon for this stock as we expect a significant currency impact on the common stock over the medium term [1].

# KEY RISKS TO THE INVESTMENT THESIS

**The company is exposed to fluctuations in raw material prices**

### Risk of fluctuating raw material prices

The company is exposed to fluctuations in raw material prices. We are concerns about the rising prices of ABB's key raw materials such as fuel and metals which have increased significantly in recent months. Copper prices for example have increased approximately 44% over the last 6 months. Although ABB has successfully passed on increases in raw material costs to its customers in 2Q 06, going forward, the company may not be able to pass on further price increases owing to strong competition from major players such as Siemens AG and Rockwell Automation Inc which have higher margins and can therefore more easily absorb higher raw material costs.

### Contingency liability may result in unexpected cash outflow

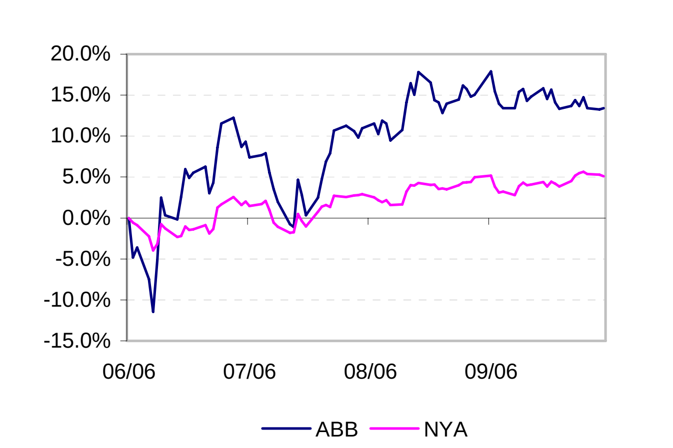
**ABB remains liable for the environmental clean-up costs at Windsor and Hematite sites**

ABB has sold its interest in the ABB Alstom Power N.V. joint venture to Alstom S.A. in May 2000. Although Alstom is now primarily responsible for the majority of the guarantees currently in force, ABB retains responsibility for certain performance guarantees relating to the power generation business. While the majority of these guarantees relate to projects that are expected to be completed by 2015, in some cases they have no definite expiry date. Due to the nature of these product warranties and certain other guarantees, the company is unable to estimate the amount of any potential future claims payouts. ABB also remains liable for the environmental clean-up costs at two sites in the US - Windsor and Hematite - which were operated by ABB's nuclear technology business which was sold in April 2000 to British Nuclear Fuels PLC. The primary environmental liabilities associated with these sites relate to the cost of cleaning up radiological and chemical contamination. We expect the clean-up operation at the Windsor site to be completed by 2008 and at the Hematite site by 2013. ABB is exposed to the risk of unexpected cash outflows resulting from the cost of clean-up associated with this liability.

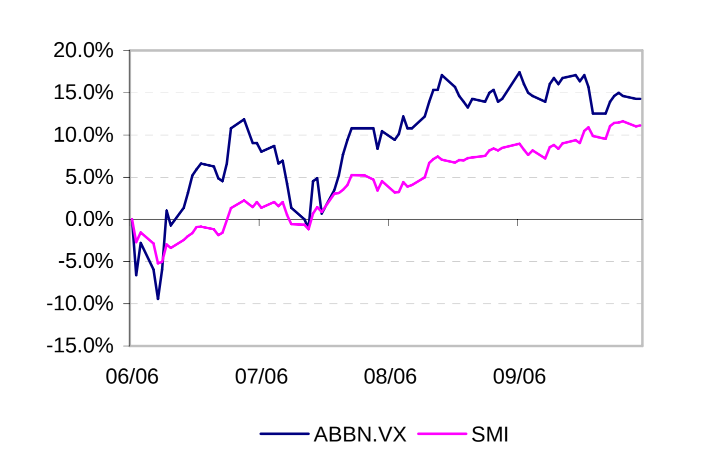
# VALUATION

In our 1Q 06 update report, dated 07 June 2006, we valued the ABB ADR using the P/E and EV/EBIDTA methodologies based on FY 2007 estimates. This resulted in a target price of US$13.44, representing a potential upside of 13.3%. The ADR was therefore reiterated a BUY. Since then the ADR has appreciated approximately 11.1% and now trades at US$13.18. The common stock was also reiterated a BUY in our 1Q 06 update report with a target price of CHF20.16 per share, representing a potential 40.5% upside. Since then the common stock has appreciated by approximately 14.3% and currently trades at CHF16.40.

**ABB and NYA composite Index performance**

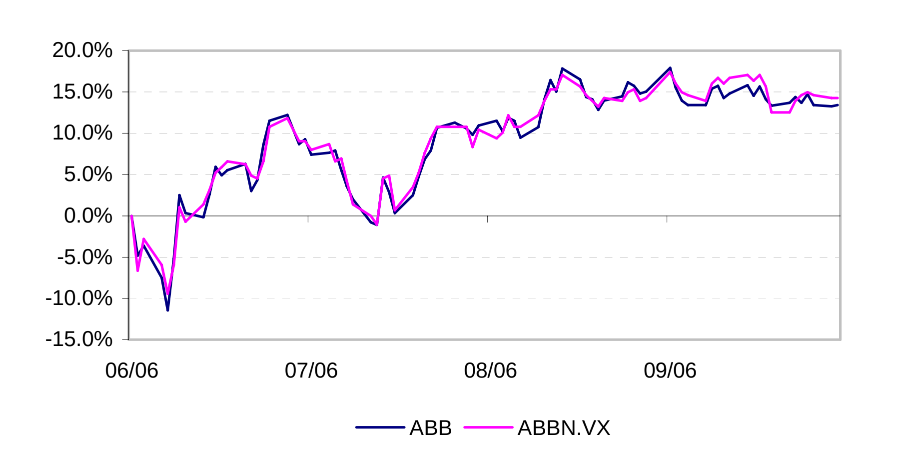



**ABBN.VX and SMI Index performance**




*Source: Bloomberg*

**ABB and ABBN.VX performance**




*Source: Bloomberg*

We continue to value the ABB ADR using the P/E and EV/EBIDTA valuation approaches based on FY 2007 estimates, as our investment horizon is over 6-12 months. In view of the company's healthy performance in terms of order book as well as profitability we have revised our estimates. We have lowered our FY 2006 revenues marginally since the 2Q 06 revenues came in marginally below expectations and considering that a considerable portion of the new orders received during 2Q 06 were large orders for which revenues are expected to only be realized after FY 2006. However we have revised the FY 2007 revenues upwards. Also, in view of the impressive improvement in margins we have revised our EBITDA and earnings estimates for both FY 2006 and FY 2007 upwards. We continue to value this stock over a 6-12 month investment horizon as we expect a significant currency impact on the common stock over the medium term[1].

**Change in estimates**

| All figures in US$ mn, unless specified | FY 2006 | | FY 2007 | |
|---|---|---|---|---|
| | Previous | Revised | Previous | Revised |
| Net revenues | 24,502 | 24,402 | 26,039 | 27,025 |
| EBITDA | 2,950 | 3,130 | 3,313 | 3,513 |
| Margin | 12.04% | 12.83% | 12.72% | 13.00% |
| Net income* | 1,268 | 1,463 | 1,582 | 1,892 |
| Margin | 5.18% | 6.00% | 6.08% | 7.00% |
| Diluted EPADR (US$) | 0.63 | 0.65 | 0.75 | 0.84 |

**Excluding non-recurring items, **IIIR adjusted to exclude non-recurring items*
*Source: IIIR estimates*
*Note: 1 ADR = 1 Common share*

**Based on a P/E multiple of 19.00x the ADR is valued at US$16.02**

If we consider the P/E multiples, ABB currently trades at a P/E multiple of 29.92x, representing a 31.5% premium to the current peer group average of 22.76x (the multiple for Alstom has been excluded from the current and historical peer group average as the historical multiples are not available for the company). We believe the premium is because ABB is witnessing a turnaround in growth and margins. ABB is currently trading at a 2007E forward P/E of approximately 15.63x, while the industry peers have traded in the 15x-22x range historically. We believe that driven by the impressive growth in order book and considerable improvement in margins across most of its business divisions the company will witness healthy growth in revenues as well as earnings. However, as investor expectations are realized over time the stock is expected to trade at lower P/E multiples than the current levels. Based on the above factors we assign a target P/E multiple of 19.00x FY 2007 earnings estimate to value ABB in this report, which is higher than the target P/E multiple of 17.45x used in our 1Q 06 update report but is lower than the current multiple. Based on this target multiple, we value ABB's ADR at US$16.02, which is 22.4% higher than the P/E based target price of US$13.09 derived in our 1Q 06 update report.

**Based on an EV/EBIDTA multiple of 10.00x the ADR is valued at US$15.68**

If we consider the EV/EBIDTA multiples, ABB currently trades at an EV/EBIDTA multiple of 10.83x, representing a 6.2% premium over the current peer group EV/EBIDTA multiple of 10.20x. ABB's EV/EBITDA multiple has historically traded in the range of 7.35x to 13.85x. Going forward, based on the above factors we expect the company's EV/EBITDA multiple to decline marginally. Therefore, we have assigned a target EV/EBITDA multiple of 10.00x to value ABB in this report, which is higher than multiple of 9.00x assigned in our 1Q 06 update but is lower than the current multiple. Based on this target multiple, we value ABB's ADR at US$15.68, which is 13.7% higher than the EV/EBIDTA based target price of US$13.79 derived in our 1Q 06 update report.

**Taking the arithmetic mean of the P/E and EV/EBIDTA methods, the ADR is valued at US$15.85**

We therefore value ABB's ADR at between US$16.02 and US$15.68. Taking the arithmetic mean of these results, we value the ABB ADR at US$15.85 in the coming 6-12 months. This is 18.0% higher than the target price derived in our 1Q 06 update report, and indicates a potential upside of approximately 20% from current levels. Therefore, we reiterate the ABB ADR a **BUY** based on fundamental factors. The technical condition of the common stock is reiterated a HOLD (see page 10). The common stock is also reiterated a BUY (see 'Commentary' on page 1).

**Earnings estimates**

| All figures in US$ mn, unless specified | | FY 2004A | FY 2005A | 1Q 06A | 2Q 06A | 3Q 06E | 4Q 06E | FY 2006E | FY 2007E |
|---|---|---|---|---|---|---|---|---|---|
| Net revenues | | 20,610 | 22,442 | 5,420 | 6,001 | 6,281 | 6,700 | 24,402 | 27,025 |
| EBITDA | | 1,589 | 2,198 | 644 | 779 | 823 | 884 | 3,130 | 3,513 |
| | Margin | 7.71% | 9.79% | 11.88% | 12.98% | 13.10% | 13.20% | 12.83% | 13.00% |
| Operating income | | 1,046 | 1,742 | 509 | 640 | 671 | 717 | 2,537 | 3,108 |
| | Margin | 5.08% | 7.76% | 9.39% | 10.66% | 10.68% | 10.70% | 10.40% | 11.50% |
| Net income* | | 404** | 883** | 294** | 357** | 377 | 436 | 1,463 | 1,892 |
| | Margin | 1.96% | 3.93% | 5.42% | 5.95% | 6.00% | 6.50% | 6.00% | 7.00% |
| ADR's outstanding (mn) | | 2,029 | 2,138 | 2,155 | 2,243 | 2,243 | 2,243 | 2,243 | 2,243 |
| EPADR diluted* (in US$) | | 0.20** | 0.43** | 0.14** | 0.16** | 0.17 | 0.19 | 0.65 | 0.84 |

**Excluding non-recurring items, **IIIR adjusted to exclude non-recurring items*

*Source: Company data, IIIR estimates*

*Note: 1 ADR = 1 Common share*

**Comparative valuation – P/E approach**

| Company | FY 2003 P/E | FY 2004 P/E | FY 2005 P/E | Average P/E | Current P/E | Relative current P/E |
|---|---|---|---|---|---|---|
| ABB Ltd. | NA | 28.03 | 22.03 | 25.03 | 29.92 | 1.31 |
| Alstom* | NA | NA | 54.49 | 54.49 | 55.71 | 2.45 |
| Siemens AG | 19.15 | 15.26 | 18.70 | 17.70 | 19.83 | 0.87 |
| Schneider Electric SA | 26.75 | 13.73 | 16.52 | 19.00 | 19.45 | 0.85 |
| Rockwell Automation Inc | 22.83 | 22.76 | 20.11 | 21.90 | 21.84 | 0.96 |
| **Average** | 22.91 | 19.95 | 19.34 | 20.91 | 22.76 | 1.00 |

**Valuation metrics – FY 2007 estimates**

| | |
|---|---|
| FY 2007E P/E multiple | 19.00x |
| FY 2007E earnings (US$) | 0.84 |
| Target price (US$) | 16.02 |

** Multiples are for FY 2004, FY 2005 and FY 2006, as these companies quote year end as of 31 March; also Alstom is not considered in the average since its historical multiples are not available or are abnormally high*

*Source: Bloomberg, IIIR estimates*

*Note: 1 ADR = 1 Common share*

| Comparative valuation – EV/EBITDA approach | | | | | | |
|---|---|---|---|---|---|---|
| **Company** | **FY 2003 EV/EBITDA** | **FY 2004 EV/EBITDA** | **FY 2005 EV/EBITDA** | **Average EV/EBITDA** | **Current EV/EBITDA** | **Relative current** |
| ABB Ltd. | 13.85 | 7.35 | 9.18 | 10.13 | 10.83 | 1.06 |
| Alstom* | NA | 6.38 | 8.97 | 7.68 | 9.15 | 0.90 |
| Siemens AG | 7.73 | 8.34 | 9.59 | 8.55 | 10.80 | 1.06 |
| Schneider Electric SA | 8.39 | 7.39 | 9.35 | 8.38 | 9.97 | 0.98 |
| Rockwell Automation Inc | 10.14 | 10.71 | 10.56 | 10.47 | 10.25 | 1.00 |
| **Average** | 10.03 | 8.03 | 9.53 | 9.04 | 10.20 | 1.00 |

| **Valuation metrics – FY 2007 estimates** | |
|---|---|
| FY 2007E EV/EBITDA multiple | 10.00x |
| FY 2007E EBITDA (US$ mn) | 3,513.28 |
| FY 2007E EV (US$ mn) | 35,132.78 |
| FY 2007E net debt (US$ mn) | 3,091.00 |
| FY 2007E cash & equivalents (US$ mn) | 3,128.00 |
| FY 2007E market capitalization US$ mn) | 35,169.78 |
| FY 2007E outstanding diluted shares (mn) | 2,243.00 |
| Target price (US$) | 15.68 |

** Multiples are for FY 2004, FY 2005 and FY 2006, as these companies quote year end as of 31 March*
*Source: Bloomberg, IIIR estimates*
*Note: 1 ADR = 1 Common share*

| Target price | |
|---|---|
| Based on P/E approach | US$16.02 |
| Based on EV/EBITDA approach | US$15.68 |
| Average | US$15.85 |
| Current price | US$13.18 |
| Upside/(downside) from current levels | 20.28% |

*Source: IIIR estimates*

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## Glossary of key terms

**Enterprise Value (EV):** A measure of a company's value. Calculated as market capitalization plus debt and preferred shares minus cash and cash equivalents.

**EV/EBITDA:** The EV of the firm divided by its EBITDA

**EV/Sales:** The EV of the firm divided by its sales.

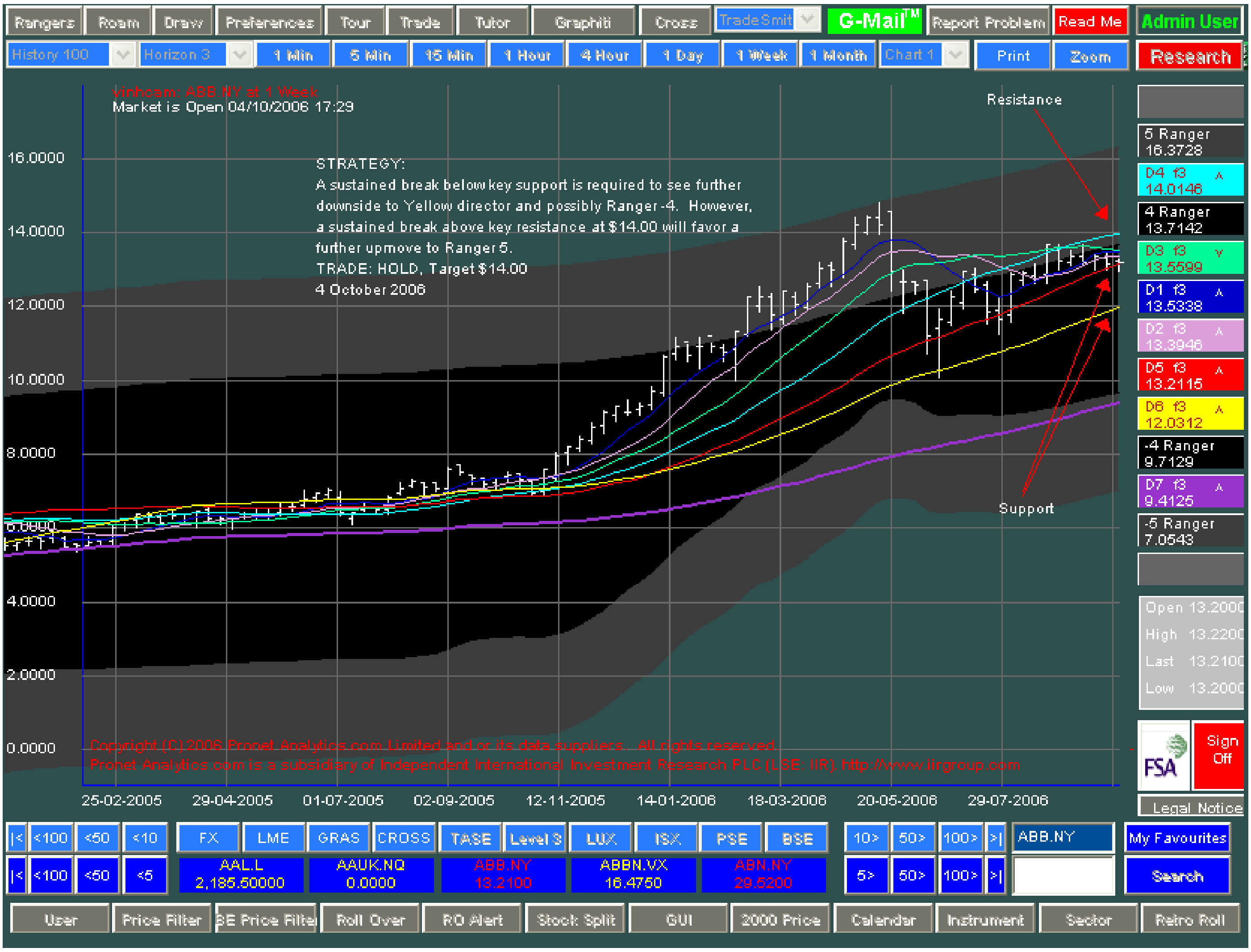
**Footnotes**

*A company news alert was posted for ABB on 27 July 2006 wherein we briefly examined the 2Q 06 results. This full update report supercedes that alert and all references in this report are to the 1Q 06 update report dated 7 June 2006 and the initiation report dated 06 October 2005 only.

[1]A breach of long term technical resistance coupled with general US dollar strength has reduced the call for the safe haven currency and further CHF weakness is anticipated over the coming 6-12 month period. A return towards current levels is expected within the 24-month time horizon. We therefore continue to take a 6-12 month investment horizon for this stock in order to capture the anticipated medium term currency impact.

[2]We have adjusted the reported EPS for non-recurring income/expenses by subtracting/adding the non-recurring items from/to net income to arrive at our adjusted EPS. Note, however, that in doing so we have not recalculated the tax liability for the period to reflect the above change and have used the provision for tax as reported in the income statement for the period.

# Technical Overview for ABB




*Data Source: Bloomberg LP. For training resources see "Analytic Techniques" at [http://www.iirgroup.com/pal/index.html](http://www.iirgroup.com/pal/index.html)*

| | |
|---|---|
| Strategy: | The technical condition of the common stock is reiterated a HOLD, with a price target of US**$**14.00. The ADR is reiterated a BUY on fundamental grounds. The common stock is also reiterated a BUY (see 'Commentary' on page 1). |
| Resistance/Support: | Resistance: US$13.55, US$13.71, US$14.00<br><br>Support: US$13.21 |
| Outlook: | A sustained break below key support is required to see further downside to Yellow director and possibly Ranger -4. However, a sustained break above key resistance at $14.00 will favor a further upmove to Ranger 5. |

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# ABB, Limited ADR (undefined: ABB)

## INDEPENDENT EQUITY RESEARCH CONSENSUS

### About the Jaywalk Consensus

The Jaywalk Consensus is an average of all the ratings on the given security by independent research providers in the Jaywalk network. By averaging these recommendations, investors are given insight into the independent research community's perspective on individual securities. The independent analysts who participate in the Jaywalk Consensus report are professional firms that attest to having no investment banking or other potential conflicts that might impact the integrity of their research product. Investors may utilize the Jaywalk Consensus as a frame of reference in their investment decisions.

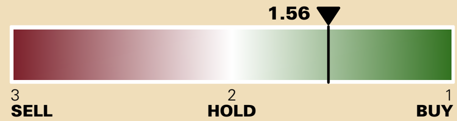
### BREAKDOWN OF INDEPENDENT RATINGS

*Below is the breakdown of analyst recommendation ratings in Jaywalk Consensus. The breakdown of recommendations provides helpful detail on individual recommendations on a stock. For example a 1.5 score with 10 IRPs where there are 5 buys and 5 holds shows a solid overall consensus with no negative recommendations. The consensus is also shown for 30, 60, 90 days ago to provide some visibility to trend. A current consensus of 2.5 with 10 IRPs that was 2.2 30 days ago, 1.8 60 days ago, and a 1.5 90 days ago shows definitive deterioration in the consensus over the last quarter.*

| | 10/04/06 | 9/30/06 | 8/31/06 | 7/31/06 | 6/30/06 |
|---|---|---|---|---|---|
| **Positive or Buy (Rating = 1)** | **7** | 6 | 6 | 5 | 5 |
| **Neutral or Hold (Rating = 2)** | **9** | 10 | 7 | 8 | 8 |
| **Negative or Sell (Rating = 3)** | **--** | -- | 2 | 2 | 3 |
| Total Independent Research Providers | **16** | 16 | 15 | 15 | 16 |
| Consensus Recommendation | **1.56** | 1.63 | 1.73 | 1.80 | 1.88 |

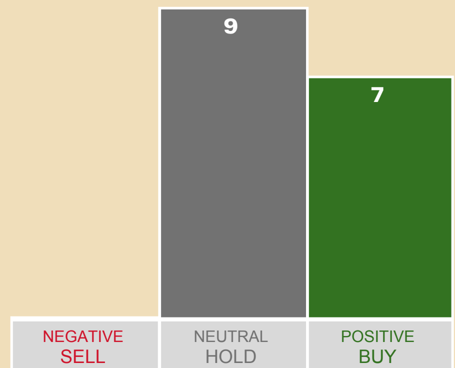
### CURRENT JAYWALK CONSENSUS

*16 Independent Research Providers*




### INDEPENDENT RESEARCH PROVIDER CURRENT RATING DISTRIBUTION

*16 Independent Research Providers*




### INDUSTRY, SECTOR AND OVERALL BNY JAYWALK RANKING

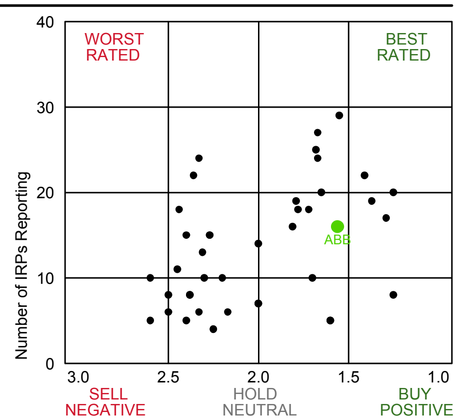
*Industry, Sector and Overall Jaywalk Universe rankings charts on the right are shown on a 0.0% to 100.0% scale. A stock with a percent rank in industry of 25%, for example, indicates approximately 75% of the stocks in that industry have a better Jaywalk Consensus than the given stock. Likewise a percent rank in sector of 50% would demonstrate a Jaywalk Consensus that has exactly as many stocks rated higher or lower than the given stock.*

### INDUSTRY RATING DISTRIBUTION

*This chart shows ABB's Consensus Rating, relative to the ratings of the 52 companies in its industry. ABB is shown against its peers to assist investors in identifying where the consensus rating and coverage of the stock is in respect to other industry participants.*

*The chart also demonstrates Jaywalk Consensus on the overall industry.*

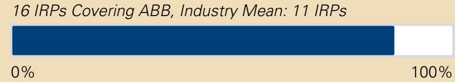
*Note: Dots displayed indicate there are at least 4 IRPs providing coverage.*




### RANK IN INDUSTRY 85.7%

Industrial Electrical Equipment

*16 IRPs Covering ABB, Industry Mean: 11 IRPs*



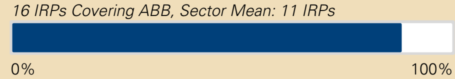

*The percentile for ABB, measured by its Jaywalk Consensus, with its industry.*

*ABB's consensus score is higher than 85.7% of the Industry.*

### RANK IN SECTOR 87.4%

INDUSTRIAL GOODS

*16 IRPs Covering ABB, Sector Mean: 11 IRPs*

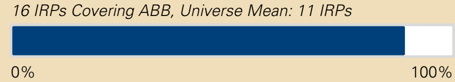



*The percentile for ABB, measured by its Jaywalk Consensus, with its given sector.*

*ABB's consensus score is higher than 87.4% of the Sector.*

### RANK IN JAYWALK UNIVERSE 88.1%

*16 IRPs Covering ABB, Universe Mean: 11 IRPs*




*The percentile for ABB, measured by its Jaywalk Consensus, with the total Jaywalk universe of 6971 stocks.*

*ABB's consensus score is higher than 88.1% of the Jaywalk Universe.*

### INDEPENDENT RESEARCH PROVIDERS IN THE JAYWALK CONSENSUS

*The Independent Research Consensus from Jaywalk is designed to bring investors an overall view of independent opinions on equity securities. Research firms participating in the Jaywalk Consensus employ various methodologies, including those found below.*

- *Behavioral Finance*
- *Corporate Governance*
- *Economics*
- *Forensic Accounting*
- *Fundamental Analysis*
- *Intellectual Property Analysis*
- *IPO Research*
- *Money Flow Analysis*
- *Primary Source Data*
- *Quantitative Analysis*
- *Sector Analysis*
- *Social Responsibility Analysis*
- *Spin Off Arbitrage*
- *Technical Analysis*

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Summary Information selected on

**ABB, Limited ADR** (undefined: ABB)

## COMPANY FUNDAMENTALS

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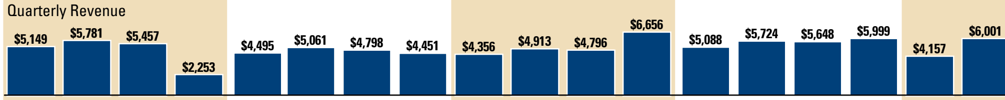
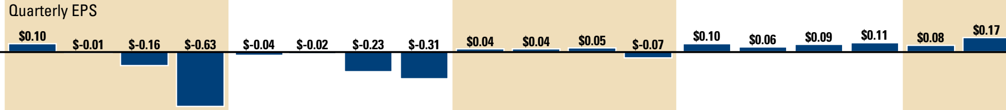
*The following company fundamental data is provided for informational purposes only and may differ from the data produced by other data providers or from the selected Independent Research report provided herein. These financials are selected line items taken from the company's annual or quarterly financial statements. They are meant to demonstrate basic financial characteristics of the company. EBITDA represents earnings before interest, taxes, depreciation, and amortization.*

## ANNUAL FINANCIAL DATA

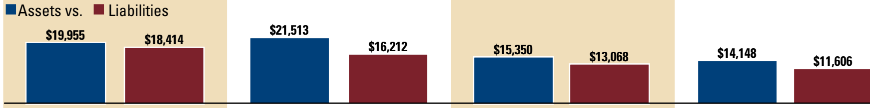
Fiscal year ends December — in million, except per share data




| Fiscal year ends December | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 |
|---|---|---|---|---|---|
| **Revenues** | **$18,295** | **$18,795** | **$20,721** | **$22,442** | **--** |
| Net Earnings | $-783 | $-767 | $-35 | $735 | -- |




| | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 |
|---|---|---|---|---|---|
| **Net EPS** | **$-0.70** | **$-0.63** | **$0.02** | **$0.36** | **--** |
| Pre-tax Margin | 1.4% | 1.3% | 4.2% | 6.7% | -- |
| Net Margin | -4.3% | -4.1% | -0.2% | 3.3% | -- |
| EBITDA | $1,063 | $1,430 | $1,766 | $2,287 | -- |
| Long-Term Debt | $5,376 | $6,290 | $4,901 | $3,933 | -- |
| Interest Coverage | 2 | 1 | 3 | 4 | -- |
| Inventory | $2,377 | $2,605 | $2,977 | $3,074 | -- |




| | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 |
|---|---|---|---|---|---|
| **Current Assets** | **$19,955** | **$21,513** | **$15,350** | **$14,148** | **--** |
| **Current Liabilities** | **$18,414** | **$16,212** | **$13,068** | **$11,606** | **--** |
| Common Equity | $1,013 | $3,026 | $2,824 | $3,483 | -- |
| Dividends | $0.00 | $0.00 | $0.00 | $0.00 | -- |
| Payout Ratio | -- | -- | 0.00% | 0.00% | -- |

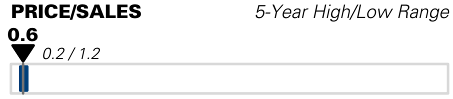
## KEY RATIOS

*The following ratios are indicative of the health of the company. Large numbers for the four price ratios can reveal inflated or undervalued stock prices relative to underlying fundamentals.*

**TRAILING P/E** *5-Year High/Low Range*

*No Data Available.*

**PRICE/SALES** *5-Year High/Low Range*

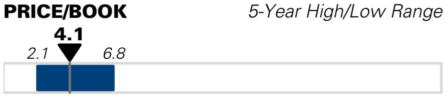



Industry Low Median: 1.5 Industry High

**PRICE/CASH FLOW** *5-Year High/Low Range*

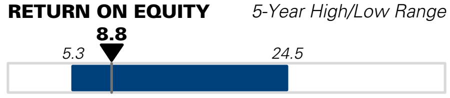
*No Data Available.*

**PRICE/BOOK** *5-Year High/Low Range*




Industry Low Median: 2.4 Industry High

**RETURN ON EQUITY** *5-Year High/Low Range*




Industry Low Median: 11.7 Industry High

**RETURN ON ASSETS** *5-Year High/Low Range*

*No Data Available.*

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