Editorial

2007 was another record year. Never have our products and services been more in demand. For the first time, over 10,000 turbochargers were delivered to customers worldwide.

Whether on ships, in power plants, on locomotives or on off-highway vehicles – engines with our turbochargers were kept hard at work in 2007. A booming world economy meant that energy was more in demand than ever before. 88.3 gigawatts of new turbocharged engine power left the production lines.

A look at the market segments shows, in particular, a still-booming marine industry. New international trade agreements indicate that globalization is still on the march. The volume of seaborne goods continues to grow strongly – with welcome consequences for shipbuilders and marine engine suppliers. Tourism is also profiting from Asia’s vibrant economies. 2007 saw the cruise boom finally reach this part of the world, providing an impressive, potentially large growth market for the industry.

Positive trends in the stationary power plant segment picked up where they left off the year before. The energy market is on the move. The steep rise in demand is being met through increased production. Producers and consumers alike expect energy efficiency and look for sustainability. The same is true in the traction segment, where there is a particularly strong and growing awareness of ecological interdependencies. As the technology leader in turbocharging, we address all of these issues.
2007 was a special year. Thanks to the enormous efforts of our employees, our licensees and our suppliers, we accomplished almost everything we set out to do. Each and every one of them can be proud of the results.

We are, of course, fully aware that these achievements are only possible because of the trust our customers place in us. It is they, after all, who choose our company when placing orders. For this trust we are indebted to them, and assure them that we will work to also be worthy of it in the future. The outlook for the year just begun is very promising. Let’s all take advantage of the opportunities it offers.

Daniel Arnet
Highlights in 2007

The year saw more ABB turbochargers leave our factory than ever before. Our all-new A100 turbocharger generation impressed the industry. Work on two-stage turbocharging also made good progress. The number of stations in the service network grew to 95.

Marked growth across all segments

“Ten thousand” – this new milestone for units produced says everything about 2007. Never before in our company’s history have so many turbochargers been delivered to customers as in the past year. With availability at more than 98% we barely had time to catch our breath. All the extra capacity we could muster was utilized to the full.

The generally good economic climate has led to the labor market contracting, challenging our efforts to recruit new personnel. It was therefore encouraging to note a very high level of interest in our company and in our business activities. Enough new staff could be hired to ensure performance standards are maintained. Eighty additional jobs were created in Switzerland alone. On top of that, the network saw a gain of 100.

Progress – a duty and a calling

Turbocharging’s potential for improving engine performance has still not been fully exploited. Our company is therefore committed to investing a substantial amount of its yearly revenues in research and development. 2007 was no different. The results are impressive: development and qualification testing of an additional member of the TPS...-F family, the TPS 44-F31/32, were completed on time and the turbocharger was released for sales. The focus then shifted to the next turbocharger generation, the A100. The first of these all-new turbochargers, the A140 for high- and medium-speed engines, has quickly confirmed its capabilities in engine tests. A key consideration during the year was the continuing influence that the need for environmental compliance is having on technological development. Two-stage turbocharging is seen to offer important new possibilities here. Our specialists are busily working on suitable applications.
Extension of the test center
The increased demands made on our research and development resources calls for more test facilities. We have therefore extended our test center, the former laboratory for thermal machinery, by adding new test rigs.

Non-stop network growth
Service is a global business. 2007 saw ten new service stations across four continents opened. Among the new locations are Santo Domingo, Tallinn, New Orleans and Chittagong.

Satisfaction with service performance is heavily dependent on the factors “availability” and “quality”. To ensure the highest standards, regular training and professional development of service personnel are essential, especially in times of strong growth. In 2007 some 100 new company members around the world were instructed in our service philosophy.

It was not only the start-up of new stations and worldwide service work that kept us busy in 2007. New service products were developed. For example, the first “made-to-measure” service package for multiple turbochargers was launched under the name of OPAC. Customers who sign up to this Turbocharging Operation Performance Package agreement hand over the service of a whole fleet of turbochargers to us for a fixed number of years at an agreed price per running hour. OPAC is the ideal solution for customers who want to be able to reliably predict their service costs.

Process reliability ensured
Having reliable processes puts you in a commanding position. In 2007 our systems for quality management (ISO 9001:2000), environmental management (ISO 14001:2004) and health and safety (OHSAS 18001:1999) were all audited, without complaint, by BVC (Bureau Veritas Certification). Also, all 12 works approvals awarded by the marine classification societies and the Japanese Ministry of Land, Infrastructure and Transport were successfully audited and compliance with the applicable quality assurance standards was confirmed.
Expansion in China
Something we did not manage in 2007, start-up of the new factory in China, is on track for 2008. Intense discussions with local officials and investment companies have resolved all remaining site issues as well as questions regarding the building. The new factory is scheduled to become operational towards the end of the year.

Test center capacity challenged
The new A100 turbocharger generation will keep our R&D facilities on the go in 2008. By the end of the year we want to have tested, qualified and launched up to 5 frame sizes. A new efficiency record of almost 75% has already been achieved with the A175 for low-speed engines. Engine tests are planned for a new, smaller version of the TPR turbocharger for diesel locomotives. Finally, the two-stage turbocharging program will make special demands on our test resources. Ongoing modernization and upgrading of test resources will ensure that we are well positioned to complete the comprehensive list of projects.

A strong, dynamic year
The topics that defined 2007 will remain the main issues in 2008: ongoing globalization; Asia’s role as economic driver; growth in Europe; but also concerns about the environment, CO₂ and the price of oil. All of them work in our favor. The signs point to another year of growth and, when our forecasts are correct, a new record. The delivery volume will increase by almost 20%, requiring new major investments in machinery, facilities and personnel. Happily, our partners and suppliers support these efforts with their own investments. This will enable us to ensure on-time deliveries to a highly demanding market in 2008. Our aim is to maintain an availability figure for new turbochargers of over 95% and for spare parts of over 98%. We owe it to our customers.

What to expect in 2008
Growth will hold steady. New turbocharger deliveries are expected to increase by 20 %. There will be further investment in new service stations. 2008 will see the first frame sizes of the new A100 turbocharger generation launched on the market.
**Closer to customers**
The new turbocharger business' reliance on logistics is mirrored in the service business by dependence on the network. The net will be cast wider again in 2008. Ten new stations are planned. January 2008 already saw stations in Panama, Veracruz (Mexico) and Baku (Azerbaijan) become operational. Baku is our first ABB-owned facility in Central Asia. The growth of the network means we shall also be adding a lot of new staff. This challenges first our ability to recruit, and then to integrate, 100 new specialists in the network. Such a move inevitably brings with it the risk of lowered standards. We shall prevent this from happening through continued training and an ongoing quality assurance program that is binding for the whole network.

**Focus on human resources**
The search for qualified people in all disciplines will keep us occupied in 2008. Our goal for the year is to hire 150 new staff for positions across the whole company, including the service network. Individual workloads are not likely to lessen as a result. It remains a matter of prime importance that we confront and learn to deal with work-related stress. A pioneering company-wide program – the first such program to be started in Switzerland – is therefore being introduced which will help us to promptly identify organizational and personal pressures and take preventative measures.
Exceptional overall growth

With all of the markets in which we are active thriving in 2007, ABB Turbo Systems can look back on yet another year of superlative growth and business figures. Strong worldwide demand for our turbochargers, driven by what is shaping up to be the biggest shipbuilding boom ever, pushed both revenues and orders received to new record levels. The outstanding results are also the outcome of on-going heavy demand from the stationary power plant industry, which continues to play a key role in the expanding world economy, and a consistently high order level for our turbochargers in the traction sector. Likewise contributing to the year’s exceptional figures was strong growth of the service business, which saw new products introduced as well as more new service stations added to our global network. During a remarkable year, orders received rose an impressive 18 percent to CHF 634 million, while total revenues for the year grew to CHF 570 million, corresponding to a 13 percent increase over 2006.

Key figures

Strong demand for our entire product and service portfolio was reflected in new records for revenues and orders received, the latter rising a full 18 percent from the previous year’s figure. Investment in R&D was just short of the CHF 50 million mark.
Significant new investments

ABB Turbo Systems strongly underlined its position as technology leader in each of its markets with another increase in investment in research and development in 2007. The figure of CHF 47 million, corresponding to 8.3 percent of total revenues, was more than 20 percent up on the previous year’s already high figure. Investment in fixed assets in 2007 rose to CHF 21.6 million – more than double the figure the year before. This increase reflected the necessity to expand production and assembly capacity in the factory as well as the future need for more extensive test facilities.
As global demand for energy grows, higher engine efficiency and reduced emissions will become increasingly important. ABB turbochargers will make a significant contribution in both areas in 2008.

Daniel Arnet, President

2008 promises much and demands more. Our customers must be sure they can get the products and services they want, when they want them.

Oliver Riemenschneider, Sales and Marketing

The introduction of our new A100 turbocharger generation will allow our customers to meet future emissions legislation and increase the power density of their engines.

Rolf Schweizer, New Turbochargers

The continuing growth of our network and workforce as well as ongoing additions to our service portfolio have to be skillfully managed and turned into genuine benefits for our customers. This will be our top priority as well as our duty in 2008.

Axel Kettmann, Service

Another all-time record is on its way. The new turbocharger forecast for 2008 predicts a plus of 20%. Ensuring that we have the capacity this requires will keep us on the go.

Willy Kuhn, Production

The next turbocharger generation is already here. The A100 impresses with a pressure ratio that is higher than anything seen before. Five frame sizes are planned for series delivery in 2008.

Urs Gribi, Engineering

The extension of the test center will allow us to successfully meet our performance targets well into the future.

Bernhard Schönung, Test Center

Innovation is also a result of targeted investment. 2008 we see us again invest where customers’ benefits and our company’s progress are mutually served.

Willi Baumann, Finance and Controlling

In 2008 our efforts will focus mainly on welcoming and integrating all the new people joining our company as well as on instituting a new approach to the handling of stress in the workplace.

Beat Kunz, Human Resources
Organization
as of January 1, 2008

Board of Directors
Veli-Matti Reinikkala  Chairman
President
ABB Process Automation
Daniel Arnet  Delegate
Jasmin Staiblin  President and
Country Manager
ABB Switzerland
Yann Moor  CFO, ABB Switzerland

Management Committee
Daniel Arnet  President
Oliver Riemenschneider  Sales and Marketing
Willi Baumann  Finance and Controlling
(until February 29, 2008)
Darko Fux  Finance and Controlling
(as of March 1, 2008)
Urs Gribi  Engineering
Willy Kuhn  Production
Beat Kunz  Human Resources
Bernhard Schönung  Test Center

Auditors
Ernst & Young AG, Basel

Ownership
ABB Turbo Systems Ltd is a wholly
owned subsidiary of ABB Switzerland Ltd,
Baden/Switzerland

Pictures:
page 3 from left to right: Axel Kettmann, Willi Baumann, Oliver Riemenschneider,
Willy Kuhn, Daniel Arnet, Beat Kunz, Urs Gribi, Bernhard Schönung, Rolf Schweizer;
page 4: assembly of an A140-H turbocharger (left), assembly of a TPS 44-F
turbocharger (right); page 6: Miami service station team; page 7: ABB Turbocharging
service network; page 9: ships in the port of Antwerp; page 11: assembly
of an A140-H turbocharger.