

Risk management

Adding business value

(includes GRI standard disclosure 4.11)

ABB recognizes that good risk management is essential to business success. There are many different aspects to risk management – and on the sustainability side, considerable efforts have been made in recent years to ensure improvements in environmental, health and safety, social, human rights, and security risk analysis and performance.

Overall, ABB has a global integrated risk management process. Once a year, the executive management and the Board of Directors perform a risk assessment in accordance with the company's risk management processes and take appropriate actions where necessary.

We take a comprehensive top-down and bottom-up approach to Enterprise Risk Management (ERM). The process directly involves group functions, regions, country management, divisions and large global business units, and is supported by a common ABB risk catalogue and training for the participating entities. The number of participating entities increased in 2010.

The common risk catalogue specifically includes consideration of external, strategic and operational risks, including the legislative environment and topics related to climate change. Participating entities are expected to organize ERM round tables where risks are identified and reported along with a detailed risk description, the likelihood of such risks occurring, the potential impact on profitability, and mitigation plans. The risk management approaches of Group ERM and Internal Audit are aligned. The Group ERM team consolidates results, which are discussed and analyzed at the Group level.

We have integrated Group-wide sustainability criteria into our risk assessment process for projects, our supplier selection guidelines, and a mergers and acquisitions checklist, as part of our ongoing efforts to minimize risks and potentially negative impacts.

The company seeks to identify potential risks at an early stage and where appropriate carries out due diligence on environmental, social and human rights, health, safety and security issues. The risk review process for projects may also require an environmental or social impact assessment carried out by or for the customer for the overall project. These impact assessments should be transparent, and in compliance with applicable regulations and international agreements.

As part of efforts to identify and, if appropriate, mitigate potential risks at an even earlier stage than at present, members of the sustainability management team have started working

with key divisions to input sustainability perspectives as early as possible in the business process. Some projects are now being looked into at the pursuit – rather than pre-tender – stage. This work is part of our sustainability objective to assess potential risk as early as possible in the business process.

Similarly, regular consultations between mergers and acquisitions and sustainability experts have been established to identify risks at an early stage of project evaluations for both acquisitions, investments and divestments.

Sustainability due diligence is regular and can take many forms: In 2010, environmental specialists were involved in acquisitions as well as project assessments; security at a number of production sites and buildings in areas of high risk was reviewed and enhanced; and, as part of the process for identifying risks, the social, environmental and human rights aspects of a potentially large power infrastructure contract were investigated on the ground over an extended period. There are many such examples.

Effective risk management on sustainability issues supports business goals and continuity; failure to understand and manage such risk at an early stage can lead to additional cost and reputation damage.

One area of major improvement in recent years has been security and crisis management. Our global security team has strengthened its presence in risk-rated countries to ensure security for ABB employees and contractors, to develop a robust rapid response capability and to enable ABB to carry out business operations in challenging security environments.

Our security experts have put in place a number of systems for secure and safe travel, which includes the capability to respond to medical and security incidents. The travel security system is integrated into daily business procedures, and into the ABB crisis management system. Further improvements were made in 2010 as part of ABB's objective on the issue.

Security and crisis management exercises were held for 450 managers in 18 countries in 2010 to raise awareness of potential risks and to ensure employees know how to respond to potential threats and incidents.

One of the main challenges – from a sustainability perspective – in a multinational company is to ensure employees are fully aware of the multitude of risks they may face as part of daily business life, and the processes and procedures already in place to avoid and mitigate them. ABB is working hard in different areas to anticipate and mitigate risks of all kinds.