

# Governance and integrity

## Guiding our growth

(includes GRI standard disclosures 3.6, 3.9, 4.1, 4.8, 4.9, and 4.12)

During 2011, ABB released ambitious new growth targets for our business, aiming to increase revenues for 2011 to 2015 organically at a compound annual growth rate of 7–10 per cent, with the potential for an additional 3–4 percentage points of growth by acquisition.

The achievement of such targets will be challenging, and is supported by programs in all areas of our business. These programs include work to ensure that sustainability considerations and values are a seamless part of our business practice along the value chain. Growth on this scale will also not be possible unless our behavior is firmly guided by our business principles of responsibility, respect and determination.

### Standards of business conduct: ABB integrity program

ABB sets high standards of integrity, which are expected of every employee and in every country where we do business. We use a systematic approach, supported by tools and processes and a zero tolerance policy for violations.

Integrity is driven by the businesses with division heads and financial controllers regularly reviewing and reporting on integrity developments. The divisions' business performance evaluations also include consideration of integrity.

The ABB Code of Conduct is the integrity framework that describes the behavior expected of employees and stakeholders. It contains practical instructions to help employees in their day-to-day work and is underpinned by standards and policies covering issues such as corruption and illegal payments.

The Code of Conduct has been translated into 45 languages. All current and new employees are required to take Code of Conduct face-to-face and e-learning training, and to acknowledge their commitment to adhere to the Code of Conduct. Managers also have to re-acknowledge the Code of Conduct on a regular basis.

Multiple channels are available to all employees to report integrity concerns. A multilingual Business Ethics Hotline is available 24 hours per day, seven days per week, run by a third party. Calls are treated confidentially and people with information can choose to remain anonymous. A Stakeholder Hotline is available to our external business partners.

ABB also has an Ombuds program as an additional route for integrity reporting. The ABB Ombudspersons are respected, experienced business colleagues available for discussion and to provide confidential guidance.

ABB investigates all potential integrity concerns and cooperates fully with law enforcement agencies. There is a strict zero tolerance policy for violations of the law or the ABB Code of Conduct, which is enforced through systematic disciplinary actions.

Overall, the ABB integrity program is supported by a team of some 330 employees, full-time and part-time, at headquarters and around the world.

### Other policies, principles and procedures

We have also implemented environmental, social, human rights, and health and safety policies and a Supplier Code of Conduct. These [policies](#) include references to international standards to which they relate. For example, the human rights and social policies draw on the Universal Declaration of Human Rights, the ILO Core Conventions on Labor Standards, UN Global Compact, the OECD Guidelines for Multinational Enterprises and the Social Accountability 8000 standard.

### Sustainability governance

For ABB, sustainability is about balancing economic success, environmental stewardship and social progress to benefit all our stakeholders; to truly contribute to a better world.

Ultimately, every ABB employee is responsible for sustainability. The commitment of line managers to implement our objectives is key to achieving ABB's sustainability and business goals.

As part of our 2011 review of sustainability strategy, in alignment with the Group strategy review, we reinforced ABB's sustainability governance structure. A Sustainability Board, comprising the ABB Executive Committee, will now be accountable for the sustainability performance of ABB. The Sustainability Board will oversee sustainability policies and programs, to ensure consistency with business goals and ambitions and will monitor progress towards our targets.

The ABB Sustainability Affairs organization is responsible for the development and coordination of policies and programs covering health and safety, environment, corporate responsibility, and security and crisis management. Sustainability Affairs reports directly to Executive Committee member Gary Steel.

A network of sustainability specialists worldwide reports to the Sustainability Affairs management team. In countries where ABB entities have or could have significant sustainability impacts, we have appointed country sustainability controllers, country health and safety advisors and country security managers responsible for ABB's sustainability management program and for gathering the data consolidated in this report. Where needed, regional responsibilities have also been assigned.

The country and regional specialists are supported by local sustainability officers and health and safety advisors. Overall, the sustainability network is supported by a team of some 800 employees, full-time and part-time, at headquarters and around the world.

Sustainability risks and opportunities are also investigated in coordination with business divisions and other Group functions, e.g. Mergers and Acquisitions (due diligence), Real Estate and Insurance (real estate liabilities, security and site risk), Internal Audit and ABB's bid evaluation committee (customer and project risk assessments).

We aim to cover all ABB Group companies, wholly owned subsidiaries and majority-owned joint ventures worldwide that might have significant sustainability impacts, with ABB's formal sustainability reporting system. Integration of Baldor Electric Company, acquired in January 2011, is continuing. For 2011, we have collected environmental data for Baldor covering water, energy and waste parameters. Data collection for other environmental parameters, health and safety and corporate responsibility will be implemented during 2012.

The data in this report relating to social performance cover 89 percent of ABB employees, whereas data relating to environmental performance cover 85 percent of employees. The environmental performance of the remaining 15 percent of employees, located in non-manufacturing entities without significant impacts, is covered by estimated data.

We use three computerized data reporting questionnaires to measure and collect performance data throughout the Group via the ABB intranet – an annual social report from every country, an annual environment report from every site and a monthly health and safety report from every country.

#### **Externally developed charters, principles and initiatives**

ABB subscribes to externally developed charters and principles for sustainability management. Applying such principles is helping ABB to make progress in core areas. These charters and principles include the International Chamber of Commerce Business Charter for Sustainable Development, which ABB signed in 1992, and ISO 14000 standards and technical reports.

ABB has adopted ISO 14001 for environmental management systems; ISO/TR 14025 for Environmental Product Declarations; ISO 14040-45 for Life Cycle Assessments; and ISO 19011 for environmental auditing of organizations.

ABB has incorporated the principles of OHSAS 18001, the International Labour Organization (ILO) guidelines on occupational health and safety management systems, and the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases into its health and safety program.

ABB facilities are encouraged to implement integrated management systems for environmental and quality issues, and for occupational health and safety. Almost 250 sites now use integrated systems, many of which have been externally certified.

ABB is a signatory to the World Economic Forum's "Partnering Against Corruption Initiative" (PACI), signed by 170 companies committed to strengthening efforts to counter corruption and bribery.

In addition, ABB has taken note of the UN Guiding Principles on Business and Human Rights and is using its recommendations to assess expectations of corporate behavior.

As a founder member of the United Nations Global Compact, ABB has been closely involved in its development. ABB's understanding of human rights and day-to-day business benefits from involvement in such organizations.

#### **Other GRI indicators**

##### **SO2 Business units analyzed for corruption risks**

ABB's internal auditors carry out an annual risk assessment as the basis for their audit planning for the following year. Anti-fraud risk assessment is part of this. ABB's internal auditors also carry out anti-bribery compliance reviews of business units and countries globally. In these reviews, ABB's internal auditors review business processes, accounts and balances, and test transactions to assess the robustness of controls and identify possible violations of ABB's anti-bribery procedures. In addition, every significant customer project is the subject of a risk review process, which also covers corruption risk considerations.

##### **SO3 Employees trained in anti-corruption procedures**

Substantially all employees have completed training on ABB's Code of Conduct. In addition, approximately 95 percent of all employees have received training on anti-corruption procedures.

At the end of 2011 into the beginning of 2012, ABB started expanding its Ombuds program to increase geographical coverage, now covering 47 countries with over 60 Ombudspersons.

##### **SO4 Actions taken in response to corruption**

ABB applies a strict zero tolerance policy to combat corrupt payments. Every incident is sanctioned and may include termination of employment. In 2011, ABB identified three incidents of corruption of a government official (two of which are still under investigation). During the year one employee was dismissed.

##### **SO5 Public policy and lobbying**

ABB provided input to the European policy process on transmission, distribution and on smart grid technologies, as well as on all aspects of resource efficiency and industrial competitiveness. ABB made a strong case for the further integration of the European energy market and for the necessary interconnections. ABB supported the pursuit of ambitious binding targets for renewable energy sources, as well as their integration in the power grids in European Union energy policy. ABB helped advance and create the necessary regulatory environment for offshore wind and solar energy projects and lobbied for the promotion of available "green" technologies through procurement and in international agreements to achieve a low carbon economy. The year was particularly important for long-term issues, such as the multi-annual financial framework, the budget allocations for R&D and for the European Investment Bank policy guidelines. All these activities supplement ABB's involvement in initiatives of the relevant business associations such as BusinessEurope, EURELECTRIC, European Association of the Electricity Transmission and Distribution Equipment and Services Industry (T & D Europe), European Energy Forum and Bundesverband der Deutschen Industrie.

In the United States, a partisan government slowed the development of energy efficiency and climate policy legislation. Continuing funding from the now-expired Stimulus Package advanced technology and demonstration programs in the areas of renewables, electric automotive design, and industrial design. New regulatory regimes were introduced in the emissions reduction area. In this environment, ABB worked to promote our energy efficiency, smart grid, and renewables portfolios through active lobbying input and participation through two key business/manufacturing organizations, the Business Roundtable and the National Association of Manufacturers, and our lead trade group, the National Electrical Manufacturers Association, where ABB holds key leadership roles.

In China, ABB supported government activities in the area of energy conservation and environment protection in line with China's 12th Five-Year Plan. ABB continued to contribute our products with the latest technology, introducing our worldwide solutions and expertise in smart grids and energy efficiency solutions to government agencies and key stakeholders.

#### **SO6 Political contributions**

Under ABB's Code of Conduct, contributions to political parties, politicians and related institutions are to be made only in exceptional cases and only with the approval of the Chief Integrity Officer. In 2011, ABB Inc. in the United States made employee-raised donations through its Political Action Committee (PAC).

#### **SO7 Legal actions for anti-competitive behavior**

ABB has been cooperating with various antitrust authorities regarding their investigations into certain alleged anti-competitive practices in the gas insulated switchgear business, the power transformer business, the cables business, and the flexible alternating current transmission system (FACTS) business. For further information, please refer to the Commitments and contingencies note in the Notes to the Consolidated Financial Statements contained in the ABB Group Annual Report.

#### **Compliance – society**

##### **SO8 Significant fines and sanctions for non-compliance with laws and regulations**

ABB has not faced any significant fines or sanctions for non-compliance with laws and regulations in 2011. For further information, please refer to the Commitments and contingencies note in the Notes to the Consolidated Financial Statements contained in the ABB Group Annual Report.

##### **PR4 Non-compliance concerning product information and labeling**

During 2011, ABB did not receive any injunctions or complaints related to product information or labeling.

##### **PR8 Complaints regarding breaches of customer privacy**

One complaint regarding breach of customer privacy was received during 2011. An internal communication related to new business from a customer was communicated externally without prior customer approval. ABB's process for review and approval of articles for external release specifically includes a requirement for customer review and approval where references to the customer are included in the article. This process has been re-communicated and reinforced with ABB personnel in the country concerned.

#### **Compliance – product responsibility**

##### **PR9 Significant fines for non-compliance with laws and regulations concerning products and services**

No significant fines were levied against the company during 2011 for non-compliance related to products and services.