

# Risk management

## The benefits of good planning

(includes GRI standard disclosure 4.11)

Good risk management is essential to business success. In this context, considerable efforts have been made in recent years to strengthen proactive identification and management of sustainability risks – such as environmental, health and safety, social, human rights, and security issues – and those efforts yielded very positive results in 2011.

The benefits to the business were apparent in many areas. Security and crisis management exercises are carried out in all regions - and sometimes they are fortuitously well timed. In Japan, for example, the exercise for managers looked at the consequences of a major earthquake shortly before the Fukushima tragedy. Our crisis team in Japan worked with the Group crisis task force and was well primed to ensure the safety of our employees and business continuity.

In Egypt, a crisis exercise was held shortly before the revolution. In a major operation, involving local, regional and corporate managers and security officials, expatriate staff and their families were repatriated safely, assets were secured and business was only briefly disrupted.

By the end of 2011, about 850 managers in all eight ABB regions, as well as almost all country management teams, had been trained on crisis management.

Health and safety training is also another significant area of risk management. ABB employees and contractors can be exposed to risk if they do not follow the rules and instructions that have been established. Ongoing health and safety training in 2011 in high-risk areas, such as working with electricity and road travel, led to greater awareness of potential dangers and a significant fall in the number of incidents.

Overall, ABB has a global integrated and Group-wide 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 2011.

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 roundtables where top risks are identified, assessed 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 raw and residual risks are consolidated and analyzed at a Group level by the Group ERM team and discussed at the Group ERM roundtable which involves management from different parts of the Group.

We know that 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 damage to reputation. To that end, in recent years we have integrated Group-wide sustainability criteria into our risk assessment process for projects, our supplier selection guidelines and processes, and into the due diligence performed on potential acquisitions.

Sustainability experts are now embedded in the supply chain teams and mergers and acquisitions processes. And as part of the objective to identify and, where appropriate, mitigate potential risks as early as possible in the decision-making process, members of the sustainability management team now work with two key divisions to look at projects at the pursuit stage rather than shortly before a tender is made.

Sustainability due diligence is regular and can take many forms: In 2011, environmental specialists were involved in acquisitions as well as project assessments; security experts were involved in assessing the risks at individual project sites and countries around the world, as well as planning for different contingencies in many countries, including North Africa and the Middle East. Human rights specialists in the company reviewed a number of potential projects before making recommendations to the business.

In a year which was unpredictable in many different areas, good risk management proved its worth in all parts of the business. The need to focus on predicting, managing and mitigating risk – in all its forms – will continue.