

Sustainability in the supply chain

Developing strength in our networks

(includes GRI indicators EC6 and HR2)

ABB's suppliers – from raw materials to subcontractors – are an extension of our own business. As we pursue our growth strategy to 2015, strong supplier performance ensuring resilient, cost-effective and sustainable supply chains will be a key factor in our success.

When qualifying suppliers, ABB has long considered sustainability principles alongside the more traditional aspects of quality, cost and on-time delivery. We require suppliers to identify the health and safety and environmental risks in the scope of their supply to us, and we request evidence of social and human rights policies, and sustainability improvement programs. On-site audits have been conducted by ABB personnel and by the suppliers themselves in a self-assessment process.

The ABB Supplier Code of Conduct (SCC) defines the minimum standards for any company wishing to sell to ABB. All suppliers are required to fulfill their contracts according to standards comparable with those defined in the SCC. The code covers supplier performance in fair and legal labor conditions, occupational health and safety, environmental responsibility and business ethics. The SCC also requires suppliers to be responsible for the sustainability performance of the sub-suppliers they hire to provide direct or indirect goods or services to ABB.

To embed these principles both in our supply base and within our own supply chain management network, we are continuing our Supplier Sustainability Development Program. Commenced in late 2009, the program aims to develop suppliers into strategic business partners who share our commitment to sustainability and to build capacity in our supply chain management to ensure appropriate support for improving supplier performance.

The program began with a series of pilot sustainability audits of ABB suppliers conducted by a third-party company in 2009 and 2010. The audits focused on suppliers in higher risk countries, producing commodities using hazardous processes, such as castings and forgings, and were used to road-test new, Group-wide guidelines for auditors.

During 2011, we began full implementation of the program, conducting 125 third-party audits in 18 countries, with two-thirds of those audits in “high risk” countries, such as emerging economies. These audits revealed a number of situations where ABB's standards were not met. The issues which were discovered included excessive overtime, poor waste disposal practices, or a lack of appropriate protective equipment for

workers. In particular, at two suppliers 11 cases of child labor were detected. As soon as these cases were detected, the children were accompanied home by supplier personnel. The suppliers committed to pay for the children's education and to continue to pay the children's wages until they reached majority age, at which time the children would be allowed to recommence work at the supplier's premises.

ABB supply chain or quality managers are assigned to follow up the corrective action plans developed by the suppliers following their audits. Suppliers can be re-audited to ensure closure of corrective actions. Should a supplier not comply with their corrective action commitments, ABB will commence a process to de-source that supplier. To date, we have not de-sourced any suppliers as a result of sustainability audit findings.

Audits conducted during 2011 targeted both “high risk” and developed countries, to test our assumption that the majority of high risk findings would occur in high risk countries. Our assumptions were confirmed, and in 2012 we will focus the sustainability audit program in China, India, Mexico, Brazil and Eastern Europe, aiming to conduct 110 third-party audits during the period.

We developed and delivered supplier awareness training to over 200 suppliers in India and China in face-to-face sessions in 2011 to help them better understand our Supplier Code of Conduct and to help them to evaluate and improve their sustainability performance. In 2012, we will continue to expand the capacity-building program, conducting more face-to-face training with suppliers, developing online training modules and delivering specific training for our own supply chain staff, embedding that training in the existing Supply Chain Excellence program.

In addition to the focused Supplier Sustainability Development Program, ABB's global sustainability network also conducts focused environmental audits of suppliers, as part of our own facilities' ISO 14001 management systems. More than 950 documented environmental audits of suppliers were performed during 2011. Overall, more than 50 percent of approximately 1,500 key suppliers are externally certified to ISO 14001 and a further 10 percent have implemented “self-declared” environmental management systems.

The results show that we still have work to do to embed sustainability principles along our supply chain. We are committed to building capacity both within our own organization and our supply base, and believe that improved sustainability performance of our suppliers is a prerequisite for ABB's growth and improved performance into the future.