

Sustainability in the supply chain

Facilitating change

(includes GRI indicators EC6 and HR2)

ABB took further steps in 2012 to develop suppliers into strategic business partners who share our commitment to sustainability and to strengthen our supply chain management to ensure appropriate support for improving supplier performance.

Under our global Supplier Sustainability Development Program (SSDP), we conducted 121 audits and trained more than 1,050 suppliers and 1,255 ABB employees in 2012, focusing on Brazil, China, India and Mexico. A customized internal training program was also launched during the year, enabling ABB employees to achieve certification as sustainability auditors.

The training includes classroom instruction, assignments and on-site audits under the supervision of accredited third parties. Supplier audits in Mexico are now conducted solely by qualified ABB employees, enabling us to follow the development of suppliers more closely throughout the audit and improvement process.

Our program is structured around a combination of training for both suppliers and ABB employees, on-site auditing and monitoring of performance improvement plans. The ABB Supplier Code of Conduct underpins the SSDP, defining minimum standards regarding fair and legal labor conditions, occupational health and safety, environmental responsibility and business ethics.

Suppliers are selected for participation in the SSDP using a risk-based approach, according to country risk, purchasing volume, commodity risk and criticality of the supplier. Country risk, related to issues such as business ethics and human rights, is assessed based on publicly-available data from third parties, including Amnesty International and the International Labour Organization. Commodity risk is related to the potential environmental or human rights impacts of certain processes, such as the risks of labor violations associated with piece-workers on assembly lines.

We are starting to see steady progress. Capacity-building has resulted in improved audit performance by suppliers who have participated in our training programs. However, audits continue to reveal a number of situations where ABB's standards are not met. Similar to 2011 audit findings, the issues discovered during 2012 included excessive overtime, inadequate remuneration, poor waste storage and disposal practices, and a lack of appropriate protective equipment for workers. No cases of child labor were detected during 2012.

In Mexico, participants in the ABB Supplier Sustainability Development Program have seen the business benefits of improving their sustainability performance and have taken further action to embed sustainability in their businesses. One supplier relocated operations to enable a new layout and installation of new equipment to assure worker safety and compliance with regulations. Other suppliers have opted to invest in additional staff and training, or to set their own ambitious environmental and health and safety improvement targets.

At the completion of audits, suppliers are assigned a risk rating based on the findings from the assessment. The risk rating determines the required pace of corrective action and whether a re-audit is required for the closure of corrective actions.

ABB supply chain or quality managers are assigned to follow up the corrective action plans. Should a supplier fail to comply with their corrective action commitments, ABB commences a process to de-source that supplier. During 2012, four suppliers were blocked due to unsatisfactory progress with corrective actions. Purchases from these suppliers were suspended pending satisfactory progress by a defined date. Should these suppliers not meet these requirements, then the next step will be their removal as ABB-approved suppliers.

The SSDP will continue to expand in 2013. We plan to train 50 percent more suppliers than in 2012, to roll out the internal sustainability audit certification training in more countries, and to increase the scope of the SSDP to include some countries in Eastern Europe.

Another area of focus for 2013 will be the supplier qualification and approval process. When qualifying suppliers, ABB has long considered sustainability principles alongside the more traditional aspects of quality, cost and on-time delivery. This process will be further strengthened during 2013 with the launch of a new global online supplier registration and pre-qualification system.

ABB has engaged an experienced external supplier to manage the collection of extensive supplier information and to improve the quality, completeness and global availability of supplier information. This will help us to identify and minimize supplier risks, including legal, compliance, health, safety and environmental issues.

As part of our ongoing commitment to integrity and transparency, ABB has agreed to support TRAC, a global platform that allows efficient verification of entity information. Suppliers are invited to submit information, including ownership details and responses to compliance questions related to issues such as bribery and forced labor. Approved applicants receive a unique TRAC number and are then continuously screened against international sanctions and watch lists. In 2013, ABB will test and evaluate TRAC.

In addition to the SSDP, ABB's global sustainability network conducts focused environmental audits of suppliers, as part of our own facilities' ISO 14001 management systems. Almost 1,100 documented environmental audits of suppliers were performed during 2012. Overall, more than 50 percent of approximately 1,700 key suppliers are externally certified to ISO 14001 and a further 11 percent have implemented "self-declared" environmental management systems.

Strong supplier performance ensuring resilient, cost-effective and sustainable supply chains is a key factor in business success, and critical to growth plans. Our Supplier Sustainability Development Program is helping us to embed sustainability principles along our supply chain. The results are encouraging but we still have work to do. We will continue to build capacity within our own organization and our supply base in the belief that improved sustainability performance of our suppliers contributes to ABB's own success.

Country	No. of audits			No. of suppliers trained			No. of ABB persons trained		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
China	48	36	11	820	145	0	1,000	96	0
India	20	39	17	96	0	0	60	37	0
Mexico	21	14	0	61	0	0	10	0	0
Brazil	23	4	0	75	0	0	35	0	0
Rest of world	9	38	0	0	0	0	150	0	0
Total	121	131	28	1,052	145	0	1,255	133	0