

Progress and challenges

The most frequent questions we receive from our stakeholders are: How is ABB contributing to a better world? How is the company advancing towards achieving its [Group Sustainability Objectives](#) 2014-2020 and what are the main challenges we face?

This report looks at those issues in some detail. In brief, our contributions to mitigating climate change and enhancing societal progress take different forms; advances were made in several areas in 2015 in implementing our objectives, and we continued to face a number of diverse challenges.

Our nine Group-wide sustainability objectives are designed to ensure we reach our goal by 2020 of being recognized as a leading contributor to a more sustainable world through our business offering and sustainable business practices. The objectives cover areas such as our products, systems and services, climate change, resource efficiency, integrity, sourcing, safety and security, and our role as an employer and in society.

All of these issues have a direct or indirect impact on ABB's business success, and considerable work is ongoing to set and reach targets as we head towards 2020.

Our stakeholders, internal and external, re-affirmed in 2015 that the goals we have set ourselves are the right ones and material to ABB's business, while offering additional advice on the challenges we face.

How we contribute

The objectives acknowledge that we can contribute further to improving the environmental and social conditions in which we live. Our prime contribution towards mitigating climate change is to provide our customers with energy-efficient products, systems and solutions which lower energy consumption and cut emissions.

However, the benefits do not stop with the customer – they translate into wider benefits for society.

As an example, in 2015 ABB energized the first pole of the North-East Agra ultrahigh-voltage direct current transmission link which will supply power from north-eastern India to a substation in Agra, and from there, feed it across north India. When fully commissioned in 2016, the link will be capable of transmitting enough electricity to serve around 90 million people, based on average national consumption. A reliable energy supply leads to economic growth, and improved social services in health care, education and housing.

Our commitment to research and development, with spending of \$1.4 billion (4 percent of revenues) in 2015, strengthens our

ability to deliver energy-efficient technology to such projects and meet the needs of a rapidly changing world.

We contribute to societal progress in different ways: through the wealth and jobs we create, the taxes we pay governments, our presence in communities where we stimulate trade and employment, through the way in which we work with and train stakeholders such as suppliers and employees, and through our community programs and projects which target improvements to education and health.

Our sustainability objectives highlighting responsible sourcing, safe and secure operations, and strengthening our role in the community, underpin these contributions to social progress.

Progress on objectives

ABB made progress on implementing the objectives in 2015, and these are highlighted in the [dashboard](#) later in this report.

In the objective related to expanding revenues from our “eco-efficient” portfolio of products, systems and solutions, revenues in 2015 remained around 50 percent of total earnings. This can be seen against the background of an overall decline in revenues for the full-year. One of the key areas of work was to update the way in which we define our “eco-efficient” portfolio, strengthening the criteria and expanding its scope for introduction in 2016.

As far as our own performance is concerned, absolute energy consumption has now dropped by 6.8 percent since 2013. There was a further 4 percent reduction in water withdrawals and a total of 20 percent of waste was sent for final disposal.

Improving the safety of our [employees and contractors](#) is a top priority at ABB but is also one of our most pressing challenges. We strive for zero incidents throughout our operations. Unfortunately in 2015, ABB recorded the deaths of two contractors.

In addition to the safety programs and training under way globally, ABB has set leading indicators as we target a change of culture on safety. In 2015, employees completed 139,000 site observation tours to improve safety compliance in offices, factories and customers sites - on track to meet the 2020 target of 180,000 such tours. The rate of hazard reporting has already outstripped the 2020 target.

Despite the incidents which still occur, there was an underlying improvement in most safety performance areas in 2015. The number of serious injuries dropped by 36 percent compared to 2014, the total recordable incident frequency rate was down by 10 percent; and the lost time incident frequency

rate was down from 4.34 per 200,000 hours worked to a rate of 3.55 in 2015.

As part of the drive to strengthen our safety culture, performance against leading indicators, including the reporting of hazards and the number of site observation tours, are not only part of the Group sustainability objectives but also feature in the Group scorecard which determines bonus levels.

Safety and integrity are the leading value pair within ABB, and further progress was also reported in integrity training and communication. A total of 97 percent of employees had completed the latest round of anti-bribery and integrity training by year-end 2015.

We have also stepped up efforts to meet our supply chain target of ensuring we understand and manage environmental and social risks in our global sourcing operations. The [Supplier Sustainability Development Program](#) to assess and train suppliers and build assessment capacity in ABB expanded further in 2015. The scope of the program was extended in south-east Asia and eastern Europe, and further risks were assessed and mitigated.

More detail on our performance and programs, as well as our approach to the sustainability agenda, can be accessed throughout this report.

Challenges

While progress continues to be made in many areas, we still face challenges.

ABB is in a period of change, having launched the second stage of our Next Level strategy in 2015 to accelerate the transformation of the company and enable us to better address the needs of our customers. Key measures such as a divisional realignment and the reduction of five divisions to four, took effect at the start of 2016 with the aim of delivering additional customer value from our unique power and automation offering.

One of the key elements of the transformation is our white-collar productivity program which is aimed at making the company leaner, faster and more customer focused. In any such process, new measures have to be put in place to chart the way forward and provide employees with strong guidance and support so they can continue to give their best.

Considerable work was undertaken in 2015 to prepare the way for [improved ways of working](#). These efforts are ongoing, and they are being complemented by programs to increase diversity, which focus primarily on gender issues, and ensure that we retain our ability to attract, develop and retain

employees. Both of these issues are key to business success in an increasingly competitive, globalized market.

We face other challenges: how to ensure the safety and security of our people in an increasingly volatile world. To consolidate the safety improvements made in 2015, we are seeking to strengthen business line manager responsibility and accountability, carry out further widespread training and improve the auditing of sites; similarly, additional security assessments and training are also of paramount importance.

How we manage our risks is an area of constant focus. While considerable work continues on managing environmental and social risks at our suppliers, we face an obvious challenge of scale since we have some 70,000 direct material and project service suppliers. This is why the focus of our Supplier Sustainability Development Program has been on potentially high-risk suppliers in high-risk countries.

We have not seen incidents of child or forced labor in recent years or other egregious forms of human rights abuse. But, as the chapter in this report on [Responsible Sourcing](#) shows, there are many other areas of non-compliance with national law and/or the standards we set out in the ABB Supplier Code of Conduct. Considerable efforts are ongoing to make sure that, once problems are identified, our suppliers introduce the changes we require under the corrective action plans we agree with them.

There are other areas where we are seeking to improve results: the objective to decrease energy intensity per dollar of sales by 20 percent by 2020 will see further efforts to drive energy efficiency at our own sites; our work to increase understanding and management of human rights risks has been ongoing for several years – well before the 2011 adoption of the United Nations Guiding Principles on Business and Human Rights – but can be stepped up; and we will make further efforts to reduce water consumption and waste sent for final disposal from our sites.

Sometimes these efforts are affected by the need to prioritize activities or a lack of capacity. For example, to free up more time for direct engagement with stakeholders such as investors, we chose not to participate in the Dow Jones Sustainability Index questionnaire in 2015, having been ranked as an industry leader for 14 of the past 15 years.

Overall, ABB remains committed to delivering on all of our Group sustainability objectives by 2020. The objectives are aligned with the goals of our corporate Next Level strategy, and are part of our ability to deliver sustainable business success and contribute to environmental and societal improvement.