



 CEO LETTER

Transforming our business to meet the challenges of tomorrow

Sustainability is an integral part of ABB's business and of our Next Level strategy, which aims to create sustainable value for all of our stakeholders, including customers, investors and society as a whole.

To live up to that ambition, we have defined the specific goal of being recognized as a world leader in sustainability by 2020, based on the value we create as well as the advantages derived from robust risk management. A series of Group-wide objectives, encompassing a broad range of sustainable behavior and practices, was drawn up in 2013 to help us reach our 2020 goal (see page 10). As we near the half-way stage, now is an opportune moment to take stock of our successes and ongoing challenges.

ABB has been undergoing a deep and strategic transformation since we launched our Next Level strategy in 2014. We have shaped our four divisions into entrepreneurial market leaders in their respective businesses, created a leaner, more agile and efficient company, and positioned ABB as a key player in the Energy and Fourth Industrial Revolutions. Today, we are partner of choice for electrification of all consumption points, robotics and intelligent motion solutions, industrial automation, and for a stronger, smarter and greener power grid. With our high-voltage direct current (HVDC) transmission technology, we are bringing clean electric power to hundreds of millions of people in the Americas, Europe and Asia, while our microgrid solutions enable access to reliable and affordable electricity in remote areas and island communities. Our pioneering technology solutions for industry dramatically improve the energy efficiency and productivity of our customers' operations, while our digital offerings help customers take their businesses to the next level in terms of uptime, speed and yield.

As a technology leader, we are well positioned through our core businesses to contribute to the UN Sustainable Development Goals (SDGs), particularly those on affordable and clean energy, sustainable cities and communities, and efforts to combat climate change, as well as to meet ABB's own Sustainability Objectives.

Achievements in 2016

In 2016, I had the honor of unveiling our new smart sensor solution for low-voltage electric motors – the first of its kind – in the presence of US President Barack Obama and German Chancellor Angela Merkel at the Hanover industrial fair in Germany. The device can be easily attached to

almost any of the 300 million electric motors in service around the world today and has huge energy and cost savings potential.

Appropriately for a year in which we celebrated the 125th anniversary of ABB's birth in Switzerland, we provided the energy-efficient power and control systems that lie at the heart of the new Gotthard base tunnel – at 57km, the longest and deepest rail tunnel in the world.

And underlining the importance of renewable energy, Solar Impulse – supported by ABB engineers – completed the first round-the-world flight, powered only by energy from the sun. It was an historic achievement which clearly demonstrated that with pioneering spirit and clean technologies, we can run the world without consuming the earth.

We continued our efforts to drive and support global action on emissions at the COP22 climate change conference in Marrakesh, Morocco, where we championed energy efficiency, and highlighted the potential of renewables and microgrids.

Leadership in the digital revolution

As a leader in robotics and industrial automation, ABB has long been mindful of the societal impact of its technologies. In industry, robots are freeing workers from strenuous, dangerous and monotonous jobs and, by raising productivity, having a positive effect on employment. ABB's view is that the Fourth Industrial Revolution will help to further alleviate poverty, while raising living standards by bringing down the price of essential goods and services. Hence, like the energy revolution, it will be a key contributor to the SDGs.

But we acknowledge that the pace of change presents challenges that require more flexibility and creativity of both companies and their employees. To address this, we are working with peers to explore the needs of future education systems and, with the Global Apprenticeship Network, we will address key questions about the shape of our workforce into the future.

At ABB, we are well-advanced in preparing our organization and workforce for the new industrial era. We have streamlined our headquarters and management structure and established global and regional service centers to provide professional back office support for our businesses.



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CHIEF EXECUTIVE OFFICER

This has meant relocating certain roles and functions, and unfortunately some colleagues have had to leave the company. Throughout the transformation, we have done our best to find new roles for affected employees and to avoid layoffs through natural attrition. I would like to take this opportunity to thank everyone involved for their hard work, patience and professionalism.

ABB values and delivering our strategy

How we execute our strategy is just as important as delivering on our targets. To drive sustainable value creation for all our stakeholders, we live our five value pairs every day, starting with safety and integrity.

Much has been done to make workplaces safer, and to train employees and contractors how to recognize and avoid potential hazards – in offices and factories, and during work at customer sites. These efforts led to improvements in many areas in 2016, including a significant decline in our lost time incident rate.

However, we still have some way to go. Last year tragically, five people lost their lives due to safety incidents at ABB workplaces. This is totally unacceptable and we shall be redoubling our efforts in 2017 with the clear objective of eliminating fatalities altogether. One key action is the introduction of a new accountability framework to ensure complete clarity in accountabilities and responsibilities for safety in our operations.

In early 2017, ABB uncovered a sophisticated criminal scheme involving significant embezzlement and misappropriation of funds in its South Korean subsidiary. The company immediately launched a thorough investigation, involving internal and external parties, and reinforced our financial processes. New disciplinary measures and rules are already in effect. ABB has a zero-tolerance approach to unethical behavior and maintains the highest standards regarding integrity and ethical business practices. We have started implementing disciplinary consequences and will continue to do so as appropriate.

In other areas, we have made solid progress on our sustainability objectives, such as those relating to human rights, responsible sourcing and the use of energy and materials. You can read more about this work, as well as other areas of sustainability, elsewhere in this report.

Sustainability, like innovation, is in the DNA of ABB. In part, this is because our business has always been rooted in the efficient transmission and distribution of electricity, and in improving the uptime, speed and yield of our customers' operations in utilities, industry and transport & infrastructure. Having sustainability at the core of our value proposition means that it is managed, measured and driven from the very top of our organization. Our Sustainability Governance Board and our Group Executive Committee are one and the same, just as sustainable value creation is the ambition of our Next Level strategy.