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## OUR PEOPLE

# Working together for change

As ABB continued down a path of transformation, 2016 proved to be a vital year in the implementation of the Next Level strategy. Changes across the organization brought not only new opportunities and challenges, but also a stronger commitment to support our people and prepare them for the future.

## Taking performance to the Next Level

The White Collar Productivity (WCP) program is one of the company's seven 1,000-day programs aimed at making ABB more efficient, agile and customer focused. Since its launch in 2015, the WCP program has reached significant milestones. The company has taken major steps to achieve market-oriented simplification, notably with the realignment of our businesses from five to four divisions, to improve business functions in order to get closer to customers and to expand the capacity of our support functions to deliver best-in-class services from shared service and knowledge centers.

Our new shared service centers, also known as Global Business Services (GBS), provide support to our businesses in human resources, finance, information systems and supply chain management. Their role is to ensure consistently high levels of service, quality, cost-effectiveness and compliance in handling standardized support services. The six selected locations, in China, Estonia, India, Mexico, Poland and the US, have allowed us to leverage existing resources and, importantly, a pool of highly qualified people. The shift from country-based to globally managed shared service centers has been carefully planned to optimize how we work and widen the talent profile of the company.

In parallel, we established physical and virtual knowledge centers to consolidate and share expertise and specialized services across the organization. These Centers of Expertise (CoE) allow our subject matter experts to provide strategic and tactical guidance, including human resources, finance, supply chain and information systems. While some centers already existed, the new structure capitalizes on our scale and accelerates the more effective sharing of best practices.

The realignment of our businesses and the implementation of the WCP program have prompted changes in our operations and structures, which inevitably have impacts on our people. To assist the transition, our leaders have worked to engage regularly with the employees affected, with local works councils, as well as the European Works Council and with diverse local stakeholders. Despite

sometimes difficult topics, the structured consultation and engagement processes helped to build trust between the parties and to address challenging issues openly and constructively.

The establishment of the global Labor Relations CoE and the introduction of global tools and standards also helped to guide leaders and to create awareness of local labor expectations and requirements on all levels. Use of these resources has led to better decision-making and planning – and, critically, more timely and open communication during a time of uncertainty.

## One example of WCP in action

If the WCP program was designed to improve the way we at ABB work – especially with each other – it made sense for the most people-oriented support function to lead by example. During 2016, our human resources (HR) function started on its own transformational journey by implementing WCP and redefining its role and responsibilities. Building on a solid foundation in HR management, the new HR functional blueprint is designed to reduce complexity and increase efficiency, to address the needs of our business better and more quickly.

The Australia HR team became the first in ABB to adopt the new HR blueprint, enabling it to focus more on helping individuals and teams work to the best of their abilities – and in effect, support the business. In June 2016, the newly opened GBS center in Bangalore assumed the delivery of a number of processes key to effective talent recruitment, management and retention. The potential complexity and impact of such a change prompted Australia HR business partners to develop a transition plan rooted in open communication and the engagement of everyone involved. The outcome has been positive, despite the movement of people inside and out of the organization, and can be considered a case study in a sensitive area of change leadership.



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More globally, the results of the HR transition also are promising. Along with the shift of more transactional responsibilities to the GBS centers, the development of Centers of Expertise has also led to improvements in specialist processes, such as talent management. The merging of talent attraction and retention in the Integrated Talent CoE has already helped the company better tap into its own assets and speed up the recruitment process, increasing internal mobility and creating new opportunities for redeployment and training.

We are also monitoring progress of the HR transformation through internal surveys. For the past several years, the HR function has used the 'Net Promoter Score'

implemented across business, functional and regional lines, from the factory floor to the executive committee.

These processes are reinforced by our bonus scorecard that balances company and individual/team objectives. In 2016, all behavior targets were linked to the scorecard, including demonstration of the new ABB competencies and contribution to the "Don't look the other way" campaign on safety and integrity.

In terms of attracting new talent, our status as an employer of choice, in many countries around the world, has been vital to recruitment. To make it easier for interested candidates to apply, we revamped the online application



program to gauge the satisfaction of internal customers. The 2016 survey showed that satisfaction with HR business processes increased, even during a time of transformation. An additional internal "Pulse" survey, administered within the ABB HR community, was designed to gather feedback from those participating in the change and led to improvements in the roll-out process.

#### **Focus on talent**

In addition to the WCP implementation, we took significant steps to further attract, develop and retain the people who will best move ABB into the future. We finalized and completed training in our new capability and workforce planning process, which ensures the quality and quantity of people needed to deliver ABB's Next Level strategy. We integrated our new competency model, Values in Action (VIA), in key HR processes, including recruitment, training and annual performance appraisals. Our bottom-up people review process has been

process. A new mobile-enabled candidate user interface now streamlines the flow, from job search to application. We also activated social media application, where possible, through LinkedIn. Within one month, one-tenth of job applications were being sent from mobile devices.

As for developing and retaining talent, we made internal mobility a strategic focus to help our own people grow and move more freely across the organization. We developed a coordinated and action-oriented global approach to identify and remove the barriers to mobility – and become more agile and business-focused in responding to pressing talent needs, especially for senior roles. The increased use of communication, talent profiles and guidelines to clarify the internal process has already made a notable difference.

Other programs and practices to develop our people continued to flourish. Nearly 83,000 annual appraisals

in 84 countries were carried out, providing feedback on performance and discussions on career development. Functional competency development programs, mostly in engineering, management and R&D, were completed in 11 different functions, while a total of 673 long-term assignments were in effect in 2016. Such international mobility strengthens our ability to transfer knowledge and deliver customer value.

### Spotlight on learning

In line with our push to provide new opportunities for career growth, we designed a sweeping global learning and development strategy in 2016. The new strategy will be supported by an expanded offer of standardized learning programs for all levels. Proven programs, such as ABB Life for university graduates, senior leader development at IMD business school and global mentorship, have been updated to incorporate the ABB value pairs.

We also identified learning and development gaps and, accordingly, created three new programs for middle and senior management. A new program to promote a more customer-oriented and entrepreneurial culture at ABB is in development.



In line with our global scope and growing focus on internal mobility, we continue to offer free language training to employees in 23 languages, through the interactive Rosetta Stone program. Free English training (also for families) is provided through Education First.

The surge in new and enhanced learning and development programs has necessitated a more efficient learning management solution. A new cloud-based platform, to be launched in 2017, will act as a central resource for all ABB knowledge and learning tools.

### A stronger framework for diversity and inclusion

The case for increasing the diversity and inclusiveness of ABB has become more pressing. We are proud of our truly global outlook, with 50 nationalities represented at headquarters; and eight in our 11-strong executive committee. In other areas, such as the number of women in leadership positions, we still have work to do.

To accelerate our progress, we have begun implementing a new diversity and inclusiveness framework to expand opportunities, especially for women already working at ABB. The first phase of implementation focuses on the integration of diversity objectives in current talent development processes, career life-cycle programs and increasing awareness of diversity issues among employees and senior managers.

During 2016, we strengthened recruitment and leadership development processes to reinforce the female talent pipeline at all levels. Actions focused on our people review succession planning process and on expanding talent sources to ensure accomplished women candidates are considered for open positions. We also continued to support and sponsor the Women's Forum as part of our goal to ensure ABB is an employer of choice for women employees and candidates and to share and learn from best practices in other leading businesses.

Additionally, we have heightened ABB's external engagement with other high-level partners to share perspectives about the workplace of tomorrow – especially in the face of increasing digitalization. Prasad Swaminathan, Global Head of Talent, was invited to join the 25-member World Economic Forum's Global Future Council for Work, Education and Gender. Through a multi-stakeholder dialogue, the Council explores themes to address the needs for increased participation of women in the workplace and effective talent strategies, policies and regulations for emerging labor markets.

ABB recently joined the Global Apprenticeship Network as well, to help prepare the next generation for the world of work. As our organization changes, along with the world around us, we are confident that these fresh perspectives will help foster a culture of collaboration and innovation – and drive the company towards a more sustainable, competitive future.

## STAKEHOLDER ENGAGEMENT

# Listening and learning to improve performance

ABB has undergone a deep and strategic transformation since launching the Next Level strategy in 2014. The five divisions have become four and have been re-shaped, and the company has become leaner, more agile and efficient.

Such a transformation requires careful planning, detailed explanation and trusting relationships with many different stakeholders.

Sustainability performance forms an important basis for dialogue with stakeholders. In recent years, ABB has been making greater efforts to engage formally with different business and societal partners on sustainability issues.

Since 2011 ABB has been surveying stakeholders on environmental and social performance. One of the outcomes has been the creation of an external stakeholder panel of independent sustainability specialists who advise the company on its sustainability objectives and targets, its gaps and the quality of reporting. A [summary](#) of their latest findings is contained in this report.

ABB engages most closely with the following stakeholders:

## Customers

Meeting customers is, of course, a daily activity. Their primary sustainability interest is to buy energy and resource efficient products, systems and solutions which will raise the productivity and efficiency of their business while reducing power consumption and cutting emissions.

Customers continue to seek assurances from ABB about its supply chain to ensure what they are buying has been ethically sourced, meets environmental regulatory requirements, and that robust risk assessment processes are in place. Often they also want information about ABB's environmental, health and safety, and social policies as part of purchasing agreements.

To gauge customer satisfaction and help the company to progress, ABB has for the past seven years used a survey called the 'Net Promoter Score' program. The 2016 survey showed that customer satisfaction continues to rise with 50 percent now saying they would recommend ABB to a colleague – a four percent increase over 2015.

ABB also compiles, validates, tracks and analyzes all customer complaints in a single, global system that helps to resolve problems quickly and efficiently. This system – the Customer Complaints Resolution Process – provides valuable pointers for improvement.

## Suppliers

As a company with a global supply chain, ABB knows that the conditions under which products are manufactured are crucial both to the workforce and the success of business.

The company is in daily contact with suppliers around the world, seeking high quality, low cost and on-time delivery of products. In addition, ABB has been working hard in recent years to ensure that [suppliers](#) meet its environmental, health and safety, labor and human rights requirements and standards. Much of this ongoing work is carried out through the Supplier Sustainability Development Program which assesses and reviews suppliers' sustainability performance, seeks improvements and trains suppliers as appropriate, and builds internal capacity in the company to recognize risks that need to be addressed.

## Investors

ABB has run sustainability roadshows for the past four years in Europe and North America, in addition to individual sessions with fund managers and analysts. In 2016, roadshows were held in Boston, Paris and Stockholm where ABB faced questions, in particular, on its environmental performance and the company's plans to increase revenue from its energy efficiency portfolio.

Mainstream, as well as socially responsible, investors have shown growing interest in recent years in different aspects of ABB's environmental, social and governance (ESG) performance and their impact on the company's business. This is mirrored by increasing interaction with some ratings agencies.



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### Employees

The transformation of ABB, and the White Collar Productivity (WCP) program to create a leaner, more efficient company, have raised many questions among employees about their future and possible changes of role and location. Knowing this, ABB management planned the transformation carefully, prioritizing information and communication, and setting out expectations to employees as the program has moved forward.

This has included detailed discussions with the unions – in particular the European Works Council – on different aspects of the WCP program. Apart from regular meetings in Switzerland and Poland in 2016, there was a series of consultations involving senior management and union representatives on the proposed changes, and

Nations agencies and the World Business Council for Sustainable Development.

ABB also works closely with academic institutions in dozens of research and development partnerships around the world. In many countries, such as Brazil, China and India, ABB sponsors educational programs for engineering students. Such partnerships support innovation, and the spread of information and expertise, as well as the company's efforts to be an employer of choice among graduates.

### Public policy

ABB is actively involved in policy debate in many parts of the world, particularly the European Union and the United States. ABB's advanced technologies continue



the implications for different locations, countries and business activities.

### Civil society

ABB sees itself as part of society, contributing to economic and social progress in different ways. The company engages with representatives of civil society, unions and the media on an ongoing basis, as part of business activities and also to better understand their expectations. The aim is to have meaningful dialogue and collaboration, to explain ABB's positions and policies and, at times, to challenge and disagree.

The dialogue may, for example, relate to a single issue such as a meeting with a non-governmental organization (NGO) in Sweden in 2016 on the condition of migrant workers in the Gulf, or working in the field with partners on rural electrification projects; it also involves taking part in many roundtables, meetings and multi-stakeholder initiatives, such as those organized by NGOs, United

to be of strong interest in discussions related to energy and industrial policy, particularly in view of the ongoing transformation of the energy market and the digitization of industry.

In both the EU and US, ABB has been participating in discussions around grid reliability, energy storage, interconnections, smart grids, energy efficiency, as well as the challenges and opportunities of industrial digitalization.




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### Community

ABB has a long history of working in the community, focusing on education and healthcare programs. Sometimes the approach is philanthropic but there may also be other business-related objectives.

Support for universities, technical colleges and other educational institutions, for example, not only improves learning opportunities, but also raises ABB's profile and helps to recruit qualified engineers and other staff. ABB's efforts to improve healthcare are often designed to foster progress in the communities where it operates, and they can also positively impact key local stakeholders such as employees, their families, and suppliers and customers.

In 2016, ABB contributed to about 670 community projects and charities worldwide. Two thirds of them were in North America. A total of 45 countries out of the 69 reporting on their social activities in this report supported community projects. Employees and companies donated approximately \$13 million and provided about 4,500 person-days in volunteering time.

 **\$13 million**  
donated by employees  
and ABB companies

Major programs are run at Group headquarters while local initiatives are decided at a country level. Some examples of the projects:

#### Helping disadvantaged athletes

Corporate volunteering is widespread at ABB – in particular in Germany where dozens of employees, from the country Managing Director to factory workers, support participants in the Special Olympics for mentally handicapped people. In 2016, 150 ABB volunteers took part in the summer games, another 100 in the winter event helping athletes to compete.

ABB has been a prime sponsor of the Special Olympics in Germany for the past 15 years, during which 3,000 ABB employees have taken part. ABB volunteers also support Special Olympics events in other countries such as Italy, the United Kingdom and United States.

#### Innovative technology supporting communities

ABB's advanced technology is helping to support community and humanitarian aid efforts in a number of ways. In the Swiss Alps, for example, ABB deployed a laser-powered control system at a ski resort in 2016 which measures the height of people queuing for a chairlift, and the ground leading to the chairlift is then raised automatically to an appropriate height to allow children and people with disabilities or access problems to get on to the six-seater chair.

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Microgrids, which are a strategic focus area for ABB, support social development by bringing reliable power from both traditional and renewable sources of energy

to remote, off-grid regions. In 2016, ABB agreed to install a microgrid to support humanitarian work at the main Africa logistics hub of the International Committee of the Red Cross in the Kenyan capital, Nairobi. The technology will secure energy supplies – and enable the integration of solar power - at the center which distributes medical and relief supplies to hundreds of thousands of victims of conflict.

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#### Helping engineering students globally

A global foundation set up to honor a former ABB Chairman and Chief Executive, Jürgen Dormann, is marking its first decade of operations in 2017, helping talented but financially strapped engineering students to pursue their studies. The foundation has grown steadily in recent years, and scholarships are now granted to students at 16 partner universities in 13 countries. In 2016, the latest batch of scholars were invited to Switzerland for a special week of learning – and for many it was the experience of a lifetime.

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#### Improving healthcare

ABB is involved in a range of projects worldwide related to health. In the United States and Canada, for example, many activities ranging from charity donations through to sponsored fun runs and golf tournaments are designed to support both local and national organizations involved in healthcare.

The scope of support around the world varies considerably. In the United Kingdom, employees have for many years been contributing to Macmillan Nurses who provide cancer care and information to patients and families; in Egypt, ABB provides medical equipment to a hospital, while in other countries such as Argentina, Finland, Romania, Thailand and Vietnam support is geared towards children's hospitals. In Oman, ABB has been helping to raise awareness of heatstroke while in Singapore ABB supports a home help program for elderly people.

#### Awards

ABB received 14 awards in 2016 in recognition of the company's social, environmental and integrity performance. They included an operational excellence award from China's corporate social responsibility education committee, environmental awards for individual facilities in the United States, recognition of strong health and safety performance in the United Arab Emirates and integrity awards in Brazil and the United States. These awards are valuable recognition of the sustainability work that is being carried out at a country level and serve to strengthen employee commitment.

## HUMAN RIGHTS

# Moving ahead on human rights

ABB made further advances on integrating human rights into the business in 2016, both as part of ongoing programs to strengthen awareness and best practice, and also in response to regulatory requirements and increasing stakeholder expectations.

Since the adoption of the United Nations Guiding Principles on Business and Human Rights (UNGPs) in 2011, there has been increasing stakeholder pressure on companies to do due diligence on their human rights impacts and risks, and report on performance.

This momentum is reflected in a range of international standards, regulatory changes at a national level to encourage companies to improve performance, and increased civil society monitoring and reporting on the impacts of corporate projects and activities around the world. The focus to date has been on conflict minerals, child labor and human trafficking in the supply chain.

## Challenges

One of the key topics for ABB in 2016 was how to recognize and prevent potential human trafficking and modern slavery in its value chain, in response to new legislation and increased international focus on the issue.

Considerable work was undertaken in 2016 across the company, coordinated by Legal and Integrity, Supply Chain Management and Sustainability functions, to ensure a coherent approach to the issue. Policies were updated, among them the Supply Chain Code of Conduct, and the Human Rights and Social Policies; questionnaires covering sourcing and contracted labor were made more robust; training was given to supply chain managers around the world on the issues involved, including how to identify and respond to risks.

This was vital preparatory work in advance of the publication of ABB's first response to the UK act, [published](#) in February 2017.

At ABB, human rights specialists carry out due diligence work to ensure the company understands its risks and avoids causing or contributing to negative human rights impacts. This due diligence – a cornerstone of the UNGPs – ranges from desktop research to the commissioning of specialized third-party reports, and on-the-ground visits. Considerable emphasis is placed on internal risk assessment processes and research into potentially high risk

projects in high risk countries. With ABB interested in or bidding for many projects each year, the level of detailed due diligence depends on available resources.

Another challenge is how to build awareness in the company of human rights issues, and the potential human, legal, financial and reputation consequences of poor performance.

## Training and capacity building

ABB has been on its human rights journey for more than 15 years, publishing a formal policy in 2007, carrying out different forms of due diligence, and starting to embed human rights criteria in business processes before the UNGPs took effect in 2011.

Another milestone was achieved when human rights were made part of the Group's Sustainability Objectives 2014-2020. Raising awareness among managers to ensure human rights are understood and well managed is our corporate 2020 objective.

Both of the key performance indicators set for 2016 were reached. One of them - the launch of an international network of human rights advisors at ABB by the start of 2016 – was achieved a year ahead of schedule.



## 650 managers

trained on human rights principles by end of 2016

The aim of the network is to ensure there are trained employees in different parts of the world who can advise the business on ways of identifying, mitigating and avoiding human rights risks, and who also exchange best practice, as well as dilemmas and challenges. At one meeting in 2016, the issues reviewed included human trafficking legislation, an update on efforts to improve labor and human rights standards in the supply chain, and a report on a corporate initiative to counter sexual discrimination in South Africa.



The other sustainability objective was to train 600 managers on human rights by the end of 2016, following several years of mainly face-to-face sessions in different parts of the world.

The training in 2016 was focused on key target groups who had not received it before, such as the country management team in Germany, and the newly-designated Business Unit Health, Safety and Environment managers who will also be overseeing and advising on human rights and community relations performance in their respective businesses and projects.

In addition, there were also sessions for the country management in South Africa, and members of the ABB sustainability network. By year-end, more than 650 managers had been trained.



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### Engaging with different stakeholders

Stakeholder engagement on labor and human rights issues is of vital importance in ensuring strong performance and the social license to operate. ABB speaks to and works with a wide variety of stakeholders, including customers, investors, suppliers, civil society representatives and international organizations to understand their expectations and improve performance.

The areas of engagement are very different: In recent years, customers have increasingly been requiring ABB, as a supplier, to provide details of our labor and human rights policies particularly with reference to the supply chain. ABB has increasingly been working with suppliers not only to assess whether they follow and meet ABB standards, but also to help them improve working conditions.

ABB speaks regularly to investors and ratings agencies about a wide range of sustainability issues. While human rights does not come up as frequently as, for example, environmental performance, they seek re-assurance that ABB is aware of and is managing human rights risks in its value chain. In 2016, issues such as how ABB works to ensure fair working conditions in the supply chain, and to avoid potential child labor issues, were raised.

The company also engages with and learns from human rights specialists. Such activities include peer learning reviews in the Global Business Initiative on Human Rights, lessons drawn from the annual United Nations stakeholder forum in Geneva, and participation in UN Global Compact meetings such as the 2016 summit and local network meetings. The International Labour Organization is also a valuable source of information and occasional advice.

ABB also meets representatives of non-governmental organizations on a formal and informal basis to understand their concerns, and where appropriate, to lay out

ABB's position on a particular issue. Such engagement in 2016 included meetings on a popular initiative in Switzerland covering corporate human rights and environmental impacts, as well as a meeting in Sweden on migrant labor issues in the Gulf.

### Access to remedy

ABB has different ways of reporting alleged incidents or negative impacts. They range from an internal process to report allegations of abuses through to hotlines, which are publicly available to internal and external stakeholders worldwide, for reporting suspected violations of the ABB Code of Conduct or applicable laws.

The hotlines are mostly used by current employees. While contact details for all stakeholders are provided on ABB's web site, few external complaints or allegations are registered on them.

Within the company, sustainability specialists around the world, who have received human rights training, carry out formal annual reporting on issues that may have arisen in the value chain. For 2016, no incidents of child or forced labor were reported.

However, as in many large organizations, violations do occur within the company. There were five substantiated cases of harassment in 2016, resulting in four terminations and one resignation.

ABB has also been considering additional ways to address the issue of access to remedy for people whose rights may have been violated, as defined in the third pillar of the UNGPs.

### Looking ahead

There is a clear moral imperative, as well as many business reasons, for strengthening human rights due-diligence yet further. We are continuing that journey.

ABB is reviewing its human rights program in 2017 to see where further steps can be taken in order to reach the 2020 objective. While human rights criteria are already embedded in key decision-making processes such as supply chain, the review of project bids, and mergers and acquisitions, there is room for strengthening some of the criteria to be reviewed in project bids. This is an area of focus in 2017.

Training and capacity building are one important way of driving better performance but there are other areas to be worked on to make the approach more coherent across the company and to embed human rights into company culture. This will require more work in different parts of the business and increased employee engagement.

Recognizing the extremely complex nature of human rights, we will continue to emphasize the importance of collaboration and learning from others.

## SAFE, HEALTHY AND SECURE OPERATIONS

# Focusing on accountability and engagement

We consider the ABB value pair of safety and integrity as the bedrock of our organization, which means that the health and safety of our employees, contractors, customers and others affected by our activities are a top priority for ABB.

Our objective is that by 2020 all ABB operations will have an excellent health, safety and security culture embedded in their day-to-day business, targeting zero incidents.

Many programs and best practices already are in place to help achieve this goal and significant progress has been made, for example achieving a sustained decline in overall employee incident rates. However, we faced a challenging year in 2016 when we recorded a number of fatal contractor and road travel incidents, prompting a close review of how we support safety throughout our global operations.

## Top leadership reinforces accountability

The results of this analysis prompted the ABB Executive Committee to launch a new framework to reinforce clear accountability and responsibility for health, safety and environment (HSE) in our operations. Within this HSE accountability framework, we established 'lead organizations' and 'lead managers (HSE)' for every ABB workplace across our organization.

Lead managers (HSE) now chair a local governance process to ensure that there is clear agreement, communication and understanding on responsibilities for managing HSE risks at every ABB workplace and for every shared or common area associated with that location. Consistent with ABB's Next Level strategy, the HSE accountability framework reinforces the clear link between our core values, our behavior and delivering business value.

To further underline this link, all ABB employees are required to include a health and safety behavioral goal in their annual objectives. Additionally, management engagement with safety is incentivized by inclusion of the safety indicator "hazard reporting rate" in the internal ABB performance dashboard, which is factored into all managers' variable compensation.

Other, key CEO-led programs continued to reinforce the Group safety message. The second annual CEO Safety Awards were presented at the Group Leadership Forum in 2016. The awards are open to all ABB employees around the world and acknowledge significant individual and

team achievements that promote a strong safety culture. From more than 130 nominations, winners and runners-up were selected in each of four categories – Safety Leader, Project Safety Performance, Team Safety Improvement and Service Safety Award.



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ABB Safety Week, launched by senior management in 2014 to mobilize ABB teams and contractors around safety, expanded further in 2016. Around 160,000 employees and contractors took part in more than 4,000 activities promoting safe and healthier habits, both at work and at home. Sessions focused on three drivers of ABB safety culture: Safety-related communication, key safety disciplines and the safety observation tour (SOT) process. To expand on the week's communication theme, ABB employees also actively engaged their colleagues in more than 140,000 targeted conversations about health and safety topics important in their local area.



**160,000 employees**  
and contractors took part  
in Safety Week 2016

## Programs and tools supporting our strategy

During 2016, we also continued to deliver global improvement programs associated with our key risks and the work areas prioritized the previous year: Safety masterclasses for line management, streamlined HSE management system, and a comprehensive HSE audit program.

The safety masterclasses are leadership and HSE competence workshops for line managers, designed to extend their HSE knowledge and leadership skills and to help them apply these leadership practices in their daily work. Designed and piloted during 2015, the program was rolled out to more than 1,600 plant, local business unit (BU) and product group managers in 2016, with a further 200 completing the classes in the first half of 2017. While this

first wave of the program was delivered in cooperation with an external training partner, we will now train our own personnel to deliver the classes, to enable a much broader reach across the organization.

To further promote business alignment on our common HSE goals, to drive efficiency and to provide a common base for our audit program, we are developing a Group HSE/Sustainability management system consistent with international standards. We laid the foundations for the system during 2016, and in 2017 will continue development and conduct pilots with selected BUs.

In 2016 we also launched a program to improve and align the way we provide HSE audit and assurance across the group. The program will focus on key, high impact and high frequency issues across all operations and will provide a comprehensive assessment of the implementation maturity of ABB's HSE/Sustainability management system. A Group HSE audit and assurance manager was appointed in 2016, who is developing Group standard audit protocols and recruiting the audit team during 2017, with full program deployment planned for 2018.

#### **Health and wellbeing: Building resilience**

As part of ABB's focus on our people, during 2016 we expanded our employee health program beyond the existing risk management aspects of occupational hygiene, ergonomics, travel health and pandemic preparedness to bring a global focus on wellbeing and resilience.

Initially, we collected good practices across the company to develop Group policies and practices on health. We then established and started to roll out a new ABB health strategy, with the goal to integrate good health practices into the daily life of all our employees, both at work and at home.

All ABB country HSE/sustainability organizations were required to appoint a country wellbeing coordinator and to develop a country wellbeing plan as part of their overall 2017 HSE program. With the introduction of non-smoking policies as a cornerstone, HSE organizations also were required to develop a range of activities to promote topics such as healthy nutrition, fitness, medical checks, health awareness and addiction prevention. In addition, programs to promote physical, psychological and social resilience are in development during 2017, with the initial focus on stress management.

We expect this added focus to bring benefits both for our employees and for ABB, as the wellbeing of the people working for an organization is a determining factor in its long-term effectiveness and productivity.

#### **Our health and safety performance**

We saw significant improvement in many of our key safety metrics in 2016, but tragically we recorded five fatal workplace incidents involving contractors at work sites in



China, Egypt, Guinea and India, and one road traffic accident in Peru resulting in the death of two contractors and an ABB employee.

In response, we are reinforcing our efforts at many different levels to ensure safe ways of working with contractors. Supplier qualification and classification processes have been enhanced, contractor management and project safety management are part of our code of practice for safe working and our safety leadership training, and project safety audits and the new governance processes provide assurance that the rules are being followed.

Additionally, we launched a global road safety campaign, including a handbook, videos, and monthly communications activities including articles, blogs and engagement.

In other areas, we are already seeing benefits from our increased focus on safety performance. The employee total recordable incident rate declined by 10 percent from 2015 and has improved by almost 40 percent since 2012, while we have also seen a significant reduction in severity of incidents, as measured by days lost rate. See pages 70 and 71 for full safety performance data.

Good progress has been made towards the 2020 targets for our leading indicators. The safety observation tour rate exceeded the 2020 target of 1.2 per employee, while the rate of hazard reporting was more than double the target rate of two per employee. From 2017, the hazard reporting target for ABB's internal dashboard has been changed to

proportion of hazards resolved, reflecting progress from safety awareness raising to hazard prevention.

Certified health and safety management systems were in place at 408 of 583 reporting locations (70 percent), covering 81 percent of employees. The development and roll out of The ABB Way, our common HSE/Sustainability management system will be completed by 2020, with the aim to ensure all ABB employees and contractors are included within its sphere of control and governance processes.



### 81% employees

covered by certified health and safety management systems

#### Secure operations

ABB is committed to conducting secure, ethical and respectful business globally by applying best practice when safeguarding our personnel, including contractors and



other third parties under our legal care, our assets, both tangible and intangible, the resilience of our business and our reputation.

In an increasingly volatile and insecure world, ABB has been placing greater emphasis in recent years on the security of our people and contractors, particularly in high-risk countries or during crises. We have established travel security policies and procedures to protect the security and wellbeing of anybody traveling abroad on behalf of the organization and have established travel risk mitigation measures and tools that allow us to monitor our travelers and provide timely assistance and advice when needed.

During 2016, we implemented a new travel risk management and approval process for ABB international business travelers, to provide a simpler, faster and more automated procedure that helps to ensure all travelers are both registered in our tracking system and provided with appropriate information regarding their destinations. We significantly extended the range of travel risk awareness and preparedness training available for our travelers.

Additionally, training our employees to understand how to act and react under exceptional circumstances is vital to ABB's ability to exercise our duty of care. Crisis task forces have been established at the Group, region, country and local levels and regular and mandatory training sessions are held to ensure that these teams know how to behave in the event of a natural or man-made crisis.

As part of this commitment, the management teams in countries where ABB has operations and major projects receive crisis training every three years. During 2016, ABB's internal corporate security staff led 23 face-to-face crisis training sessions, with a total of 84 sessions run during the period 2014 - 2016. In many cases, training is tailored to perceived threats in a region. In some countries, the threat of kidnap for ransom or extortion are seen as the greatest risk, whereas in other areas, natural catastrophes such as earthquake, fire or flood are perceived as more likely occurrences.

For our facilities and project sites, ABB's physical security program covers a range of measures to minimize the possibility of malicious harm to anybody under the legal care of ABB and to reduce the likelihood of loss of or damage to property, information and/or reputation to as low as reasonably practicable. Standards and guidelines describe the elements that must be included in site security plans for ABB facilities and for project security plans, based on local and site- or project-specific risks.

While it is not advisable to go into detail about security challenges that ABB confronted in 2016, our security management systems and training helped us to safeguard our people, protect our assets and meet our customers' needs – efforts that we know are likely to increase in the future.

## RESPONSIBLE SOURCING

# Learning from experience

ABB is committed to improving our supply base. Through collaboration with our business partners, we aim to enhance supplier relationships, ensure the highest quality standards and create a sustainable supply chain.

As part of ABB's core values, we strive to set the highest quality standards for our products and services. This is why we view our suppliers as an extension of our global enterprise and an integral part of our company's long-term success. Through collaboration with best-in-class suppliers, we help to ensure supplier compliance with ABB standards and continuous, sustainable improvement, creating value for our customers, for ABB and for our suppliers.

With operations in approximately 100 countries, ABB manufactures products in over 300 product lines and has approximately 60,000 direct material and project service suppliers. We take a structured approach to supplier qualification, performance evaluation, classification and development, with the goal to improve supplier quality, on-time delivery and compliance, while consolidating our supply base and reducing risks.

ABB clearly outlines our expectations of suppliers in the ABB Supplier Code of Conduct (SCoC), which reflects the 10 principles of the UN Global Compact and the content of ABB's Code of Conduct. During 2016, we updated the SCoC to address new legislation on human trafficking and modern slavery in the value chain and provided training to supply chain managers around the world on the issues involved, including how to identify and respond to risks.

### Supply base management driving improvement

Our process to register and pre-qualify new suppliers is operated through our partner Achilles. The centralized, online supplier registration and prequalification system means up-to-date, accurate and validated information is available to all our purchasing specialists around the world.

Supplier qualification, performance evaluation and classification processes are conducted in-house, according to standard, global processes. These processes are mandatory for all suppliers of direct materials or project services where annual ABB spend is above \$5,000.

An initial company risk evaluation, covering sustainability, compliance, quality, supply chain and financial risks, determines the required steps in the qualification process; a higher risk rating leads to more stringent qualification steps. All suppliers must be certified according to ISO 9001

or a similar quality management standard and suppliers of materials or services classified as high HSE risk are strongly recommended to be certified to ISO 14001 and OHSAS 18001 for environmental and health and safety management.

The supplier classification process takes into account the supplier's qualification status, compliance status, actual performance and overall strategic fit. ABB can clearly identify the suppliers best aligned to our sourcing strategies and standards, and channel spend to those classified as 'Preferred' and 'Approved.'

ABB's supplier performance evaluation covers external suppliers of direct material and project services, as well as internal suppliers of direct materials and transport and logistics suppliers. The process is required annually for at least 60 percent of spend in each local business unit. The results of evaluations drive supplier development processes and are important input to supply base consolidation efforts.



**3,500+**

critical suppliers trained since 2011

As part of our continuous improvement efforts and to reinforce ABB's health and safety requirements of project contractors, in 2016 we rolled out a new, global construction contractors qualification process (CCQP). By applying the CCQP to assess contractors' health and safety practices and performance, previous project experience, capabilities, equipment, tools and personnel, we help to secure the quality, safety and compliance of our projects and also enable classification and sharing of our best contractors across ABB's businesses. The process is now implemented for both new and existing contractors in all types of field construction services.

### Promoting material compliance

ABB's suppliers also play a significant role in helping to ensure that hazardous, prohibited and restricted materials are controlled along our supply chain. To make sure that

the materials and components we use and the products we produce comply with our own and our stakeholders' standards, ABB has compiled a list of prohibited and restricted substances, referencing international regulations. Our suppliers are required to comply with this list and we have produced a guide and training materials to support suppliers' understanding of their obligations.

Our suppliers are also key partners in identifying and preventing "conflict minerals" entering ABB's supply chain. ABB, along with many other companies, is required to report to the United States Securities and Exchange Commission (SEC) on the extent to which we use what are known as "conflict minerals", principally gold, tin, tungsten and tantalum (3TG), mined in the Democratic Republic of Congo or an adjoining country. Under the Dodd-Frank Act, companies must report annually to the SEC to describe our ongoing efforts to determine the origin of the 3TG minerals used in ABB products. In 2016, we provided our [third report](#), covering 2015 activities.

During that reporting year our engineering and R&D teams identified the products and components likely to contain 3TG minerals for a large part of our impacted product portfolio and supply chain management linked these to the relevant suppliers. Each year, ABB requests thousands of suppliers to provide information on the use of conflict minerals in the products supplied to ABB and in this reporting year, the response rate improved significantly to 72 percent. In addition, ABB provided conflict minerals training to around 3,800 suppliers and to around 3,000 ABB employees in engineering, R&D, sales and supply chain management. So far, 379 smelters and refiners of 3TG used by our extended supply chain have been identified and reported.

ABB has also increased our participation in the Conflict-Free Sourcing Initiative and provided assistance to increase the number of identified smelters and refiners participating in the Conflict-Free Smelter Program.

For a second year running, ABB has been recognized for responsible sourcing of minerals. Two independent benchmark studies, conducted by Development International and Responsible Sourcing Network, assessed and ranked the performance of companies working to prevent conflict minerals entering their supply chains.

 → [Read more at abb.com/sustainability](http://abb.com/sustainability)

**Developing supplier sustainability performance**

ABB's Supplier Sustainability Development Program (SSDP) focuses our efforts to ensure compliance with the ABB Supplier Code of Conduct and to support continual improvement in the sustainability performance of our suppliers. The program is structured around a combination of training for both suppliers and ABB employees, on-site assessments and monitoring of performance improvement plans.



**980+ in-depth supplier sustainability assessments conducted since 2010**

We prioritize suppliers to participate in the program according to a risk matrix, which includes the criticality of the supplier, country risk, commodity risk based on operations characteristics, and spend volume. The selected suppliers receive training about ABB's global requirements regarding sustainability standards and on practical ways to improve their performance. We then conduct sustainability assessments at the premises of selected suppliers to identify remaining gaps, and help them to develop improvement plans, which are monitored to ensure timely completion. We focus on tier one suppliers in priority countries, which included Argentina, Brazil, China, Colombia, India, Indonesia, Malaysia, Mexico, Peru, Poland, South Africa, Thailand, Turkey and Vietnam by the end of 2016.

Supplier Sustainability Development Program <sup>a</sup>	2016	2010 - 2016
Number of ABB employees trained	377	2,011
Number of suppliers trained <sup>b</sup>	326	3,549
Number of suppliers assessed <sup>b</sup>	226	984
Number of risks identified <sup>c</sup>	839	3,162
Number of risks mitigated <sup>d</sup>	693	2,178

<sup>a</sup> In 2016, the reporting template was updated for consistency with organizational changes and for consistent calculation of total risk.  
<sup>b</sup> Historical data for number of suppliers trained and number of suppliers assessed has been corrected, following internal review.  
<sup>c</sup> Number of risks identified = (number of initial extremely high risk\*5) + (number of initial high risk\*3) + (number of initial medium risk\*1)  
<sup>d</sup> Number of risks mitigated= number of risks identified during initial assessment – number of current risks open

**Focusing on continuous improvement**

To support suppliers on their journey and to better focus our development activities on the relevant supplier needs, ABB periodically reviews the gaps identified during supplier assessments and identifies the most common non-compliances. During 2016, we repeated this review, covering more than 80 percent of the suppliers assessed during 2014-2016. The analysis was performed both at global and at regional level and identified supplier inability to conduct health and safety risk assessments and environment risk assessments as the root cause of several, common non-compliances. ABB regional teams then used these conclusions to reinforce their supplier training programs.

During the year we also revisited our overall training approach. Instead of conventional classroom and discussion based training, we deployed a more problem oriented, application based approach. A pilot for this was launched in India, where we conducted three workshops at manufacturing locations in Bangalore, Vadodara and Nashik. The workshop participants worked as teams to address selected problems and later presented their conclusions in plenary for discussion and peer review. In order to reach

out to even more suppliers, we introduced e-learning programs covering the issues of ethics and integrity, and health and safety. The e-learning programs are based on practical situations that might arise during the course of suppliers' operations, and could lead to compromised integrity of the business or safety of its workers.

**Top ten sustainability non-compliance issues**

<b>General management</b>	<ul style="list-style-type: none"> <li>• Procedures not in place to evaluate and select sub-suppliers and sub-contractors based on their ability to meet ABB sustainability requirements</li> </ul>
<b>Labor and human rights</b>	<ul style="list-style-type: none"> <li>• Excessive working hours and overtime</li> </ul>
<b>Health and safety</b>	<ul style="list-style-type: none"> <li>• Unsafe / unhealthy working conditions</li> <li>• Inadequate first aid and firefighting equipment</li> <li>• Lack of health and safety risk assessment</li> <li>• Insufficient emergency preparedness, e.g. fire, evacuation, first aid</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>• Non-compliance with relevant environmental regulations/ parameters</li> <li>• Improper waste management process</li> <li>• Lack of environmental risk assessment</li> <li>• Lack of competence, training and continual improvement</li> </ul>

To further support the implementation of robust health and safety practices, we made ABB's Code of Practice for Safe Working freely available to our suppliers. The document details safety risks involved in various industrial activities and outlines appropriate mitigation actions. The content is also demonstrated in e-learning modules.

Internal training efforts during 2016 included a series of 10 live webinars covering the concept of responsible sourcing and ABB's supplier development initiatives. The facilitated discussions that followed these training sessions provided further input regarding common 'gaps' or non-compliances identified among suppliers, which then fed into local prioritization of supplier support activities.

**Creating value for suppliers**

Although there is no doubt that developing sustainable manufacturing practices brings benefits for suppliers, such as productivity improvement, reduced overheads and improved regulatory evaluations, the benefits achieved are not always easy to quantify. This can fuel a misconception that working in a responsible and compliant manner leads to higher costs, which can lead to skepticism and limit suppliers' interest in SSDP participation.

In order to address these concerns and provide fact-based business cases for suppliers, ABB has collated a number of



case studies outlining the value created for suppliers following participation in the SSDP. Some of the past cases have shown instances of over 30 percent improvement in productivity, along with dramatically reduced working hours and increased organizational maturity.

For example, early assessment of our supplier, Unique Punch System Pvt. Ltd in India, identified improvement potential in several areas, including safety and environmental parameters and risk assessments. Initial hesitation from the supplier's end was overcome by intensive engagement by the ABB supply chain management team, leading to successful implementation of risk assessment over the course of a year. This resulted in safer operations, proper waste management, increased understanding of statutory requirements, better relations with customers and readiness to enter new markets.

→ [Read more at abb.com/sustainability](http://abb.com/sustainability)

**Moving forward in 2017**

The supplier sustainability development program will continue to grow, expanding into three new countries, Bulgaria, Saudi Arabia and United Arab Emirates, in 2017. In preparation, the local supply chain teams were on boarded and localization of global ABB supplier sustainability requirements was completed during 2016, ready for program kick off early in 2017.

We will also continue our initiative to quantify and document the cases of benefits achieved from implementing sustainable manufacturing practices. Initiatives will be launched in India and Turkey, where we have identified the need for additional supplier engagement.