

Summary of the ABB Group Sustainability Report 2002

Economic



Environmental



Social



ABB at a glance

ABB is a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. The ABB Group of companies operates in around 100 countries and employs about 135,000 people.

ABB fulfils its commitment to sustainable development by supplying eco-efficient products, sharing its latest technologies with emerging markets, contributing to common efforts, raising standards within its supply chain, and continuously improving its own sustainability performance.



The complete 2002 Sustainability Report can be ordered in English, French, German and Swedish from ABB Corporate Communications at the address printed on the back of this publication, or downloaded from the ABB Web site (www.abb.com/sustainability).



Highlights of 2002

- ABB develops sustainability business plans for 50 countries to further its objective of integrating sustainability into all business practices at country level
- ABB extends its Industrial IT with “Sustain IT,” “Value IT,” and other protocols which introduce sustainability performance criteria into control systems supplied to clients
- ABB pioneers an eco-efficient way of bringing electrical power to offshore platforms with subsea high-voltage direct current links. ABB “Motorformers” drive platform pumps and compressors
- Despite challenges in 2002, ABB ranks second in its industry group in the Dow Jones Sustainability Index

What is sustainability? Triple bottom line

“Humanity has the ability to make development sustainable – to meet the needs of the present without compromising the ability of future generations to meet their own needs” (From United Nations World Commission on Environment and Development, 1987).

Sustainability for ABB is about ensuring long-term business success while contributing towards economic and social development, a healthy environment and stable society, and helping our customers and suppliers to achieve the same. Sustainability is often said to have three interdependent dimensions: economic, environmental, and social.

In producing this year's Sustainability Report ABB has tried to converge on the Sustainability Reporting Guidelines, last published in June 2002 by the Global Reporting Initiative – an international multi-stakeholder group. The guidelines are based on a “triple bottom line” reporting concept – covering economic, environmental and social performance.



- ABB extends its environmental management program for manufacturing sites to all remaining employees in non-manufacturing facilities – beginning with the Zurich headquarters
- ABB rehabilitates sites and equipment contaminated with toxic polychlorinated biphenyls (PCB) in war-damaged Serbia
- The three-year China Energy Technology Program – sponsored and led by ABB – is concluded and its results handed over to stakeholders at a ceremony in Beijing
- ABB develops new capacitors for high-voltage direct current applications which store twice the energy in half the space, and weigh 80 percent less than the units they replace
- ABB participates in the United Nations Global Compact Steering Group on actions in Least Developed Countries, and assumes responsibility of UNGC activities in Senegal
- At the United Nations World Summit on Sustainable Development in Johannesburg, ABB launches its common effort initiative “Access to Electricity” to encourage sustainable development in poor communities, and evaluates projects in Tanzania and Senegal
- A new health and safety management system based on OHSAS 18001 and the International Labour Organization guidelines is developed and launched throughout ABB

Chairman and CEO's letter

Sustainability is a key component of our business strategy



"ABB provides utilities and industry with power and automation technologies which simultaneously improve performance and reduce environmental impact. This raises profitability and quality of life – economically, environmentally and socially."

**Jürgen Dormann,
Chairman and CEO, ABB Ltd**

ABB's sustainability objectives:

- Improve economic performance
 - Extend environmental management to all employees
 - Continuously improve the eco-efficiency of all products
 - Implement the social policy worldwide
 - Implement latest occupational health and safety standards
 - Help reduce poverty through Access to Electricity
 - Raise awareness within ABB that sustainability matters
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Economic performance comes first

The year 2002 will go down in ABB's books as difficult, but we made considerable progress while striving to return to profitability.

Despite a net loss, flat markets, and the lingering asbestos issue, we showed that focusing on our core power and automation technologies businesses is the right path to a sustainable recovery.

ABB has skilled and dedicated people, and excellent products and services. We employ around 135,000 people in about 100 countries.

To bolster our leading technology positions, we invested around 4.5 percent of revenues, or US\$ 799 million, in research and development in 2002.

We do not expect market improvements in the short term. Consequently, we are working to further simplify our organization and reduce costs.

In 2002, we took several steps to improve the group's operational performance. The Step change business improvement program, launched in October 2002, is aimed at lowering our cost base by four percent of revenues within 18 months, cutting costs by US\$ 800 million by mid-2004.

The move to concentrate on two core divisions, Power Technologies and Automation Technologies, is central to the business improvement program.

The focus on core divisions is leading to a reduction in employees. Divestments scheduled for this year should transfer around 30,000 people to other companies; and the Step change program will cut around 10,000 – 12,000 positions from the ABB Group. We expect there will be fewer than 100,000 employees working for ABB by mid-2004.

While it is crucial to reduce our cost base to remain competitive, we will not let our leading position in social and environmental performance slip.

Economic, environmental and social performance are all important.

Of course, a solid economic bottom line allows us to improve our overall sustainability performance.

Creating transparency

ABB's social policy sets out a high standard of business ethics for all our people.

We have introduced new charters that provide clear mechanisms to ensure corporate governance. We encourage openness and transparency throughout the company and with external stakeholders.

We create business opportunities and gain a competitive edge by offering products and services with superior sustainability performance.

We have taken an important step forward in protecting the health and safety of our employees, by introducing new procedures to the latest international standards, and focusing on the elimination of serious accidents.

As a supplier to utilities and industries, ABB pioneered environmental product declarations. This process looks at the entire life cycle of a product when describing and quantifying its environmental performance. This helps our designers improve eco-efficiency, and helps our customers choose equipment that reduces costs, as well as environmental and social impact.

Talking to stakeholders

Last year, we identified three major issues for ABB in the course of stakeholder dialogues – occupational health and safety, sustainability performance of suppliers, and equal opportunity.

We have taken action to address the first two, and are investigating options for the third.

Electrifying the world

ABB is mobilizing its power and automation technologies in common efforts to help reduce poverty. At the World Summit on Sustainable Development in Johannesburg last summer, ABB launched its "Access to Electricity" initiative.

With partners, we want to provide conditions for the sustainable development of poor communities and explore new business models for rural electrification.

We are focusing on Tanzania and Senegal, where ABB has pledged to help implement the United Nations Global Compact locally.

The business case for sustainability

Throughout ABB, we embed sustainability management, concepts and tools into the strategies, processes and day-to-day business, so they visibly translate into an improvement of our financial bottom line.

That is our challenge and commitment.



Jürgen Dormann
Chairman and CEO, ABB Ltd



To find out more visit:
www.abb.com/sustainability

Country sustainability business plans

How we set and meet our targets

In 2002, ABB's sustainability affairs network held 11 regional meetings to develop a model sustainability business plan for our country sustainability controllers (CSCs). The aim: to ensure sustainability objectives are pursued worldwide in accordance with a common framework.

The plans contain four elements: objectives, key activities, tasks (environmental, social and communications) and a detailed action plan.

For example, ten key activities were defined:

- Promote sustainability awareness within the country organizations, including training
- Network and participate in groupwide sustainability efforts and build competences
- Coordinate the implementation of the social policy, focusing on local priorities
- Coordinate and participate in regular stakeholder dialogue on sustainability issues
- Facilitate integrated management systems for quality, environment and health and safety
- Include and monitor ABB's sustainability requirements in the supply chain
- Coordinate the reporting and auditing of performance indicators from all facilities
- Develop sustainability messages for internal and external communications activities
- Help ABB managers identify and work with partners in community involvement programs
- Develop and maintain a sustainability plan, direct the local sustainability officers and report progress

Action plans

Each CSC develops an annual action plan based on the model covering the areas – environmental, social, communications – to address local priorities in the country.

Plans for 2003 formed part of the ABB Group budgeting process, helping ABB to achieve a consistent and comprehensive approach to sustainability management throughout the group.

Sustainability in product design

Building sustainability into new products

Sustainability is being built into ABB's products as they are developed. When designers work on new products they have at their fingertips environmental guidelines and Life Cycle Assessments (LCAs) on ABB's intranet.

The information is provided by a specialist research team which supports the business on all environmental aspects of product development. The specialists have in-depth knowledge about the environmental impact of different products and technical solutions.

A life cycle perspective that covers the whole industrial process – from design and material selection to waste management – is now required in all of ABB's product development.

The result: ABB reduces environmental impact in its new technologies and continually improves existing products. It means, for example, supplying products and systems that are more easily recycled, require less material and consume less energy.

Energy efficiency is particularly important, since the greatest environmental impact usually occurs as a result of a product's energy consumption.

As a service to customers, ABB communicates environmental information and product performance through environmental product declarations. They are produced in accordance with ISO 14025 and aim to give factual, comparable data to help customers choose the most environmentally-friendly products on the market.

ABB is convinced that its life cycle focus in product development contributes to a competitive edge in the marketplace.

Supply chain management

Asking more of suppliers

A series of dialogues with stakeholders in 34 countries – including employees, customers, NGOs and governments – identified supply chain management as the most important element of a corporate social policy.

ABB's social policy guidelines for suppliers

- No child labor
- No forced labor
- Provide a safe and healthy workplace
- Ensure effective employee consultation
- No employee discrimination
- No mental, physical or verbal abuse
- Comply with law and industry standards on working hours
- Offer adequate wages
- Be measured against ABB's social policy principles

Having already built environmental management into the supply chain, we are now focusing on the social dimension.

Having observed how other leading companies successfully manage their own supply chain, we are basing our approach on our social policy and focusing on our key suppliers in four areas:

- Organizational competence – ensuring our supply managers have the knowledge, skills and experience to integrate our social policy into the supply chain
- Supplier qualification and monitoring – ensuring new and existing suppliers understand and follow ABB's social policy guidelines
- Guidelines for suppliers – ensuring through training and guidance materials that our suppliers achieve the standards we demand
- Audits and reports – bringing new and existing suppliers into a risk-based audit program to meet ABB's social policy guidelines

ABB's Access to Electricity initiative

Committed to improving people's lives

One in every four people lives without electricity. ABB is heading an initiative to bring affordable electricity to rural areas of Africa and South Asia to boost sustainable development and improve living standards.

The Access to Electricity program is ABB's response to the United Nations Global Compact initiative to grow sustainable business in the world's least developed countries.

ABB is currently evaluating pilot projects in several countries, including Senegal and Tanzania, with a range of partners, including the World Bank, utilities, companies, governments, NGOs, development aid agencies, financial institutions and local groups.

The partnerships are to address a number of the local community's social issues at the same time.

ABB's role is to supply expertise on power projects, experience in developing countries and rural communities, and a wide range of contacts, complementing the partners who are developing infrastructure such as roads, water and sanitation, education and telecommunications.

ABB currently has a number of standard business contracts in rural areas, including Bangladesh and Laos, undertaken in the spirit of Access to Electricity, and is now defining new projects which fall fully within the program's parameters

ABB has been promoting Access to Electricity widely. Reaction at international sustainability meetings – from Johannesburg to Berlin – as well as in private discussions, has been very favorable.



To find out more visit:
www.abb.com/sustainability

ABB's approach to performance

Continuous improvement

As for environmental performance, and now also for social performance, ABB strives for continuous improvement.

Our sustainability controllers create improvement programs to raise performance to meet local and groupwide needs.

Data is collected annually from each ABB site, consolidated and checked at the country and group level, and extensively reported in the full version of the ABB Group Sustainability Report and also on our Web site.

Performance figures in the full report cover 90 percent of ABB employees, including 475 manufacturing sites in 48 countries.

Converging on the GRI's recommendations

For the second year we have followed the sustainability reporting guidelines defined by the Global Reporting Initiative (GRI). But in 2002 the number of measurement indicators has been increased to meet more fully the GRI guidelines. In particular, we moved toward the International Labour Organization (ILO) recommendations for accident reporting.

Our sustainability performance has been verified by independent external organizations. The economic performance section comprises unaltered extracts from ABB's annual report 2002, audited by Ernst & Young AG. While the environmental and social sections have been verified by Det Norske Veritas.



Economic performance

Overview

During a difficult year, ABB's overall results were burdened by asbestos payments, losses in non-core businesses, and costs from corporate activities.

To make the company more competitive the number of divisions was streamlined from six to two, non-core businesses were divested and a program launched to cut costs by US\$ 800 million by mid-2004.

ABB achieved its net debt reduction target in 2002 and a new bank credit facility was agreed through 2004. Early in 2003, ABB proposed a solution for the asbestos issue which is being considered by a U.S. court.

Boosting south-to-south trading

ABB in India's largest export order, for six high-voltage substations to upgrade Syria's power network, epitomizes ABB's policy of sharing new technologies with developing nations. Manufacturing in carefully chosen markets like India helps ABB find new global business and new customer relationships. It's another step in the cycle of technology transfer: high technology equipment manufactured in India is now affordable for other emerging markets, raising living standards, contributing to development and boosting south-to-south trading.

Key indicators (In US\$ millions unless otherwise stated)

	2000	2001 restated	2002
Total revenues	19,355	19,382	18,295
Gross profit	5,157	4,505	4,526
Gross margin (percent)	26.6	23.2	24.7
Earnings before interest and taxes (EBIT)	1,173	157	394

100

man-years of effort drive ABB's sustainability management program each year

Environmental performance

Overview

ABB's environmental performance relates to all employees in premises owned or occupied by ABB. Figures are based on collected data for 80 percent of employees, and on estimates for the remaining 20 percent. The estimates are limited to organizations with minimal environmental impact. ABB seeks to continuously improve performance by promoting environmentally sound manufacturing processes and services, increasing the recycling of resources and the use of renewable energy and materials, reducing waste and emissions, and avoiding materials harmful to the environment.

Innovative technology cuts harmful emissions by 99 percent

Results from a pioneering ABB project at Statoil's Troll A platform show that by supplying the platform with shore-based hydropower, the level of CO₂ is less than one percent of the emission from gas turbine generators at sea.

Two unique and environmentally-friendly ABB technologies are used: a high-voltage direct current (HVDC) light subsea power transmission system, and cable-wound Motorformers, which drive compressors on the platform without step-down transformers. Emissions reduction and alternative energy products are ways in which ABB helps improve the environment.

Key indicators

	2000	2001	2002
Total energy use (GWh)	2,413	2,373	2,855
Energy use per employee (MWh)	21	20	21
Greenhouse-gas emissions (kilotons CO ₂ equivalent)	1,349	1,411	1,429
Water consumption (ktons)	6,044	5,390	4,469

475

manufacturing sites have implemented ISO 14001

Social performance

Overview

In 2002, ABB focused on the implementation of its social policy groupwide, while paying close attention to local priorities. Implementation guidelines, backed by performance-measuring indicators, have been produced for six of the 13 principles. Those for the remaining seven are to be completed during 2003. A steering group chaired by an executive committee member supervises the implementation process. ABB also launched a new health and safety management system, based on OHSAS 18001 and the ILO Guidelines, to be implemented throughout the group by 2004.

Working for the Special Olympics in Germany

ABB works to improve social conditions for employees, individuals and the communities where we operate. One example is our ongoing commitment to support the Special Olympic games in Germany. The games are now the world's biggest sports event for the mentally challenged. ABB in Germany has embraced the games to gain greater acceptance for mentally challenged people. In four years of sponsorship, the event has won the support of ABB staff from all ranks in several countries. ABB's support goes beyond money, and to date more than 800 employees have served as volunteer helpers.

Key indicators

work-related accidents

	2000	2001	2002
Fatal	2	2	2
Serious injury	475	517	95
Lost days	40,810	73,479	46,504

20,000

reconditioned personal computers have been donated by ABB to disadvantaged communities in South Africa

Focus on employees

People are ABB's number one asset

The welfare and development of our employees is key to our future.

In this period of change it is doubly important that we address their needs. We have a strong sense of social responsibility towards our people. Our 13-point social policy underpins their welfare and safeguards their rights and working conditions. In 2002, we introduced the latest health and safety standards, together with a "zero target" for fatal accidents. We want to further strengthen our employees' skills through new learning schemes and improve equality of opportunity throughout the group. We appreciate that our employees are our capital.

Step change – a business improvement plan

Although the Step change business improvement program has involved tough decisions on cutting jobs and sharpening competitiveness, we will not let slip our leading position in social and environmental performance. In carrying out job reductions, we treat all employees with respect and dignity. We meet social commitments and comply with employee agreements. We ensure that updated social benefits plans exist at country level and that employees and their representatives are fully aware of their rights. In short, we are practicing socially responsible restructuring as called for by our social policy.



Occupational health and safety

Meeting new international standards

To improve employees' health and safety, all businesses are to upgrade their health and safety management systems to meet as a minimum the latest international standards, based on OHSAS 18001 and the ILO guidelines, by the end of 2004. To facilitate this task, we have developed an implementation guide, model manual and supporting materials. We have also produced an 8-point health and safety expectations document, setting out the organization, responsibilities and arrangements at every level of the organization. The sustainability affairs team will audit compliance.

Raising all-round performance

A new instruction requires work-related fatal accidents or serious incidents to be reported immediately to the CEO and thoroughly investigated. New project management processes will ensure that health and safety risks are controlled at every stage of a project's life cycle. We are influencing suppliers to improve their health and safety. Furthermore, ABB's focus on health and safety will position us well in the face of increasing customer attention to this issue. ABB is building on its commitment under its social policy to provide a safe and healthy environment at all sites and is working toward best practice in its industry.



Performance ratings

High rankings in sustainability performance indices translate into customer benefits and distinguish ABB from its competitors.

Dow Jones Sustainability Index (DJSI)

The world's first sustainability performance index. In 2002, ABB slipped from top to equal second place in its industry group, but was cited for excellent overall sustainability performance and outstanding social performance.

FTSE4Good

Highlights the best performers in corporate social responsibility. In 2002, ABB was one of 250 companies in the FTSE4Good Europe Index and featured in the FTSE4Good Global Index.

Business in the Environment (BiE)

The business campaign for corporate environmental responsibility. In 2002, ABB moved into the top ten companies overall and remained top of the General Industrial Group, scoring especially well in environmental management.

Sarasin Bank, Basel, Switzerland

Assesses companies' environmental and social performance. In 2002, ABB again scored above the industry average for every aspect of environmental performance, and well on the social side despite some shortcomings.

Swedish Environment Fund

In 2002, ABB was ranked among the top 50 most sustainable corporations quoted on the Swedish stock exchange.

Innovest, New York

Strategic value advisors. They have renewed their environmental assessment for 2002, citing ABB as employing a far-reaching and sophisticated approach to environmental management relative to sector competitors.

Outlook for 2003 and 2004

Corporate

Our priority, helped by the stakeholder advisory panel, is to consolidate ABB's strong sustainability achievements and sharpen the group sustainability focus. Special tools for project assessments will enhance sustainability performance. Skills development within ABB will include social and environmental issues.

Economic dimension

Our priority is to help bring ABB into profitability quickly. We will start to describe and quantify ABB's economic impacts in selected developing countries.

Social dimension

Regular stakeholder dialogues will guide the implementation of our social policy. All businesses will have formal health and safety management systems in place by 2004. ABB's social policy will be integrated into the supply chain, backed by a key supplier risk assessment model.

Environmental dimension

Sustainability will be further embedded into product development through design for the environment tools, life cycle assessment and ABB's GATE model – mandatory for all product development. ISO 14001 will be in place at all manufacturing sites, and an adapted system at all non-manufacturing sites.

Common efforts

ABB supports the United Nations Global Compact and the least developed countries program. In strong partnerships with other industries and organizations, ABB's Access to Electricity projects will be implemented in several countries, bringing technical solutions to rural electrification.

Sustainability policies and organization

Our goal is to continuously improve our sustainability performance, taking initiatives that improve quality of life in the communities where we operate. Several documents inspire ABB employees to live and communicate our commitment to sustainability.

Mission and values

ABB's organizational vision is set out in the document "ABB's Mission and Values," first published when ABB was created in 1988 and now in its third revision. New employees receive an introductory course, and regular refresher opportunities are given to all employees.

Social policy

Published February 2001, the policy draws on four sources: the UN Universal Declaration of Human Rights, the ILO's Fundamental Principles on Rights at Work, the OECD Guidelines for Multinational Enterprises and the Social Accountability 8000 (SA 8000) standard for the protection of workers' rights developed by the Council on Economic Priorities Accreditation Agency.

Environmental policy

ABB is a signatory to the ICC Business Charter for Sustainable Development and, in 1992, adopted the Charter's 16 principles as its environmental policy.

Business ethics

Our policy on business ethics is incorporated in our Mission and Values statement. It is also incorporated in ABB's Business Ethics Standards. We subscribe to the ICC Rules of Conduct, 1999 revised edition, and the OECD Convention from 1997.

ABB's sustainability affairs organization

The organization comprises some 500 people (contributing 100 man-years) in 50 countries.

Stakeholder Advisory Panel

This panel of top-level stakeholders offers objective advice on ABB's sustainability challenges.

Group Function – Sustainability Affairs

This headquarters staff runs ABB's sustainability management program and training programs.

Country sustainability controllers

A total of 46 controllers implement sustainability business plans within each country.

Environmental specialists

In some countries, environmental specialists supplement the implementation of EMSs.

Local sustainability officers

About 420 site-based officers implement local environmental management programs.

Health and Safety Managers

Site health and safety managers support the implementation of ABB's H&S program.

Business area sustainability liaison

BA liaison persons integrate sustainability performance into product development.

Corporate research sustainability support

A group embedded in ABB's corporate research develops sustainability tools and training.



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