

ABB Report Review Panel statement

Introduction

ABB has a long history of stakeholder engagement. The company has conducted a variety of stakeholder dialogues and regularly consults a wide range of stakeholders to challenge strategy, and to review material issues and its sustainability performance reports.

In 2015, ABB invited a stakeholder panel to accompany its sustainability reporting process. The panel consists of the following members:

- Jermyn Brooks, Chair Business Advisory Board Transparency International
- Prof. Volker Hoffmann, Professor for Sustainability and Technology, ETH Zurich
- Dr. Ajay Mathur, Director General, The Energy and Resources Institute (TERI)
- Robbie Miles, Analyst, Allianz Asset Management
- Anna Nilsson, Head of Sustainability, Swedbank Robur
- Gianluigi Ravenna, VP Account Management, Enics
- Leah Seligmann, Chief Sustainability Officer, NRG
- Shankar Venkateswaran, Chief of Tata Sustainability Group, Tata Group

The panel's tasks were to:

- Review ABB's sustainability approach
- Provide feedback on ABB's reporting about its performance against targets, as well as the targets to achieve ambition 2020
- Observe the reporting process, including a review of the final draft of the report
- Agree upon a panel statement summarizing the findings of the panel

This statement provides an assessment of ABB's Sustainability Performance Report 2015 and reflects the views of the panel members as individuals, not on behalf of their organizations.

The review did not include verification of performance data underlying the report as DNV GL was commissioned to undertake independent assurance of the Sustainability Performance Report 2015. The panel welcomes the external assurance as a means of providing stakeholders with further confidence.

The engagement started in October 2015, when panel members were asked to review ABB's sustainability approach and to provide feedback on the progress towards targets, as well as new targets to achieve ambition 2020. In February 2016, the experts discussed the draft report during another consultation. During the first online consultation Jean-Christophe Deslarzes, ABB's Chief Human Resources Officer, was

present and members of ABB's sustainability team attended both calls.

Based on the discussions and the feedback of panel members, this panel statement was drafted and circulated to all panel members for approval.

To ensure independence Barbara Dubach, engageability, facilitated the external panel process.

ABB's Report Review Panel is pleased to share its independent opinion on ABB's sustainability approach and its Sustainability Performance Report 2015.

ABB's sustainability approach

With its energy-efficient and renewable energy products, systems and services, ABB is well positioned to address major environmental and social challenges. The panel acknowledges the potential and the positive impact of ABB's products and services and at the same time expects ABB to reduce negative impacts of its operations and to do no harm.

In order to tap into this potential, more ambitious targets are expected such as a quantitative measure for energy-efficiency related products, a separate indicator for renewable energy products as well as a specific, quantitative greenhouse gas reduction target.

The panel would like to see the share of innovative, safe and resource-efficient products as it will further increase the understanding of the sources of ABB's revenue.

Progress towards targets

ABB's 'performance against targets' dashboard is still work in progress. Clearer linkages between the promises and the performance need to be established and the panel recommends formulating specific and measurable targets for each ambition. Absolute values, as well as reductions over the years, will help to judge the stringency of the targets and progress made. Challenges encountered or ambitions behind schedule should be highlighted and explained in the dashboard.

Governance and integrity

- ABB has worked to ensure that integrity concerns are addressed and its zero tolerance policy on violations is stringent. Instead of the current input-based target '100% of employees trained on integrity issues and processes,' the panel suggests reporting on measures to proactively assess possible integrity concerns, as well as how often hotlines or advice lines are consulted when employees are faced with dilemmas. Greater transparency on the type and number of concerns raised by employees, suppliers or

other stakeholders would be appreciated. The panel also calls for country-by-country reporting and information on the company's approach to determining where to pay taxation. Information about the sustainability oversight of ABB's Board of Directors should be added in this chapter.

Society

- ABB has made good progress in rolling out its supplier qualification scheme, its supplier sustainability performance program and in disclosing the number of blocked suppliers. ABB should show the impacts of its decisions on suppliers, as well as how the company is partnering with suppliers, for example, to reduce greenhouse gas emissions.
- In the area of human rights, ABB appears somewhat tentative and still only reaches a small portion of its employees. A new target to reach ambition 2020 could be 'We cut human rights controversies by x%' or 'no human rights violations by 2020.' ABB should acknowledge the challenges related to human rights and should be doing human rights impact assessments when new products are launched or when the company is entering new environments.
- In the area of community engagement, the panel suggests strengthening the target and to disclose information about the number of lives touched, transformed or changed.

Environment

- ABB should define and disclose the boundaries of its ambitions and targets. For example in the area of water, the panel suggests disclosing in how many water scarce or water stressed sites the company is operating.
- The panel applauds the disclosure of energy savings of ABB's variable speed drives in motors and suggests to include supporting data on avoided customers' emissions as a result of ABB's products and services in future reports.
- Targeting zero waste is ambitious. ABB could anchor its target around specific waste streams such as hazardous, industrial or electrical waste. To avoid an impression that ABB is outsourcing waste production to other companies, ABB should transparently disclose what is outsourced to other companies.
- The increase in the use of hazardous materials especially phthalates, lead and cadmium are concerning even though explanations are provided for the changes over prior years.

The panel looks forward to seeing progress towards targets in the next Sustainability Performance Report.

Report highlights and improvement potentials

ABB's Sustainability Performance Report is comprehensive and well structured. It addresses key areas and the chapter

'performance against targets' is the central information hub (see previous section). The report is an important information source and should be promoted actively internally and externally.

Future reports including the CEO statement should be more reflective and include achievements, as well as areas where ABB is not on track. The panel urges ABB to address the dilemmas it is facing, commit to corrective action and to add a section 'looking ahead.'

Other suggestions are to disclose the sustainability impacts of ABB's products and services across the whole life cycle and to highlight the linkages between financial and sustainability issues. Panel members recommend exploring the trajectory towards integrated reporting and to start by integrating specific sustainability metrics in ABB's annual report.

Concluding remarks

The panel encourages ABB to continue its sustainability journey and to maintain its ambitious level. The greatest improvement potentials are seen in streamlining and aligning its ambition and targets and in assessing the impact of the company's sustainability strategy.

Stakeholder engagement is an important enabler to achieve ABB's ambition 2020 and the panel appreciates ABB's stakeholder approach, including the establishment of the panel.

Panel members are pleased to see that ABB has started to incorporate comments raised during the process and look forward to assess how their recommendations will be taken up in the future.