

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 launched a Report Review Panel (panel), to advance the company's role as a leading contributor to sustainability in the utility, industry and transport of infrastructure sectors.

The panel is designed to provide ABB with an external forum for discussion on its sustainability approach; provide material feedback on progress being made; identify ways to help achieve its 2020 ambitions; and to agree upon a panel statement to be published as part of ABB's annual Sustainability Performance Report.

The panel members represent key stakeholders of the company and are selected for their level of know-how and skills relevant to ABB.

The panel consists of the following members (two members are new to the panel):

- **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)
- **Shirley Mills**, Vice President, Equity Research Analyst, The Boston Company Asset Management (new)
- **Anna Nilsson**, Head of Sustainability, Swedbank Robur
- **Gianluigi Ravenna**, VP Account Management, Enics
- **Sheri Straw**, Managing Director, T&D Supply Chain, Duke Energy (new)
- **Shankar Venkateswaran**, Chief of Tata Sustainability Group, Tata Group

This statement provides an assessment of ABB's Sustainability Performance Report 2016 and reflects the views of the panel members as individuals, and not those of their respective organizations. The panel is a consensus group: Its proposals need to be approved by all of its members. If no consensus can be reached, diverging opinions will be clearly stated.

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 2016. The Panel welcomes the inclusion of external assurance as a means of providing stakeholders with further confidence.

The engagement process started in September 2016, when panel members were invited to share their views of ABB's non-financial reporting and to provide feedback on the Sustainability Performance Report 2016. In February 2017, the Panel also provided input to the draft report through another conference call. 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, from engagement, facilitated the external panel process.

The panel members are pleased to share their independent opinions on ABB's Sustainability Performance Report 2016.

ABB's sustainability approach

With its products and services, ABB is well positioned to become an important player in industrial digitalization and to address some of the most pressing economic, social and environmental challenges that society is confronted with while creating value for the company and society.

The transition to digitalization requires an assessment of the related sustainability challenges and the impacts thereof across the business. The Panel recommends an assessment of the social and environmental impacts of industrial digitalization and some guidance for the integration of sustainability considerations. This could be undertaken by a working group of both ABB and external experts and the results reported back by the end of 2017.

To further embed ABB's sustainability ambitions in the organization, the panel recommends incentivizing sustainability performance and to integrate material sustainability criteria beyond safety and integrity into ABB's performance compensation system.

The UN Sustainable Development Goals (SDGs) present opportunities as well as challenges for ABB. ABB considers that the most material SDGs are SDG 7 Access to energy for all, SDG 9 Sustainable industrialization and fostering innovation, SDG 13 Climate change action and SDG 8 Decent work and economic growth. For the panel, however, all SDGs are relevant and therefore a balanced consideration between the opportunities and responsibilities is needed. In the view of the Panel, ABB must also address SDGs where they have challenges, and has done so by referencing all SDGs in its 'performance against targets' dashboard.

Similarly, panel members expect ABB to highlight what is important but difficult to achieve in its Sustainability Objectives, with emphasis on the process and progress made. In this respect, ABB's [response to the 2015 panel statement](#) is an example demonstrating how ABB listens to and responds to external feedback.

Products and services

ABB's products and services can help solve some of the world's biggest problems and its impact can be huge. In this regard, the disclosure of the proportion of revenues generated from its eco-efficiency portfolio is useful and the panel welcomes that ABB plans to assess key sustainability impacts of its eco-efficiency portfolio. The choice of the methodology to measure the impact will be important.

As the proportion of revenues generated from other portfolios is still an important figure, the panel would like to understand if ABB continues to sell products less efficient than current benchmarks, and, if so, how it deals with this in the context of the eco-efficiency portfolio.

Governance and integrity

The panel commends ABB's public statement in relation to tax and recommends including an explanation why country-by-country reporting is not yet foreseen.

A remaining challenge is to choose the right projects and the right partners to avoid controversies related to large clients or projects.

Panel members suggest defining metrics to assess the achievements in the focus areas of integrity and human rights and achieve a shift from input based reporting to a focus on impact.

Responsible sourcing and human rights

ABB has made good progress in rolling out its supplier qualification scheme and the case studies in the report show examples of partnerships with suppliers and how human rights are addressed.

However, the day-to-day implementation of ABB's Sustainability Objectives, especially in the supply chain, is seen as a challenge. To address this, the panel

recommends focusing on the extent to which the procurement guidelines are being used or identifying why they are not being used and addressing potential gaps.

The Panel acknowledges that ABB has a large and complex supply chain and that it is challenging to collect and disclose relevant data about outsourced processes. The Panel recommends investigating how this might be achieved and reporting on it in the future.

The suggestions from the panel members in the 2015 report to strengthen the targets to reach ambition 2020 especially in the areas of human rights and community engagement remain valid.

Environment

As an industry leader in energy efficiency, use of low-carbon fuel and renewable energy, it is important for ABB to achieve a decrease in energy intensity. More important quantitatively, however, are the energy savings and greenhouse gas emission reductions that ABB customers achieve due to the use of ABB products. The panel encourages ABB to quantify this impact once the methodology to assess key sustainability impacts has been piloted.

In the chapter on resource efficiency, panel members would welcome information about the refurbishment and recycling of ABB's products.

Report highlights and improvement potentials

Overall, panel members have a positive impression of ABB's non-financial reporting. The report is comprehensive and well structured. It addresses key areas and the chapter 'performance against targets' is the central information hub.

Future reports should focus on the big picture and include some of ABB's learnings and challenges from current efforts being undertaken. It would also benefit from the inclusion of ABB's net positive impacts and one or two lighthouse projects that have the potential to be multiplied in other areas or cities.

Concluding remarks

The panel encourages ABB to continue its sustainability journey and to maintain its ambitious level. The greatest improvement potential is seen in the need for better measurement of the real sustainability benefits of ABB's products and services to its clients, communities and to societies as a whole. Building on existing and new partnerships, ABB should use its pioneering leadership to motivate other companies to follow suit.

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