

Statement of ABB's Sustainability Report Review Panel

Introduction

Since 2015, ABB invites a stakeholder panel to accompany and inform the sustainability reporting process.

Panel members represent key stakeholders of the company and have been selected based on their level of knowledge and skills in areas that are relevant to ABB. The 2018 panel consists of the following members:

- Eva Axelsson, Head of Sustainability, Swedbank Robur
- Jermyn Brooks, Chair, Business Advisory Board, Transparency International
- Prof. Dr. Volker Hoffmann, Professor for Sustainability and Technology, ETH Zurich
- Laura Kunkemueller, ESG officer, Mellon*
- Barbara Myrczek, Key Account Manager, Supply Chain Manager, Fideltronik*
- Sheri Straw, General Manager, Duke Energy Corporation
- Shankar Venkateswaran, Consultant to the Council for Business Sustainability, TERI

**participated for the 1st time in the panel*

To ensure independence Barbara Dubach, managing director and founder, engageability, facilitated the external panel process.

The focus of this year's discussions was an update about latest developments influencing ABB's sustainability strategy and its non-financial reporting, a review of the issues raised by the stakeholder panel and DNV in ABB's Sustainability Report 2017, input to ABB's global materiality assessment, which is currently being undertaken and will help shape the 2030 sustainability strategy and targets, plus a review of ABB's reporting process and the final draft of the Sustainability Report 2018.

The panel statement reflects the personal views of the members, and not the views of their respective organizations. The panel is a consensus group where proposals need to be approved by all members. If no consensus can be reached, diverging opinions are referenced in this statement.

The review did not include verification of performance data underlying the report as Bureau Veritas UK Limited was commissioned to provide independent assurance of the Sustainability Report 2018.

The engagement process started with a first online consultation on January 10, 2019 and ended with a second online consultation on February 15, 2019,

ABB's Chief Human Resources Officer (member of the Group Executive Committee and with specific responsibility for Sustainability), members of ABB's sustainability team as well as the Chief Integrity Officer & Deputy General Counsel attended at least one of the calls.

Based on the discussions and the feedback of panel members this statement was approved by all panel members. The panel members are pleased to share their independent opinions of ABB's progress so far and its Sustainability Report 2018.

Overall impression

With its new focus on digital industries, ABB is well positioned to become a leader not only in the automation industry but also in addressing the systemic challenges the world is facing.

In a world of constant change a future-focused approach is needed that informs and transforms how ABB operates and which products and services it offers. The panel is of the opinion that companies that connect sustainability initiatives to business performance and thoughtfully address both - internal and external issues - will perform better long term.

ABB has gained momentum and the acceleration has to continue. The foreseen development of the 2030 vision and objectives is a good opportunity to think about the next big step for sustainability at ABB. Potential areas for radical changes suggested by panel members include defining SDG contribution as a decision-making criterion, switching from efficiency to effectiveness as an indicator, or preparing the company for a completely circular paradigm. ABB is expected to make a step change in its sustainability efforts, to set an example for other firms and solidify ABB's leadership in sustainability. The CEO statement should reflect these ambitions, the achievements as well as the challenges in a balanced way.

Panel members expect ABB to address the question how sustainability topics will be affected by the announced organizational restructuring and power grid divestment in order to proactively address any uncertainty stakeholders might have on this issue. Of specific interest is whether and how the divestment might affect ABB's sustainability performance and indicators and the achievement of some of the 2020 targets.

ABB's sustainability and materiality approach

ABB informed the panel that ahead of developing its 2030 sustainability strategy and targets, a global stakeholder engagement plan is being implemented to understand what matters most to stakeholders in the different countries and business units. The insights will be used to define different materiality matrices for each division and to aggregate them into a global materiality matrix.

For the panel members, the foreseen bottom up materiality process and the development of different matrices for each business, is exemplary and will ensure the integration of local stakeholders' views. A concern, though, was how this will be done given the discontinuation of existing country and regional structures. ABB assured the panel that a "primus inter pares" will be assigned to oversee the continuation of the stakeholder engagement activities locally.

While the methodology of the materiality process differentiates ABB from its peers, the material issues will be similar. Hence, it will be worthwhile to clarify which sustainability topics are «mandatory» (because they are requested from ABB as from any other large company) and addressing which topics truly distinguishes ABB from its competitors.

Another differentiator will be the level of ambition. The panel considers it as excellent that ABB is on track to achieve most of its 2020 targets. Going forward ABB is expected to set appropriate and ambitious targets and KPIs. For example, in the area of climate change a science-based target is required.

A challenge will be to find a solution on how the targets and KPIs of the different businesses can be aggregated at the Group level.

During the panel process, members were asked to indicate three issues that matter most in their relationship with ABB or the three biggest challenges that matter for ABB. Issues of very high relevance for panel members, clustered according to ABB's Group sustainability framework, are listed in the following table:

<i>ABB's Group sustainability framework</i>	<i>Issues of very high relevance to panel members</i>
Pioneering technology	<ul style="list-style-type: none"> • Energy efficiency and climate change • Resource scarcity as well as all environmental aspects of ABB's operations • Circular economy
Responsible operations	<ul style="list-style-type: none"> • Secure operations • Supplier relations
Responsible relations	<ul style="list-style-type: none"> • Integrity standards and anti-corruption • People development • Rising global inequalities and inequity

Table 1: Issues of very high relevance to panel members

The following sections highlight the opportunities seen in these areas.

Pioneering technology

Energy efficiency and climate change are of utmost importance for ABB, its customers and society as a whole. Climate change is accelerating and impacting many other areas including water. The panel recommends addressing both mitigation and adaptation as well as being prepared for requirements from legislators and investors, such as the upcoming EU-legislation on sustainable finance and taxonomy defining what can be considered an environmentally sustainable economic activity.

Energy and resource efficiency are two existing material issues. In future, stakeholders will demand not just efficiency but rather effectiveness. Effectiveness implies a positive change or impact for ABB and its customers. Given the size of ABB, the company has the power to drive and make a meaningful contribution.

Due to the resource scarcity, there's a need to switch from a throughput economy to a circular economy. Circular economy will become more important for industry. But to reflect circularity in business will be quite challenging as it goes beyond efficiency thinking and questions traditional business paradigms. A panel member recommends addressing the topic already on a strategic level and answering the questions: "Why the topic is relevant for ABB, in which divisions/business units and what are biggest drivers/barriers etc.?" Furthermore, early engagement in R&D process will allow to optimize the design of new products.

Responsible operations and responsible relationships

With regard to supplier relations, a close and transparent business model enabling true partnerships between ABB and its suppliers is recommended. This will allow ABB and suppliers to act as one towards sub-suppliers and to improve the overall supply chain. In this respect, success factors are awareness of responsibility, transparency and building a "one team approach".

Human rights, integrity, safe and secure operations are a must. The panel encourages ABB to move forward in the area of human rights and to disclose if and how new projects are subject to human rights impact assessments. Assessing outcomes and impacts will be crucial for all material issues. Measuring the number of people trained is only an output and doesn't say anything about the impact generated.

One of the recommendations from last year's engagement process with the panel members was to disclose the number of sanctions including any terminations as well as the number of supplier contracts terminated. The panel understands that the disclosure of terminations may mean different things in different jurisdictions and that comparability is challenging. Therefore, the numbers have to be put in context and qualifying comments will help to do so.

Human capital management and people development are the basis for any successful operation. Panel members expect ABB to explain how the activities in these areas, specifically talent development and learning as well as volunteering, contribute to transporting sustainability thinking throughout the organization.

Given rising inequalities and inequity on a global level, companies need to look beyond their fence and strengthen their impact on neighboring communities. This implies better linking the business and the Corporate Responsibility (CR) strategy ensuring that CR benefits both - communities and the company.

Report highlights

Overall, panel members have a positive impression of ABB's non-financial reporting. The report reads well and illustrates progress.

The way ABB is addressing and integrating the SDGs in the report is exemplary. It is important to apply the SDGs as a decision-making criterion rather than a reporting structure. In addition, the company should focus on a large number of issues on a long-term basis but concentrate on particular issues (1-3) on a year-by-year basis.

It was mentioned that more data and metrics are needed to fulfill the demands of stakeholders in terms of sustainable finance. One panel member cautioned against providing too many indicators and recommended to emphasize strategic links between the numbers and sustainability outcomes, explaining what the numbers express. A good balance between metrics, case studies and a few focus areas is recommended.

One focus area could be the impact of digitalization on the workforce and their qualifications. As mentioned in previous years, the impacts on human resources and the nature of work in particular should be considered: "How will competences evolve? What will be the implications of digitalization on the skills of ABB's employees or on the workplace? How will they impact the company's culture?"

Concluding remarks

Overall, the panel members expressed their satisfaction with the stakeholder engagement process and are pleased that ABB continues to respond to and act upon comments raised during the review process. They appreciate that the results of the consultation and discussion will be consolidated and integrated in the overall materiality process. A strong recommendation is to continue engaging with a wide variety of stakeholders and to start the panel process earlier. This will address the need for both a discussion of principles as well as a more detailed review of other matters.

The panel agrees that ABB occupies a leading role in sustainability, but to remain in this role and to strengthen it, significant efforts will be required. This in particular in the areas of climate and energy efficiency as well as integrity. Areas that further provide a potential for differentiation are contributions to addressing global problems as expressed in the SDGs, circular economy, fighting rising global inequalities and adherence to human rights all along the value chain.