

Statement of ABB's Sustainability Report Review Panel

Introduction

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

Panel members represent key stakeholder groups of the company and have been selected based on their level of knowledge and skills in areas that are relevant to ABB. The 2019 panel consists of the following members:

- Jermyn Brooks, Chair, Business Advisory Board, Transparency International
- Prof. Dr. Volker Hoffmann, Professor for Sustainability and Technology, ETH Zurich
- 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
- Kristin Wallander, Sustainability Analyst, Swedbank Robur

To ensure impartiality, Barbara Dubach, managing director and founder of *engageability*, facilitates the external panel process.

The focus of this year's discussions was an update on the latest developments influencing ABB's sustainability strategy and its non-financial reporting and a review of the final draft of the Sustainability Report 2019.

The panel statement reflects the personal views of the members, and not the views of their respective organisations. 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 engagement process included an online consultation on February 25, 2020 but did not include verification of performance data underlying the report, as DNV GL was commissioned to provide independent assurance of the Sustainability Report 2019.

Members of ABB's sustainability team, as well as the Group Head of Diversity and Inclusion attended the call.

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 2019.

Overall impression

Given the restructuring of the organisation and the power grid divestment, the panel understands that 2019 was a transition year. The current set-up of ABB's sustainability efforts is very comprehensive and the panel members commend ABB for being on track to achieve the 2020 targets despite a year of change.

In terms of strategy, it was agreed that ABB is already creating positive impacts in some areas with its products, solutions and services.

To remain a leader in sustainability, the panel recommends ABB to focus on two or three core issues and excel in areas that are crucial for the industry. ABB's efforts towards carbon neutrality and energy-sufficient ecosystem as well as ABB's commitment to science-based targets are critical in this respect. Panel members suggest to further encourage training and retraining up and down ABB's supply chain to ensure a just transition.

The development of ABB's sustainability strategy 2021+ presents an important opportunity to update the materiality matrix, to set appropriate and ambitious targets and thus to position ABB as a role model for the industry. The strong message in the CEO statement is showing the direction and should be reflected in the new strategy and in the next report.

The panel agrees that the SDG wheel continues to be a positive addition to the report and succeeds in highlighting ABB's contribution to the SDGs. The panel recommends applying the SDGs as a decision-making criterion rather than a reporting structure.

The following sections highlight the opportunities identified in the three core themes and in the area of sustainability reporting.

Leading technology

Energy efficiency and climate change remain of utmost importance for ABB, its customers and society as a whole. The urgency of climate change has greatly increased in the past year.

With the various advanced technologies and its innovative thinking and creativity, ABB is well placed to contribute to addressing the climate emergency. An illustration of ABB's solutions and projects, would help to showcase how the different parts work together.

To be prepared for the transition and the social impact it will have, the panel recommends addressing both mitigation and adaptation and to not forget sufficiency as another lever.

In addition, the panel questioned, whether Formula-E continues to be relevant in highlighting ABB's innovative spirit.

Responsible operations

ABB's progress in and reporting of its responsible operations and relationships was lauded by the panel.

ABB acknowledged, that the two fatalities that occurred in 2019, highlighted the need to do more to ensure the same levels of health & safety and accountability at group level, especially after the restructuring of the organisation. The panel welcomes this focus and recommends mentioning the two fatalities in the CEO statement.

In terms of climate action, ABB is expected to make a statement by when the company will be carbon neutral. Furthermore, ABB should clarify and explain its methodology and definitions for measuring GHG emissions. If changes in definition or methodology occur, ABB should clearly explain that in the report. Given ABB's low carbon technology, the level of renewable energy use for its own operations seems quite low.

A topic missing in ABB's sustainability is circular economy. The panel suggests integrating circularity in the future strategy of ABB and to explain how ABB is designing its technologies for circularity. In the next report, a section or page should be dedicated to this topic and relevant KPIs should also be set, not just with regards to waste but on how circularity is applied in product development and strategy.

Responsible relationships

The panel welcomes the continuation of the integrity program and asked for more detailed disclosure on grievances and the integrity hotline.

With regard to responsible sourcing, ABB should clarify the number of high-risk suppliers assessed, the percentage of suppliers audited and establish appropriate indicators to

measure progress in its supplier management. An opportunity is seen in working with key suppliers to develop long-term sustainability programs and to push them toward CDP reporting.

The panel praised ABB's disclosure on the role of women and the progress on advancement of females in senior roles, but more information is still needed on minorities, inclusiveness, unconscious bias, as well as on the gender gap and parental leave.

The panel is interested in learning more about the ABB disclosure platform, in particular how it is being used and how ABB intends to improve it. It was agreed that conversations are needed on an industry level to compare and improve standards and regulations on disclosure and KPIs, especially in terms of workplace harassment.

In terms of female empowerment, the panel appreciates that ABB is investing in science, technology, engineering and mathematics (STEM) educations and engaging women and girls in STEM areas. ABB and the panel members agree that this is a good opportunity for community engagement and influence for ABB.

On the topic of education and community engagement, the panel also suggested that ABB has an opportunity to make an impact in skilling and re-skilling of workers during the transition period associated with climate change mitigation.

Reporting

Overall, panel members continue to have a positive impression of ABB's non-financial reporting. The report reads well, features inspiring stories and illustrates progress, however there's a disparity between some parts of the report and the CEO statement. The statement is forward-looking and powerful and the section on leading technologies, which is the heart of ABB's business, is exciting to read. The rest of the report is somewhat standard and should be brought to a level that is commensurate with the CEO statement in the future.

As in previous years, panel members reiterated that future reports should include more metrics to underline the narrative. Panel members are interested in avoided emissions, the number of meetings conducted or the kind of topics that have been discussed during a meeting. A good balance between metrics, case studies and a few focus areas will help to reflect the impact ABB is having.

Moreover, one panel member suggested that differentiating between topic lengths in the report might reflect the different levels of importance of topics for ABB, while another panel member suggested considering integrated reporting in the future.

Conclusion

Overall, the panel members expressed their satisfaction with ABB's leadership role in sustainability and its reporting, in particular the forward-looking stance expressed in the CEO statement of the report. As 2019 was a transition year, the panel also voiced its anticipation for the developments in 2020 and ABB's strategy moving forward.

A strong recommendation of the panel is for ABB to increase its efforts in the areas of climate change and energy efficiency and to benefit society by being a role model. Furthermore, the panel emphasised a sense of urgency, the need to reassess the company's own targets and recommended more transparency, also in regard to baselines, metrics and KPIs. Aside from ambitious new targets, the focus should be on outcomes and impacts.

The panel concluded that they are keen to know what's next and to be involved in the development of the 2021+ strategy.