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## 05

# Integrity & transparency

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## PILLAR OVERVIEW

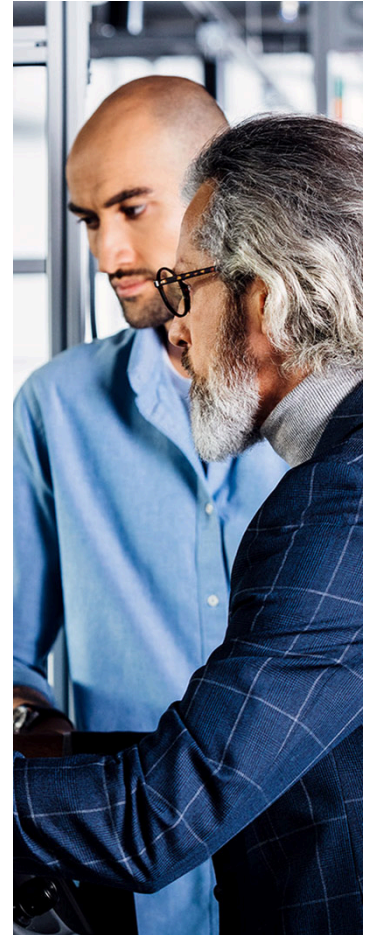
# We create a culture of integrity and transparency

At ABB, it's not just about what we do - but how we do it - to provide value to businesses, communities and our customers and stakeholders around the world. Working with integrity is what grants us our license to operate, and it's the standard that we expect across our entire value chain. We know that to continue to be successful in what we do and be a global employer of choice, our commitment to a culture of integrity and transparency must be resolute.

Our Global Integrity Program sets our mandate to deliver an operating environment which protects the integrity of our organization which is adaptive to risk and overall fit-for-purpose. It is driven by processes, role-specific upskilling, third-party management processes, and reporting and monitoring activities across our four business areas and all our corporate functions. We test and monitor our governance framework and integrity program and know that it needs to be flexible and adaptive in an increasingly complex and challenging global environment.

Our Code of Conduct is the foundation of our integrity program. It's the framework which sets the standard for the way we work and what we expect of our employees and stakeholders around the world. Through promoting and instilling a culture of integrity and transparency at ABB, we strive to create a business model where sustainable business practices are one and the same as our operating model.

Doing business with integrity and transparency also means responsibly sourcing materials and services. We aim to do this by proactively identifying, analyzing and mitigating environmental and social risks related to our procurement activities. ABB works to prevent minerals that are mined in conflict zones from entering our supply chain.



Since introducing our 2030 sustainability targets to create a culture of integrity and transparency along the extended value chain, we have made steady progress:

Targets 2030	2019 baseline <sup>1</sup>	2022 status
Global framework for assessing and mitigating third-party integrity risks through risk-based due diligence and life cycle monitoring <sup>2</sup>	n/a	<p>This target measures the implementation of a global framework for assessing third party integrity risks. It is an ongoing and critical organization-wide, integrity-based enhancement, which changes how we onboard and manage the life cycle of our relationships with suppliers, sales channels and customers.</p> <ul style="list-style-type: none"> <li>• <b>Suppliers (buy-side)</b> <p>In January 2022, we launched various integrity due diligence and risk management enhancements within our global supplier onboarding process.</p> </li> <li>• <b>Sales Channels (sell-side)</b> <p>In 2022, we finalized the design of various integrity due diligence and risk management enhancements within our onboarding process for new sales channels. The process was launched at selected ABB locations in October and November, with global launch planned for March 2023.</p> </li> </ul>
Global Integrity Program underpinned by accountability for integrity and an adaptive risk management strategy gained from insights through targeted learnings, transparent reporting and monitoring <sup>2</sup>	n/a	<p>This target measures the implementation and effectiveness of our Global Integrity Program through how we drive individual accountability for integrity and adapt our risk management strategy to real-time data insights gained from integrity-based learnings, reporting and monitoring.</p> <ol style="list-style-type: none"> <li>1. <b>Trust KPI</b> – The rate of severity level 1 and 2 investigations where the reporter disclosed their identity: <ul style="list-style-type: none"> <li>• Year 1 (January 1, 2021, to December 31, 2021): 57% of reporters.</li> <li>• Year 1 &amp; 2 (January 1, 2021, to December 31, 2022): 60% of reporters.</li> </ul> </li> <li>2. <b>Engagement KPI</b> – The volume of unique visitors on the Integrity Awareness Portal (IAP) for integrity learnings: <ul style="list-style-type: none"> <li>• Year 1 (January 1, 2021, to December 31, 2021): 25.46% of employees with online access.</li> <li>• Year 1 &amp; 2 (January 1, 2021, to December 31, 2022): 69.86% of employees with online access.</li> </ul> </li> </ol>

Targets 2030	2019	
	baseline <sup>1</sup>	2022 status
At least 80% of supply spend in focus countries <sup>3</sup> covered by Sustainable Supply Base Management (SSBM)	n/a	Using a risk-based approach, a mid-term 2025 target has been set, focusing on high-risk suppliers in focus countries <sup>3</sup> .
Mid-term target for 2025: At least 80% of spend on high-risk suppliers in focus countries <sup>3</sup> covered by SSBM	n/a	22%
Management sustainability incentive with yearly target	n/a	The individual component of the Annual Incentive Plan (AIP) for Executive Committee (EC) members, with a weight of 20 percent, consists of a combination of up to 3 quantitative and qualitative goals, of which at least 2 are sustainability-related (e.g. GHG emissions, safety or female leadership goals).

1 Where a baseline applies.

2 Targets have been adjusted in 2022.

3 Argentina, Brazil, Bulgaria, China, Colombia, India, Indonesia, Malaysia, Mexico, Peru, Poland, Saudi Arabia, South Africa, Thailand, Turkey, Vietnam.

# Integrity

As part of ABB's sustainability strategy 2030, we set two targets specifically addressing our integrity and transparency objectives. In 2022, we revised these targets to better reflect our approach to how we aim to embed integrity into ABB's operating model. The targets now reflect how we aim to manage our third-party relationships, how we aim to support integrity learning and upskilling, how we aim to use analytical insights to identify risks and adapt our strategy, and how we publicly report in line with global sustainability standards.

Our integrity & transparency targets for 2030 are:

Target 2030: Implement a global framework for assessing and mitigating third-party integrity risks through risk-based due diligence and life cycle monitoring

Target 2030: Implement a global integrity program underpinned by accountability for integrity and an adaptive risk management strategy gained from insights through targeted learnings, transparent reporting and monitoring

Our progress against these targets is also reported in our ABB Integrated Report 2022. We implemented various integrity initiatives during the year that significantly contributed to our targets. Collectively, these initiatives strengthened our accountability for integrity, increased our transparency, and expanded our bribery and corruption risk-detection and mitigation capabilities. We plan to build on these initiatives in 2023, leveraging them to drive us forward towards ABB's integrity and transparency targets for 2030.

## 2022 integrity enhancements

ABB's integrity program is the product of over 20 years of development. In recent years it has been significantly transformed. Spanning our operations, it always strives to reflect best practices where we operate. At the core of our ongoing transformation we are delivering processes, tools and learnings, aimed to remediate issues identified over time. The specific enhancements we made in 2022 are part of this transformation, with a particular focus on our Anti-Bribery and Anti-Corruption (ABAC) program and workplace culture and behaviors.

### **Rollout of new Third Party Management process**

In 2022, we enhanced our “Third Party Management” (TPM) program. Focusing initially on our suppliers (buy-side) and sales channels (sell-side), these enhancements bolster our risk-based approach to selecting third parties and aim to enable more effective oversight and monitoring of their activities and overall performance. During the course of 2023, we will extend the application of the enhanced TPM program and processes to our existing third-party population, aiming to enhance management of third-party risk.

### **Rollout of Anti-Bribery & Anti-Corruption program**

We launched an enhanced upskilling program focused on Anti-Bribery and Anti-Corruption (ABAC) competencies highlighting the crucial role that our employees play in ensuring ABB’s sustainable and competitive future. For now, the program targets employees that face the highest ABAC risks in their day-to-day functions – namely those in gatekeeper functions or in customer and government-facing positions. This program is ongoing throughout 2023.

### **Integrity Gateway 2.0**

We released version 2.0 of our Integrity Gateway, consolidating into one tool the recording and management of employee conflict of interest disclosures and requests for gifts, travel, hospitality, donations and sponsorships. The tool is governed by approval workflows which, depending on the request made, trigger approval from line managers, Human Resources, Legal & Integrity, and Communications colleagues. This aims to bring a global approach to these requests and is a step forward in how we monitor and manage certain ABAC risks in our business.

### **Monthly promotion of Straight Talk case studies**

We stepped up our efforts to expand employee engagement with Straight Talk, our internal platform for sharing real-life integrity successes and failures at ABB. Through one-pagers and accompanying internal communications, we share integrity lessons learned from our colleagues to drive a speak-up culture through regular messaging on our reporting channels. Key leaders are expected to lead by setting the tone from the top. To this end, they are provided with comprehensive data on our investigation portfolio for use in their team business meetings. This transparent initiative has been well received across ABB and continues to serve as a key method of communicating integrity learnings.

## CASE STUDY

**Leadership in legal sustainability**

In 2022, ABB Electrification's Legal & Integrity team took a leading role in addressing the broad issue of legal sustainability with a pilot project examining how to work within the impending regulations of a more sustainable future.

Around the globe, new climate initiatives are resulting in the rapid development of increasingly complex environmental and sustainability legislation. Moving forward, companies will need to invest in internal legal resources that can navigate uncertainty and support even more robust integrity programs that help ensure compliance with laws and regulations.

In its pilot, the Legal & Integrity team launched a group of four projects. First, to raise awareness of the issue, it held roundtable discussions on sustainability legislation and the associated landscape on its blogs and Yammer, ABB's internal discussion platform; second, to encourage cross-function collaboration, it conducted an analysis of EU legislation proposals related to electrification; third, it developed sustainability clauses to be incorporated in contracts; and fourth, it assessed where it could best support ABB Electrification's supply chain transparency programs.

The ultimate goals were to clearly define the Legal & Integrity team's environmental and social corporate governance activities and responsibilities with respect to other ABB functions, and to create a network of ABB lawyers interested in various developments in legal sustainability. By monitoring developments in legal sustainability issues and proactively anticipating how they will proceed, the pilot will help define current and future priorities. While the initiative began within ABB Electrification, it has asked ABB's other business areas to share information on similar or other interesting projects within the space of legal sustainability.

## Global settlements

### Kusile statement

Based on findings during an internal investigation, the Company self-reported to the SEC and the DoJ, in the United States, to the Special Investigating Unit (SIU) and the National Prosecuting Authority (NPA) in South Africa as well as to various authorities in other countries potential suspect payments and other compliance concerns in connection with some of the Company's dealings with Eskom and related persons. Many of those parties have expressed an interest in, or commenced an investigation into, these matters and the Company is cooperating fully with them. The Company paid \$104 million to Eskom in December 2020 as part of a full and final settlement with Eskom and the Special Investigating Unit relating to improper payments and other compliance issues associated with the Controls and Instrumentation Contract, and its Variation Orders for Units 1 and 2 at Kusile. The Company made a provision of approximately \$325 million which was recorded in Other income (expense), net, during the third quarter of 2022. In December 2022, the Company settled with the SEC and DOJ as well as the authorities in South Africa and Switzerland. The matter is still pending with the authorities in Germany, but the Company does not believe that it will need to record any additional provisions for this matter.

Looking forward, we will continue to serve all customers and markets where we operate today, including South Africa. We are firmly committed to fulfilling our contractual obligations on the Kusile project to achieve successful and sustainable project completion, and we stand with South Africa as a key partner in the country's power utility sector. Our project objective remains unchanged – to enable a stable electric grid for the people of South Africa.



# Responsible sourcing

Target 2030: At least 80 percent of our supply spending in focus countries will be covered by our sustainable supply base management approach, which includes surveillance of environmental, social and governance performance

We partner with our suppliers to ensure that ABB's sustainability expectations, aspirations and targets are understood and met. The ABB Supplier Code of Conduct, which is available in multiple languages, sets forth our expectations in clear terms. The Supplier Code of Conduct reflects the 10 principles of the UN Global Compact, as well as the core tenets of the broader ABB Code of Conduct.

Our Sustainable Supply Base Management approach, first implemented in 2021, addresses sustainability topics and performance at each stage of supplier life cycle management, forming part of our "beyond audit" initiative. Building on its successful predecessor – the Supplier Sustainability Development Program (SSDP), which operated from 2010 to 2020 – SSBM integrates sustainability principles more comprehensively into ABB's supplier selection and qualification processes.

Through SSBM, we address issues that fall within six main categories: general management, labor rights, social benefits, health, safety and the environment. The approach is backed by risk-based monitoring that covers a broad range of suppliers and incorporates Group-wide standards and targets. The management and implementation of the SSBM system is handled by ABB's four business areas, allowing for business-specific programs and processes. The approach is governed by a steering committee and a working group comprised of representatives from our business areas and the corporate sustainability team.

Under SSBM, new suppliers registering with ABB must review and acknowledge ABB's Supplier Code of Conduct. In addition, to qualify for consideration, suppliers must complete a self-assessment that incorporates questions on how suppliers manage issues such as labor and human rights, the environment, health and safety, and integrity, as well as management of their own supply chains. Depending on the results from the self-assessment and other parameters, further due diligence is carried out. Once the supplier has become part of ABB's supply chain, a risk-based approach is used to monitor their sustainability performance, much like the procedure under the previous SSDP system. Under this approach, we engage with the supplier for training, onsite assessments and follow-up audits until closure of all deficiencies is achieved.

We consider geographical and commodity risks (health, safety and environmental risks associated with the manufacture and supply of certain commodities) to prioritize among suppliers selected for on-site assessments.

ABB's 2030 sustainability strategy includes an ambitious target to cover at least 80 percent of our supply spending in focus countries with SSBM by 2030. We have also introduced a mid-term target to cover at least 80 percent of our high-risk supply spending in focus countries by 2025. Our calculation of the coverage of the SSBM program considers supplier self-assessments (such as those received during supplier onboarding and qualification) and on-site assessment processes.

To assess the effectiveness of our approach, we have set a goal of closing 75 percent or more identified risks from supplier assessments by 2025. Closure timelines for identified risks vary from a month to a year, depending on the severity of the case. Some complex issues may require a joint effort to resolve, under a longer timeline. Due to the ongoing identification of new risks and the time required to mitigate them, the closure rate of identified risks can never reach 100 percent.

## **2022 highlights in responsible sourcing**

At the end of 2022, 22 percent of high-risk supply spending in focus countries was covered by our SSBM system, and 87 percent of identified risks were closed. Plans are in place to ensure that we achieve our mid-term target by 2025.

In 2022, we assessed 58 suppliers at their sites. The number of on-site assessments completed in 2022 was lower than planned due to continuing travel and access limitations in certain jurisdictions, most notably China. In many cases, virtual assessments were not possible due to limited personnel availability associated with access restrictions. Where on-site assessment possibilities were limited, we focused our attention on closing out corrective action plans, resulting in a risk closure rate significantly above our target (75 percent) and five percentage points higher than in 2021. Planning for 2023 has been adjusted to incorporate the additional assessments remaining from 2022.

In other activities related to responsible sourcing, we trained 26 ABB employees and 54 suppliers in the course of the year. ABB terminated relationships with seven suppliers due to unsatisfactory progress on their corrective action plans.

To strengthen ABB's monitoring and evaluation capacity, in 2022, we held further courses of ABB's lead assessor qualification training program in China and India. The program combines classroom sessions with field experience. All program graduates are prepared to perform independent SSBM assessments and follow-up audits. During the year, 18 employees from China, India and Poland were either qualified or requalified to be ABB lead assessors.

**2022 highlights in responsible sourcing****22%**of high-risk supply  
spend in focus countries  
was covered by SSBM**7**Businesses terminated with  
suppliers due to unsatisfactory  
progress on their respective  
corrective action plans**87%**of identified risks  
were closed**58**suppliers  
assessed  
on-site**26**ABB employees  
and**54**supplier teams trained  
in responsible sourcing  
during the year

In 2022, we revised our method for assessing location-based risks. We also reviewed ABB's Supplier Code of Conduct to clarify our commitments in certain key areas and to address changes in the regulatory environment since the last revision. The review process incorporated feedback from suppliers and customers, as well as consultations with both internal and external subject-matter experts. The updated Supplier Code of Conduct will be released in early 2023, along with internal and external training materials.

During the year, three cases of working conditions that could involve modern slavery at ABB suppliers were reported via our business ethics hotline. No allegations have been substantiated; two of these cases were still under investigation at the close of the year.

## CASE STUDY

**Framing ABB's  
approach to  
sustainability in the  
supply chain**

Ensuring that our supply chain is sustainable is vital to each of the pillars of our 2030 sustainability strategy. While we run several longstanding supply chain programs that serve to address various aspects of sustainability, we decided to reexamine these programs in 2022.

The rationale for reviewing our existing programs was straightforward enough: We wanted to establish a common action plan, to clarify targets and to ensure appropriate and comprehensive governance for purposes of internal accountability. We also wanted to articulate an overall supply chain sustainability approach – one that would be consistent with our sustainability strategy, easy to understand, and capable of facilitating engagement with our suppliers.

We established a cross-business steering committee to review the established programs related to material compliance, conflict minerals and sustainable supply base management. The steering committee also focused on understanding the status of ABB's newer programs related to circularity and GHG emissions in the supply chain. The committee consulted broadly within ABB, with suppliers and with other external stakeholders, including customers and investors.

The resulting Supply Chain Sustainability Framework is structured around the four pillars of our sustainability strategy, establishing clear ambitions for each pillar.

## Conflict minerals

We remain focused on understanding and limiting ABB's exposure to conflict minerals, as defined by section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. We regularly request supplier information on tin, tungsten, tantalum and gold (which comprise the most prominent conflict minerals, sometimes referred to as "3TG") sourced from conflict-affected and high-risk areas (CAHRAs), as defined under EU Regulation 2017/821. We filed ABB's annual Conflict Minerals Report with the U.S. Securities and Exchange Commission for the ninth consecutive year, summarizing ABB's approach to minerals and the status of our programs.

ABB's efforts to source minerals responsibly are reinforced by the ABB Policy on Conflict Minerals and our continued collaboration with the Responsible Minerals Initiative (RMI), which works to encourage smelters and refiners to undergo audits aligned with OECD guidelines.


Under our own internal programs, we also cooperate with suppliers on an ongoing basis to ensure that ABB's products do not contain minerals from mines that support or fund conflict within the Democratic Republic of Congo or adjoining countries and CAHRAs.

# Senior management sustainability incentives

Target: Management sustainability incentive with yearly target

ABB ensures alignment between its management and its sustainability strategy through the application of sustainability measures and targets to its Annual Incentive Plan (AIP) as well as its Long-Term Incentive Plan (LTIP). The mechanism by which this is accomplished was revised last year. Beginning in 2022, all Executive Committee members had at least two sustainability related performance goals incorporated into the individual components of their AIPs.

Additionally, a corporate sustainability goal with a weighting of 20 percent has been incorporated into ABB's 2022 LTIP. The measure relates to a reduction in ABB's scope 1 and 2 GHG emissions versus the 2019 baseline. The LTIP, which is linked to defined performance measures, is awarded to all EC members and about 100 senior executives. The final award under the LTIP is subject to the achievement of the plan's specific targets over a period of three years, from 2022 to 2024.

For further information, please refer to [ABB's Compensation Report 2022](#) .