	SA-S-015-01 Guidance: HSE/SA Management of Mergers and Acquisitions			
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1.0 Overview

1.1 Purpose

This Guidance Note describes how to fulfil the minimum requirements as part of the management of HSE/SA expectations during the mergers and acquisitions (M&A) process (which includes divestment), managed by ABB Group Function Mergers & Acquisitions (CF-MA). If under legislation and/or local regulations there is a higher standard than those set out in this guidance, the higher standard shall be followed.

This document acts as a model to the management and requirements for HSE/SA as part of the Group M&A process, it is not considered to be exhaustive in terms of all the requirements and considerations that may be necessary. Each M&A project must be assessed and reviewed on its own merits to ensure the fundamental aspects and risks are adequately considered.

1.2 Scope

This Guidance applies to all ABB units in all ABB legal entities, including joint ventures/ consortia/ working partnerships involved in overseeing the HSE/SA management requirements in the ABB Group M&A process.

1.3 Key definitions and abbreviations

1.3.1 Definitions

- **Business Case:** Reasoning for initiating an acquisition, usually including a financial model with quantified synergy expectation. There is a requirement to gain ABB EC/Board of Directors approval for an acquisition.
- **Closing:** The completion of a transaction – can either be an acquisition or a divestment. In the case of an acquisition it is the point in time at which all contractual conditions and government and regulatory approvals have been fulfilled and legal ownership and control passes from the seller to ABB. In the case of divestment, the same principles apply but with legal ownership and control passing from ABB to the buyer.
- **Day 1:** Applies to the first day after Closing. At this point the acquired company becomes legally owned by ABB or the divested business legally transfers to the purchaser.
- **Due Diligence:** Process of fully understanding the business operations, infrastructure, financial health and risks and issues involved in acquiring a target company or divesting a business.
- **Signing:** The point when all definitive legal documents for an acquisition or divestment are signed and the completion of the transaction is subject only to government and

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regulatory approvals and any other approvals or conditions as legally required or agreed by ABB and the target company or purchaser.

- **Steco:** Steering Committee responsible for providing overall direction to an acquisition, integration or divestment.
- **Virtual Data Room:** On-line platform/repository for storing and sharing information and data related to the M&A deal. Also, can sometimes be used for the Q&A process to gather outstanding information relating to the transaction.
- **Workstream:** A business or functional area which plays a material role in delivering the value in an integration, and thus requires additional structure and planning.
- **Workstream Leader:** Leaders responsible for a particular workstream.
- **Workstream Participant:** Team assigned to workstream for M&A activities.

1.3.2 Abbreviations

- **HSE/SA:** Health, Safety, Environment and Sustainability Affairs (including Security and Corporate Responsibility)
- **FTE:** Full time equivalent
- **CF-LI:** ABB Group Function Legal & Integrity
- **CF-MA:** ABB Group Function Mergers & Acquisitions
- **CF-SA:** ABB Group Function Sustainability Affairs
- **M&A:** Mergers & Acquisitions
- **NDA:** Non-Disclosure Agreement
- **Q&A:** Questions & Answers
- **SAPA:** Sales and Purchase Agreement
- **TSA:** Transitional Service Agreement
- **VDR:** Virtual Data Room

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2.0 GUIDANCE

2.1 General

2.1.1 Confidentiality and other restrictions

Initial involvement in an M&A transaction or project is typically triggered when an NDA (Non-disclosure agreement) notification or confidentiality agreement is received. M&A projects are governed by the strict need for confidentiality on the behalf of all parties involved. If details linked to deals are leaked, this can influence share prices and cause disruption within companies who are subject to a deal.

When an NDA is signed, the individual is bound to keep all project information that is shared with them, such as data, analyses, studies, reports, interpretations, forecasts and other documents or information, confidential. The fact that discussions and negotiations concerning the project are being conducted is also confidential. The individual in receipt of the NDA may only discuss the project with other colleagues or associates who are also signed up to the NDA. Details of who is signed up to the NDA can be obtained by the CF-MA Project Lead.

Furthermore, until the project becomes public knowledge, individuals may not acquire or dispose of any securities of (or any ownership interest in) the non-ABB companies who are expected to be parties to the project transaction or any of their affiliates except without the prior written approval of an Authorized Legal Approver, (as defined in the GD/LI-01 on Inside Information and Insider Trading).

Individuals who fail to act in accordance with the NDA or confidentiality agreement may be in breach of their employment contract and applicable law.

Strict confidentiality requirements can often limit the number of people who can be signed up as workstream participants. Before signing a deal, there is no unauthorised contact or discussion permitted between ABB and the target company.

2.1.2 M&A process – general points

After signing the NDA or confidentiality agreement, the next step will typically be a project kick-off meeting, where the project rationale, the process to date, any concerns or restrictions, and timeline of the project will be explained. Following the project kick-off, an assessment can be made on the need for external sustainability consultants to support the due diligence process based on the size and scale of the project.

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The functional process of conducting appropriate due diligence is only part of the overall acquisition process as detailed in the schematic below.

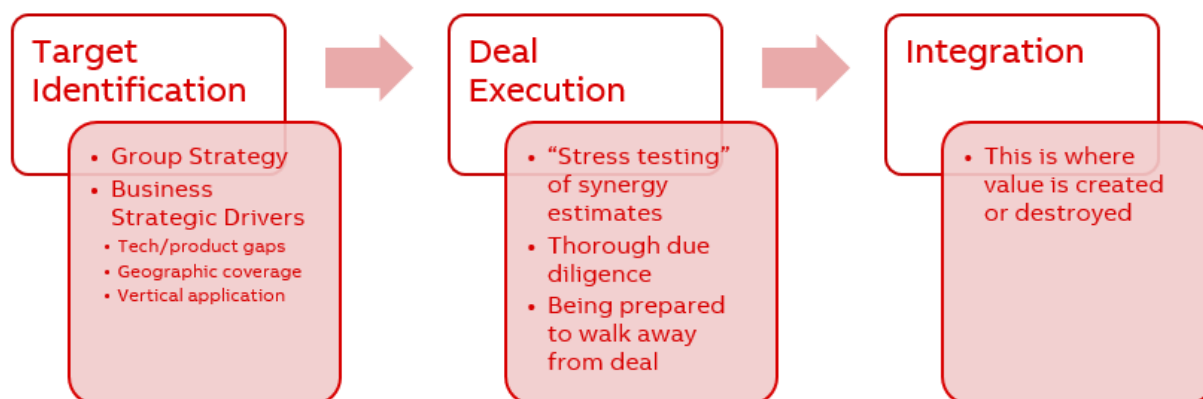


Figure 1. Simplified overview of the M&A process

2.1.3 Functional responsibilities

CF-MA in conjunction with the Responsible Manager will appoint a workstream leader for HSE/SA (either a HSE/SA Specialist or appropriate HSE/SA Support) in discussion with CF-SA. Additionally, the business may nominate HSE/SA support to be included on the project but usually it is up to the workstream leader to request additional workstream participants to support the project and be signed up to the NDA.

Larger more complex projects will be led by CF-SA and require business and local HSE/SA participation. For smaller projects, e.g., a single country, a local leader will be appointed from the local business line. CF-SA will provide oversight and direction.

The HSE/SA function will become involved in the project mid-way through the overall M&A project process. There will have been many discussions and exchanges between ABB CF-MA, the business and the seller prior to HSE/SA colleagues being signed up to the NDA. HSE/SA become involved during the due diligence phase to identify HSE/SA-related risks associated with potential targets and appropriate mitigating actions.

2.1.4 Data sources

Following the project kick-off meeting, the seller or their consultants will grant access to a virtual data room (VDR) where documents can be shared, and questions can be posed by ABB where it is deemed there is missing data relating to the project, which is required to make an informed decision regarding the potential purchase.

Once the VDR is open, this is typically the commencement of the functional due diligence phase of the deal. During this phase the main objectives are to:

1. Validate business case assumptions

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2. Identify risks /issues and material value impact
3. Understand implications for integration
4. Secure ABB internal approvals

In addition, the functional objectives for HSE/SA during the due diligence process are to ensure through any potential acquisition we sustain and further improve;

1. ABB's HSE/SA performance
2. The management of HSE/SA risks in ABB and projects
3. Sustainability performance in the supply chain and when we acquire companies

In advance of the VDR being populated, ABB will sometimes have the chance to provide guidance to the seller to assist the seller to gather the information required by ABB. Typically, this will only happen when ABB are in exclusive discussions with the seller. If several other interested parties are involved, then typically the VDR will be populated independently by the seller and the additional information will be gathered via the Q&A process. An Information Request List template (SA-S-015-01-01) is available covering the various questions that should be considered during the due diligence process. Each project should be reviewed on a case by case basis and the list of questions posed to the seller adapted as required.

The Q&A process exists to gather outstanding information relating to the transaction and the HSE/SA activities and risks. It is important to note that whilst most VDRs have specific folders related to HSE and Sustainability there may be other relevant information held in different folders, so it is important to review the VDR thoroughly. Familiarise yourself with the other colleagues who are on the NDA as there is often overlap between the HSE/SA workstream and the Real Estate workstream for potential contaminated land aspects, the Legal workstream and any law suits, the Insurance workstream in terms of environmental liability coverage and HSE claims history, the Finance workstream regarding provisions and budgets and Business back end and R&D/Technology workstreams, especially concerning product compliance such as REACH, RoHS and supply chain issues.

In addition to the VDR there are several alternative sources that can be utilised as part of the due diligence process. These include but are not limited to:

1. Public records
2. Internet searches
3. Company websites
4. Site visits
5. Expert calls with the seller

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It may be a requirement due to time constraints and resource availability that specialist third party sustainability consultants are needed to support the due diligence process. They can support with site visits and provide comprehensive reports based on the risks and controls they observe and via review of the information made available in the VDR and other public records or databases they may have access to. Prior to any discussions with third parties, they must be signed up to the NDA which can be coordinated via the CF-MA Project Manager and CF-LI representative appointed to the project.

Remember when collecting information outside of the VDR it is vital to maintain the confidentiality of the project. Requests for information must be anonymous and must be structured to avoid arousing suspicion. If you are unsure about a request, please check with the CF-MA Project Manager prior to making the inquiry.

2.1.5 Due diligence project updates

Scheduled weekly meetings are established and led by CF-MA to ensure progress is being made in line with the expected project timelines. During this time, the workstream participants continue to review the VDR and pose questions via the workstream leader to the seller as required. Based on the findings from the workstream participants, the workstream lead presents an executive summary of the due diligence activity to date and outlines any key risks identified along with proposed mitigation actions. Additional requirements and next steps are also outlined.

2.1.6 Due diligence report-out

At the end of the allocated period for due diligence, the workstream leader is responsible for compiling a due diligence report out for the project. The report requires input and review from all HSE/SA workstream participants to ensure it is an accurate reflection of the due diligence activities undertaken and all risks have been accounted for.

The report covers the following sections:

1. General objectives of due diligence
2. Key focus areas for the project
3. Due diligence findings:
 - a) Summary of due diligence findings
 - b) Detailing how the due diligence was conducted
 - c) Critical missing information and any issues not covered in due diligence
 - d) Risks and issues identified (including cost and integration implications and risk mitigation actions)

The due diligence reports provide the basis for ABB's decision on whether to proceed with the project and input to the business model. They are signed off and presented to CF-MA by each workstream leader. The findings act as the basis for the sales and purchase agreement (SAPA) and form an important part of integration planning. The report must be presented in a concise manner that can be understood by non-HSE/SA experts.

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Following the due diligence phase, the findings will be presented to the Project Steering Committee (Steco) and a decision will be made on whether to proceed with the deal. If approval is granted, the deal will move into negotiations which will be handled by CF-MA and CF-LI.

2.1.7 Signing and preparation for closing

Once a deal is signed, preparation will begin for closing, the point at which the new business transfers ownership to ABB. There are various activities that need to be put in place in preparation for Day 1 readiness. These activities will be influenced by local regulatory requirements, structure of the deal, industrial sector and structure and staffing of acquired entity.

Typically, the wider project team will meet on a regular basis to provide an update on progress against milestones and defined actions. This will involve representation from both ABB and the seller. There will also be the need for regular functional calls within the workstream to ensure HSE/SA is on target to be operational from Day 1. Closing checklist SA-S-015-01-03 can be used to ensure essential requirements are captured e.g. identification of all permits, licences and registrations which are required to be transferred or where new permit applications are required etc.

It is important to remember that ABB doesn't own the new entity until the deal is closed and ABB and the seller will be subject to strict antitrust guidelines that must be adhered to. Further guidance on antitrust will be supplied by CF-LI on signing the deal.

Additionally, not all deals proceed to signing. These projects are still subject to the terms of the NDA and all discussions and documentation must remain confidential. Follow any guidance issued by CF-MA regarding any actions associated with "no deal" projects.

2.2 Integration

2.2.1 Overview

Between signing and closing, only integration planning information can be shared e.g. integration team structure, integration timeline and strategy, Day 1 requirements etc. as the two entities will continue to operate as separate companies. No confidential business information can be shared. It is important to follow these requirements, so ABB can abide by the various anti-trust regulations that are in operation in the countries where we operate.

After a deal has closed, the target company becomes a member of the ABB Group and information can be freely exchanged subject to any internal restrictions. CF-MA will advise on any restrictions.

Depending on the findings of the due diligence there may be items to be addressed between signing and closing the deal. It is the responsibility of the M&A team to ensure all items that were to be actioned prior to closing have been addressed. It is the responsibility of the workstream lead along with the support of the workstream participants to ensure that the information and data obtained by the M&A team meet the requirements and expectations of ABB and, if applicable, the legal requirements of the country to which that action relates.

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No two acquisitions are alike therefore it is difficult to prescribe a standardised approach to integration. However, there is a set of minimum considerations that each acquisition shall review from an HSE/SA perspective.

SA-S-015-01-02 HSE/SA Integration Checklist shall be used as a reference for integration. The timelines for implementing the key requirements shall be respected; deviation from this timeline must receive prior approval by CF-SA. The Integration Checklist is not intended to be exhaustive and only covers the minimum considerations. The details on this checklist will need to be amended to reflect the specifics of each integration approach as decided by the Integration Steco.

2.2.2 Integration process

The integration process will be led by an Integration Manager appointed by CF-MA. The overall integration process and timeframe is decided by the Integration Steering Committee and may be influenced by several factors, including the third-party consultants who are supporting CF-MA with the deal, the business model of the acquired company, etc. It is the responsibility of the individual workstreams to manage their key activities with the approval of the Integration Manager.

It is important to establish when the deal will close, who are the key members of the integration team and who will be required on the sustainability workstream team to ensure a successful integration in addition to understanding the overall integration timeframe.

2.2.3 Integration requirements

If the sustainability integration team is not comprised of the same members as the due diligence team, a hand over meeting shall be held between all parties to ensure the transfer of knowledge and due diligence information to the integration team. Access should be granted to all the due diligence findings, reports and databases.

Key HSE/SA requirements and associated timelines are listed in SA-S-015-01-02 HSE/SA Integration Checklist and shall be respected. Any deviations must receive prior approval from CF-SA.

2.2.4 Integration kick-off meeting

Similar to the due diligence process, there will be a kick-off meeting for the ABB Integration team. The purpose of the kick-off meeting is to ensure the team understand the objectives, timeline, priorities and roles and responsibilities in the integration project. It is also important to review the key risks identified in due diligence.

Additionally, there will also be a further kick-off meeting held between the ABB team and the acquired company. It is necessary for there to be a common understanding of the goals, timeline and process of integration. In addition, ABB and the acquired company need to prepare for Day 1, when the acquired company will legally become a part of ABB.

2.2.5 Integration projects

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It is important to remember that integration activities occur alongside business as usual for the acquired company. Integration plans must be mindful of this along with the availability of resource within the acquired organisation.

Based on the Integration Strategy the integration projects will be defined. The defined integration projects approved by the Integration Leadership Team are the only sanctioned activities. No other integration activity outside these projects should take place.

Priorities for integration projects should be identified by answering the following criteria:

1. Does it contribute to a revenue synergy?
2. Does it contribute to a cost synergy?
3. Does it meet a critical ABB Group Regulation or requirement?

In addition, does the project sustain and further improve;

1. ABB's HSE/SA performance
2. The management of HSE/SA risks in ABB and projects
3. Sustainability performance in the supply chain and when we acquire companies

Depending on the size and complexity of the integration project, a typical integration lasts 12 – 24 months. Larger integrations may require up to 36 months or more.

2.2.6 HSE/SA Reporting

The integration of a newly acquired company brings many reporting requirements from an HSE/SA perspective. It is important to understand what transitional service agreements (TSAs) are in place with regards to management information systems that the acquired company will continue to use on a temporary basis prior to moving over to the ABB HSE/SA management information system.

It's important to appreciate when the new acquisition will "go-live" in other ABB systems, e.g. ABACUS, which are outside of the sphere of HSE/SA but may impact on data that is reported for HSE purposes such as FTE personnel data for accident statistics etc.

Sites which may have been considered low risk during the due diligence phase e.g. office environments may have a significant impact in terms of their environmental footprint from an operational perspective due to their headcount which will directly impact electricity and water consumption. It's important to ensure these locations are captured for annual sustainability reporting and consideration is given to adequate HSE coverage for the headcount based at these locations.

2.3 Divestment – sensitivity of information

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The process for divestment is essentially due diligence and integration activities in reverse. ABB will be required to provide documents and records in a VDR and respond to questions posed by potential buyer(s) relating to the divestment. Again, a workstream lead and workstream participants will be appointed to support with the process.

Following discussions between CF-MA, the legal team and the buyer, prior to the deal being signed, an internal divestment kick-off call will be scheduled with the various workstream leads. This will be a briefing regarding the strategy, objectives, guiding principles, team structure roles and responsibilities and key milestones around the divestment along with any tools that are expected to be used during the process in preparation for Day 1 and transfer of the ABB business to the buyer.

Information relating to HSE liabilities should be discussed with the CF-MA project team and the legal workstream lead for the project prior to uploading to the VDR. Sensitive information should be pre-approved by the legal workstream lead and uploaded to a confidential/restricted area of the data room. The workstream leader may be asked to review and sales/purchase agreement and confirm certain disclosures in relation to environmental and health and safety liabilities. A divestment checklist can be found in SA-S-015-01-04 which offers minimum list of items that should be considered in relation to divestment or carve out of ABB businesses.

3.0 ATTACHMENTS

- 1) SA-S-015-01-01 HSE/SA M&A Information Request List
- 2) SA-S-015-01-02 HSE/SA Integration Checklist
- 3) SA-S-015-01-03 HSE/SA Closing Checklist
- 4) SA-S-015-01-04 HSE/SA Divestment Checklist

4.0 REFERENCE

- 1) Inside Information and Insider Trading, CRLI-06
- 2) ABB Integration Playbook – A Practical Guide for Integration Managers