

Statement of ABB's Sustainability Report Review Panel - final

Introduction

ABB has a long history of stakeholder engagement. The company has conducted a variety of stakeholder dialogues and regularly consults with a wide range of stakeholders to challenge and inform 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 a more sustainable world in the fields of power and automation.

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 2020 ambitions, and to agree upon a panel statement to be published as part of ABB's annual Sustainability Performance Report.

Panel members represent key stakeholders of the company and have been selected based on their level of knowledge and skills relevant to ABB.

The panel consists of the following members:

- Jermyn Brooks, Chair, Business Advisory Board, Transparency International
- Prof. Volker Hoffmann, Professor for Sustainability and Technology, ETH Zurich
- Eva Axelsson¹, Head of Sustainability, Swedbank Robur *
- Gianluigi Ravenna, VP Account Management, Enics
- Sheri Straw, Managing Director, T&D Supply Chain, Duke Energy
- Shankar Venkateswaran, Consultant to the Council for Business Sustainability, TERI

To ensure independence Barbara Dubach, engageability, facilitated the external panel process.

The focus for panel discussion this year were ABB's updated 2020 sustainability objectives, measures and targets, an update regarding the issues raised by the stakeholder panel and DNV in ABB's Sustainability Report 2016, plus a review of ABB's reporting process and the final draft of the Sustainability Report 2017.

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 DNV GL was commissioned to undertake independent assurance of the Sustainability Report 2017. The panel welcomes the inclusion of external assurance as a means of providing stakeholders with further confidence.

The engagement process started in December 2017, when panel members received ABB's updated 2020 sustainability objectives, measures and targets. In January 2018, the first online consultations took place on 10th and 26th January 2018. During the second online consultation, which was conducted on February 12, 2018, the panel provided input to the draft report and revised the first version of the panel statement. Members of ABB's sustainability team attended both calls.

¹ Eva Axelsson, the new Head of Sustainability of Swedbank Robur joined the panel on behalf of Anna Nilsson, who changed jobs.

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 on ABB's updated 2020 objectives, measures and targets and its Sustainability Report 2017.

ABB's sustainability approach

ABB is well positioned to contribute to the transformation needed in global energy systems through the transmission of renewable energy, integrating energy efficiency solutions within existing industries and driving breakthrough innovations in the area of renewables.

The panel welcomes the adjustments of the 2020 targets. The simplification of the targets and capturing them in three areas: pioneering technology; responsible operations; and responsible relationships, makes sense for panel members and will ease communication internally and externally. Panel members appreciate that ABB explains the reasoning behind these adjustments and continues to report on other areas beyond the targets. In order to understand the context it is important to show the baseline of the targets, for example relating to the reduction of waste to the total amount of waste generated.

From a customer's or supplier's perspective it will be interesting to understand how the targets relate to them. Extending the impact of the new targets to ABB's value chain and assessing progress on green house gas emissions, water or ethical conduct of suppliers and customers is encouraged

The only sustainability criteria included in ABB's performance compensation system are safety indicators. The panel previously recommended incentivizing sustainability performance and to integrate further sustainability criteria within its performance compensation system. The updated 2020 objectives, measures and targets provide an opportunity to do so. In this respect, some panel members recommend setting and communicating a time frame for doing so.

The panel understands that it will take time to assess the social and environmental impacts of industrial digitalization but reemphasized that, specifically, the impacts on human resources and the nature of work 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?

Materiality

ABB informed the panel that for the 2017 report the same materiality map has been used and that a revision of the materiality map is foreseen in 2018/2019. Some panel members support DNV's recommendation to undertake local level materiality reviews and encourage formalized stakeholder engagement in the countries. When updating the materiality matrix topics such as due diligence when assessing new projects, industrial digitalization and its impact on humans or circularity should be considered.

ABB's contribution to the SDGs is highly valued by the panel members. The foreseen revision of ABB's materiality issues will be a good opportunity to establish a link to the SDGs. There needs to be reconciliation between materiality and the SDGs as materiality assessments provide an inside-out perspective and the SDGs an outside-in perspective. ABB could contribute to this discussion, which needs to take place at international level with stakeholders and organizations such as GRI.

Pioneering technology

One of the new 2020 targets is to grow ABB's eco-efficiency portfolio so that it accounts for up to 60% of ABB's revenues by 2020. The target has been changed due to challenges of increasing market share of the eco-efficiency portfolio. In order to penetrate industries with energy efficient solutions, customers need to be taken on a journey and ABB is working with United for Energy to increase efficiency standards in the different parts of the world. In this regard, the panel encourages ABB to continue working with international and like-minded organizations, and to explore carbon footprint product labelling. As a leader, ABB is expected to take steps in increasing the market for its eco-efficient portfolio and to reduce the amount of products that are less efficient than current benchmarks.

To implement the recommendation from the panel to assess the key sustainability impacts of its eco-efficiency portfolio, ABB has updated the environmental product declarations and will start focusing on energy savings and greenhouse gas emissions reductions that customers achieve from the use of ABB products. The panel appreciates the uptake of this recommendation and is looking forward to seeing the results of the assessments.

Responsible operations and responsible relationships

With regard to supplier relations, the data provided and the case study on supplier development is interesting. An explanation on the main measures taken to achieve the improvements mentioned could be proof of ABB's aspiration as a leader that enables other companies to follow. To understand ABB's Supplier Sustainability Development Program, a definition of high-risk suppliers would be highly appreciated as well as the disclosure of the top ten parameters with which the suppliers are being assessed. If possible, panel members encourage ABB to mention the number of suppliers or high-risk suppliers.

If there is only one target in the area of integrity, 'employees trained on integrity' is the right target. However, in the report it will be important to provide information about other integrity measures. Panel members recommend disclosing the number of sanctions including any terminations as well as the number of supplier contracts terminated.

Panel members would have appreciated a similar target for Human Rights as in the area of integrity but understand that as a smaller number of employees hold direct responsibility for human rights issues, a different target has been set. It will be important to classify the risks and to ensure that human rights issues are not only considered in the supply chain but also for new acquisitions. Measuring the change of the campaigns undertaken will be interesting.

Report highlights

Overall, panel members have a positive impression of ABB's non-financial reporting. The Sustainability Report 2017 reads nicely and the format, length as well as the interactivity are highly appreciated. They acknowledge the case studies with the references to the SDGs in the report.

Concluding remarks

For the panel members the reframing of the 2020 objectives, measures and targets to a manageable number makes sense. The nine sustainability objectives are concise, comprehensive and challenge the company to push forward. Highlighting the interconnectedness of the targets could help to grasp the dimension of ABB's sustainability priorities.

The foreseen materiality review will be a good opportunity to identify new 2030 targets reinforcing ABB's leadership while at the same time assessing the impact of the real sustainability benefits of ABB's products and services to its clients, communities and to societies as a whole. The panel encourages ABB to continue its sustainability journey and to maintain its ambitious level. Building on existing and new partnerships, ABB should use its pioneering leadership to further increase the share of the eco-efficiency portfolio and to reduce the number of less efficient products and services.

Panel members are pleased to see that ABB continues to respond to comments raised during the review process. They encourage the company to lead and to use its technology to contribute to a better world.