2021

ABB Finance (USA) Inc.

Financial Statements

Contents

KPMG LLP
Suite 1000
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Charlotte, North Carolina 28202-1842

Independent Auditors' Report

The Board of Directors
ABB Finance (USA) Inc.:

Opinion

We have audited the financial statements of ABB Finance (USA) Inc. (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

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- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Charlotte, North Carolina
April 8, 2022

Balance Sheets

December 31 (USD in thousands, except per share data)	2021	2020
Current assets:		
Accounts receivable – affiliated companies	6,790	5,332
Accrued interest receivable – affiliated companies	13,727	13,821
Loans – affiliated companies	1,254,423	35,927
Derivative assets – affiliated companies	8,963	—
Total current assets	**1,283,903**	**55,080**
Non-current assets:		
Loans – affiliated companies	965,779	2,183,066
Derivative assets – affiliated companies	—	33,985
Deferred taxes	102	252
Total non-current assets	**965,881**	**2,217,303**
Total assets	**2,249,784**	**2,272,383**
Current liabilities:		
Accounts payable – affiliated companies	3,395	5,264
Accounts payable – third parties	—	68
Accrued interest payable – affiliated companies	491	586
Accrued interest payable – third parties	12,555	12,555
Debt – third parties	1,257,937	—
Total current liabilities	**1,274,378**	**18,473**
Non-current liabilities:		
Debt – third parties	970,580	2,249,650
Total non-current liabilities	**970,580**	**2,249,650**
Stockholder's equity:		
Common stock, par value $0.01 per share; 1,000 shares		
authorized, issued, and outstanding	—	—
Additional paid-in capital	2,719	2,719
Retained earnings	2,107	1,541
Total stockholder's equity	**4,826**	**4,260**
Total liabilities and stockholder's equity	**2,249,784**	**2,272,383**

See accompanying notes.

Statements of Income

Year ended December 31 (USD in thousands)	2021	2020
Revenues:		
Interest income – affiliated companies	55,135	96,584
Income on loan redemption – affiliated companies	—	155,521
Total revenues	**55,135**	**252,105**
Expenses:		
Interest expense – third parties	54,056	94,965
Amortization of fees on bond issuance	972	1,668
Losses from extinguishment of debt - third parties	—	155,377
Other (income)/expense, net	(609)	(562)
Total expenses, net	**54,419**	**251,448**
Income before taxes	**716**	**657**
Provision for income taxes	150	138
Net income	**566**	**519**

See accompanying notes.

Statements of Changes in Stockholder's Equity

Years ended December 31, 2021 and 2020 (USD in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at December 31, 2019	—	2,719	1,022	3,741
Net income	—	—	519	519
Balance at December 31, 2020	**—**	**2,719**	**1,541**	**4,260**
Net income	—	—	566	566
Balance at December 31, 2021	**—**	**2,719**	**2,107**	**4,826**

See accompanying notes.

Statements of Cash Flows

Year ended December 31 (USD in thousands)	2021	2020
Operating activities:		
Net income	566	519
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash charges for amortization of deferred costs	972	1,668
Non-cash charges for amortization of discount on debt	3,526	3,577
Changes in fair value related to fair value hedges	(609)	(561)
Net (increase) decrease in accounts receivable – affiliated companies	(1,458)	1,671
Net decrease in interest receivable – affiliated companies	94	12,766
Net decrease in accounts payable	(1,937)	(1,671)
Net decrease in interest payable – affiliated companies	(95)	(2,625)
Decrease in accrued interest expense – third party	—	(9,963)
Non-cash charges for amortization on repayments of debt	—	7,603
Premium on repayment of debt	—	147,774
Deferred taxes	150	138
Net cash provided by operating activities	**1,209**	**160,896**
Investing activities:		
Net increase in short-term loans – affiliated companies	(1,209)	(3,152)
Loan repayment – affiliated companies	—	1,248,098
Net cash provided by/(used in) investing activities	**(1,209)**	**1,244,946**
Financing activities:		
Repayment of debt – third party	—	(1,405,842)
Net cash used in financing activities	—	**(1,405,842)**
Change in cash and cash equivalents	—	—
Supplemental disclosures of cash flow information:		
Interest paid	50,624	103,977

See accompanying notes.

Notes to Financial Statements

Note 1
Organization and Operations

ABB Finance (USA) Inc. (the Company), is a wholly-owned subsidiary of ABB Holdings Inc. (the Parent) and a member of the worldwide group of related companies of ABB Ltd, Zurich, Switzerland (the ABB Group). The Company acts as a financial intermediary for the ABB Group, primarily in the United States (U.S.).

Debt securities issued by the Company are guaranteed by ABB Ltd (the Guarantor) whereby the Guarantor irrevocably and unconditionally guarantees to the holders of notes or debt issued by the Company, the due and punctual payment of principal, premium (if any) and interest from time to time payable by the Company in respect of such debt as and when the same shall become due.

As a result of the above noted credit support instrument (the Guarantee), interest rates on debt instruments issued by the Company are likely to be lower. Therefore, effective May 2012, the Company entered into a Debt Compensation Agreement (the Agreement) with ABB Ltd. The Agreement specifies that as long as the debt remains outstanding, the Company shall pay a fee to ABB Ltd as compensation for the benefit arising to the Company from the lower interest rates and reduced interest expense in respect to each Debt Instrument. For the year ended December 31, 2021, the Company's expense under the Agreement was $13.6 million (2020: $25.2 million), reported in "Other (income)/expense, net" in the Statements of Income. As of December 31, 2021, $3.4 million (2020: $5.3 million) of this expense was due to the Guarantor and reported in "Accounts payable – affiliated companies." In 2021, the total fee of $13.6 million (2020: $25.2 million) was re-charged to another ABB Group company and the corresponding income is reported in "Other (income)/expense, net" in the Statements of Income.

The Company is a designated issuer under the ABB Group's Euro Medium Term Note program that allows the issuance of up to the equivalent of USD 8 billion in certain debt instruments. The terms of the program do not obligate any third party to extend credit to the Company and the terms and possibility of issuing any debt under the program are determined with respect to, and as of the date of issuance of, each debt instrument. No notes were issued by the Company under the program in 2021 or 2020.

The Company has evaluated subsequent events up to the close of business on April 8, 2022, the date of issuance of these financial statements.

Note 2
Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of these financial statements:

Basis of Presentation

The financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are presented in U.S. dollars ($) unless otherwise stated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make assumptions and estimates that directly affect the amounts reported in the financial statements and notes. The accounting estimates that require the Company's judgment involve discount rates used to determine the fair value of loans.

The actual results and outcomes may differ from the Company's estimates and assumptions.

Fair Value Measures

The Company uses fair value measurement principles to record certain financial assets and liabilities on a recurring basis and to determine the fair value disclosures for certain financial instruments carried at amortized cost in the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company applies various valuation techniques, including the market approach (using observable market data for identical or similar assets and liabilities) and the income approach (discounted cash flow models). Inputs used to determine the fair value of assets and liabilities are defined by a three-level hierarchy, depending on the reliability of those inputs. The Company categorized its financial assets and liabilities measured at fair value within this hierarchy, based on whether the inputs to the valuation technique are observable or unobservable. An observable input is based on market data obtained from independent sources, while the unobservable input reflects the Company's assumptions about market data.

The levels of the fair value hierarchy are as follows:

Level 1: Valuation inputs consist of unadjusted quoted prices in an active market for identical assets or liabilities (observable quoted prices).

Level 2: Valuation inputs consist of other observable inputs (other than Level 1 inputs), such as actively quoted prices for similar assets, quoted prices in inactive markets, interest rate yield curves, credit spreads, or inputs derived from other observable data by interpolation, correlation, regression or other means. The adjustments applied to quoted prices or the inputs used in valuation models may be both observable and unobservable. In these cases, the fair value measurement is classified as Level 2 unless the unobservable portion of the adjustment or the unobservable input to the valuation model is significant, in which case the fair value measurement will be classified as Level 3.

Level 3: Valuation inputs are based on the Company's own assumptions of relevant market data.

Whenever quoted prices involve bid-ask spreads, the Company ordinarily determines fair values based on mid-market quotes.

When determining fair values based on quoted prices in an active market, the Company considers if the level of transaction activity for the financial instrument has significantly decreased or would not be considered orderly. In such cases, the resulting changes in valuation techniques would be disclosed. If the market is considered disorderly or if quoted prices are not available, the Company is required to use another valuation technique, such as an income approach.

Disclosures about the Company's fair value measurement of assets and liabilities are included in Note 6.

Debt

Notes issued are stated at amortized cost or at amortized cost adjusted to fair value when they are the hedged item in a fair value hedge relationship. If notes are issued at a discount or a premium, the Company uses the effective interest rate method to accrete or amortize such notes to par over the period to maturity. Such accretion or amortization is included in "Interest expense – third parties" in the Statements of Income. Debt issuance costs in relation to notes issued are amortized over the period to maturity using the effective interest rate method and are shown together with the respective notes in the balance sheet.

Concentrations of Credit Risk

The majority of the Company's assets represent loans receivable from member companies of the ABB Group located in the United States.

Derivative Financial Instruments

The Company uses derivative financial instruments to manage certain interest rate exposures arising from its financing activities.

The Company recognizes all derivatives at fair value in the balance sheet, with the corresponding gains and losses reported in "Other (income)/expense, (net)" in the Statements of Income. If a derivative is designated as a fair value hedge, changes in the fair value of the derivative will be offset against the change in fair value of the hedged item attributable to the risk being hedged and consequently ineffectiveness is recognized immediately.

Income Taxes

The Parent files a consolidated U.S. federal income tax return in which the results of the Company are included. Separate state and local income tax returns are filed by the separate legal entities except in jurisdictions which require filing on a combined basis or permit filing on a consolidated basis. Current taxes provided in the Company's financial statements are paid by the Parent, not the Company, and are therefore reflected in the accompanying financial statements as a contribution to capital by the Parent. In the case of a current tax benefit, taxes are reflected as a return of capital from retained earnings.

The Company uses the asset and liability method to account for deferred taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. For financial statement purposes, the Company recognizes a deferred tax asset when it determines that it is more likely than not that the deduction will be sustained based upon the deduction's technical merit. A valuation allowance is recognized to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company has no accruals for uncertain tax positions as of December 31, 2021 and 2020. The Company accrues interest on unrecognized tax benefits as interest expense. Penalties, if incurred, are recognized as a component of income tax expense.

Note 3
Loans – Affiliated Companies

As of December 31, “Current loans – affiliated companies” consisted of the following:

December 31 (USD in thousands)	2021	2020
Cash pool arrangement with affiliated companies	37,136	35,927
Current maturities of long-term debt:		
Floating rate loans due 2022	1,022,522	—
3.23% loan due 2022	194,766	—
Total	**1,254,423**	**35,927**

The Company’s bank account is part of a cash-pooling arrangement managed by a related company. Consequently, the balances have been included in “Loans - affiliated companies”.

As of December 31, “Loans – affiliated companies”, shown as non-current assets, consisted of the following:

December 31 (USD in thousands)	2021	2020
Floating rate loans due 2022	—	1,022,522
3.23% loan due 2022	—	194,766
3.8624% loan due 2028	380,951	380,951
4.697% loan due 2042	584,828	584,828
Total	**965,779**	**2,183,066**

At December 31, 2021 and 2020, the weighted average interest rate of the floating rate loans due 2022 was 0.63% and 0.70%, respectively.

In November 2020, an affiliated company served notice it wished to prepay a portion of the 3.8624% loan due 2028, and the 4.697% loan due 2042. Consequently, aggregate principal amounts of $365.7 million of the 3.8624% loan due 2028 and $135.1 million of the 4.375% loan due 2042 were redeemed for a total cash amount of $628.3 million, including accrued interest. The Company recognized total gains of $123.2 million on the early repayment of these loans, representing the premium associated with the early redemption.

In December 2020, an affiliated company served notice that is wished to prepay the 3.47% loan due April 2023. In connection with the redemption the Company recognized gains of $32.3 million representing the premium associated with the early redemption.

Note 4
Debt – Third Parties

The Company utilizes derivative instruments to modify characteristics of its long-term debt. In particular, the Company uses interest rate swaps to effectively convert certain fixed-rate long-term debt into floating rate obligations. The carrying value of debt, designated as being hedged by fair value hedges, is adjusted for changes in the fair value of the risk component of the debt being hedged.

The Company's current portion of long-term debt as of December 31 consisted of the following:

	2021		2020	
December 31 (USD in thousands; except % data)	**Balance**	**Weighted-average nominal interest rate**	**Balance**	**Weighted-average nominal interest rate**
2.875% notes due 2022	1,257,937	2.88%	—	—

The following table summarizes the Company's long term debt considering the effect of interest rate swaps. Consequently, a fixed rate debt subject to a fixed to floating interest rate swap is included as a floating rate debt in the table below:

	2021			2020		
December 31 (USD in thousands; except % data)	**Balance**	**Weighted-average nominal interest rate**	**Effective rate**	**Balance**	**Weighted-average nominal interest rate**	**Effective rate**
Floating	1,058,153	2.88%	0.54%	1,075,075	2.88%	0.61%
Fixed	1,170,364	3.94%	4.08%	1,174,575	3.94%	4.08%
	2,228,517			**2,249,650**		
Current portion of long-term debt	(1,257,937)	2.88%	0.95%	—	—	—
Total	**970,580**			**2,249,650**		

At December 31, 2021, the principal amounts of long-term debt (including current maturities) repayable at maturity were as follows (dollars in thousands):

(USD in thousands)	
Due in 2022	1,250,000
Due in 2023	—
Due in 2024	—
Due in 2025	—
Due in 2026	—
Thereafter	991,932
Total	**2,241,932**

Details of the Company’s outstanding notes as of December 31 were as follows:

	2021		2020	
December 31 (USD in thousands)	**Nominal amount out-standing**	**Carrying value**	**Nominal amount out-standing**	**Carrying value**
2.875% notes due 2022	1,250,000	1,257,937	1,250,000	1,279,851
3.8% notes due 2028	382,673	381,175	382,673	380,968
4.375% notes due 2042	609,259	589,405	609,259	588,831
Total		**2,228,517**		**2,249,650**

The above listed notes pay interest semi-annually in arrears at a fixed annual rate. The Company entered into interest rate swaps with an affiliated company to hedge obligations on an aggregate principal of $1,050 million of the 2.875% notes, due 2022. After considering the impact of such swaps, $1,050 million of the outstanding principal became floating rate obligations and consequently is shown as floating rate debt in the table of long-term debt above.

The Company may redeem all outstanding notes prior to maturity, in whole or in part, at the greater of 100% of the principal amount of the notes to be redeemed and the sum of the present values of remaining scheduled payments of principal and interest (excluding interest accrued to the redemption date) discounted to the redemption date at a rate defined in the note terms, plus interest accrued at the redemption date. The notes, registered with the U.S. Securities and Exchange Commission, are fully and unconditionally guaranteed by ABB Ltd.

In addition, the notes contain cross-default clauses which would allow the noteholders to demand repayment if the Company or certain other members of the ABB Group were to default on any borrowing at or above a specified threshold. The notes constitute unsecured obligations of the Company and rank pari passu with other debt obligations of the ABB Group.

In November 2020, the Company completed a cash tender offer on its 3.8% notes due 2028, and 4.375% notes due in 2042. As a result of this tender offer, the Company redeemed aggregate principal amounts of $367.3 million of the 3.8% notes due 2028 and $140.7 million of the 4.375% notes due 2042 for a total cash payment of $629.2 million, including accrued interest. The Company recognized losses from extinguishment of debt totaling $123.4 million for these two transactions, representing the premium associated with the early redemption, as well as the respective proportionate unamortized issuance costs/discounts and costs of the tender offer.

In December 2020, the Company exercised its early redemption option on its 3.375% notes due April 2023. In connection with the redemption the Company recognized losses from extinguishment of debt of $32 million representing the premium associated with the early redemption, as well as the remaining unamortized issuance costs/discounts.

Note 5
Derivative Financial Instruments

The Company is exposed to interest rate risks arising from its debt issuance activities. The Company used derivative instruments to manage the impact of certain exposures.

Interest rate risk: The Company has issued bonds at fixed interest rates. Interest rate swaps are used to manage the interest rate risk associated with certain of the Company's debt.

Volume of derivative activity: At December 31, 2021 and 2020, the gross notional amount of outstanding interest rate swaps was $1,050 million.

Fair value hedges: The Company utilizes interest rate swaps to modify characteristics of its long-term debt, in particular, to effectively convert certain fixed-rate long-term debt into floating rate obligations. The carrying value of debt, designated as being hedged by fair value hedges, is adjusted for changes in the fair value of the risk component of the debt being hedged.

The changes in fair value of the hedging instruments, as well as the changes in the fair value of the risk component of the underlying debt being hedged, are recorded as offsetting gains and losses in "Other (income)/expense, net" in the Statements of Income. Hedge ineffectiveness of instruments designated as fair value hedges amounted to $0.6 million in 2021 and 2020.

(USD in thousands)	2021	2020
Gains (losses) recognized:		
on derivatives designated as fair value hedges	(25,022)	10,010
on hedged item	25,631	(9,449)

Note 6
Fair Values

The fair value of financial instruments remeasured on a recurring basis as of December 31 were as follows:

December 31, 2021 (USD in thousands)	Level 1	Level 2	Level 3	Total Fair Value Assets
Assets				
Derivative assets – affiliated companies	—	8,963	—	**8,963**

December 31, 2020 (USD in thousands)	Level 1	Level 2	Level 3	Total Fair Value Assets
Assets				
Derivative assets – affiliated companies	—	33,985	—	**33,985**

The fair values of financial instruments carried on a cost basis as of December 31 were as follows:

December 31, 2021 (USD in thousands)	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value Assets
Assets					
Short-term loans – affiliated companies	1,254,423	37,136	1,219,984	—	**1,257,120**
Long-term loans – affiliated companies	965,779	—	1,151,713	—	**1,151,713**
Liabilities					
Short-term debt – third parties	1,257,937	1,260,438	—	—	**1,260,438**
Long-term debt – third parties	970,580	1,190,799	—	—	**1,190,799**

December 31, 2020 (USD in thousands)	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value Assets
Assets					
Short-term loans – affiliated companies	35,927	35,927	—	—	**35,927**
Long-term loans – affiliated companies	2,183,066	—	2,524,043	—	**2,524,043**
Liabilities					
Long-term debt – third parties	2,249,650	2,548,017	—	—	**2,548,017**

Note 7
Financial Instruments

Financial instruments, which consist of loans and debt are carried at amortized cost (except for bonds in a fair value hedge relationship which are carried at amortized cost adjusted to fair value). The Company uses the following methods and assumptions in estimating fair value disclosures for financial instruments carried on a cost basis:

Short-term loans (including current maturities of long-term loans): For cash pool balances, the carrying amounts approximate the fair values as the items are short term in nature (Level 1 inputs). For current maturities of long-term loans, fair values are determined using a discounted cash flow methodology based upon loan rates of similar instruments as adjusted for current credit risk (Level 2 inputs).

Long-term loans: Fair values are determined using a discounted cash flow methodology based upon loan rates of similar instruments as adjusted for current credit risk (Level 2 inputs).

Long-term debt (including current maturities of long-term debt): Fair values of outstanding bonds are determined using quoted market prices (Level 1 inputs).

Note 8
Income Taxes

The components of income tax expense are as follows for the years ended December 31:

(USD in thousands)	**2021**	**2020**
Current expense:		
Federal	—	—
Deferred expense:		
Federal	150	138
Total	**150**	**138**

The deferred tax asset for 2021 and 2020 relates to hedging of the Company's issued debt and Net Operating Loss for tax purposes.

A reconciliation of income tax expense using the statutory United States federal income tax rate compared with the actual income tax provision is as follows:

(USD in thousands)	**2021**	**2020**
Income before income taxes	**716**	**657**
Statutory tax rate	21%	21%
Computed taxes at statutory tax rate	150	138
Provision for income taxes	**150**	**138**

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