ABB Finance B.V.
Rotterdam, The Netherlands

Annual Report
2020

Contents

Report of the Board of Management

General information

ABB Finance B.V. ("the Company") is a wholly-owned subsidiary of ABB Holdings B.V., Rotterdam, the Netherlands and a member of the world-wide group of related companies of ABB Ltd, Zurich, Switzerland. The Company provides a range of treasury management services to the ABB Group.

The Company acts as a financial intermediary for the ABB Group in the capital markets and manages, through its investment activities, excess liquidity of the ABB Group. The Company has the benefit of a Keep-Well Agreement entered into with ABB Ltd, Switzerland, the holding company of the ABB Group. The agreement assures a minimum tangible net worth of USD 1 million, the maintenance of 100% direct or indirect ownership by ABB Ltd and, if required, the provision of sufficient funds to enable the Company to meet its financial obligations not guaranteed by ABB Ltd. Furthermore, outstanding notes and commercial paper issued by the Company are guaranteed by ABB Ltd, Switzerland.

The Company is a designated issuer under the ABB Group's Euro Medium Term Note (EMTN) 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. The notes are listed on the Luxembourg Euro MTF which is a non-regulated market. As such, the Company is not required to appoint a supervisory board. In May 2020, the Company issued (and repaid at maturity in November 2020) EUR 200 million of floating rate notes as a private placement documented under the EMTN program. In 2019, the Company issued EUR 1 billion floating rate notes which were repaid upon maturity in October 2020.

The Company has a USD 2 billion Euro Commercial Paper program for the issuance of commercial paper in a variety of currencies. At December 31, 2020 and 2019, no commercial paper was outstanding.

The Company is one of the ABB Group's designated borrowers under a USD 2 billion multicurrency revolving credit facility, guaranteed by ABB Ltd (see note 7 to the financial statements for further details). No amounts were drawn by the Company at December 31, 2020 or 2019.

During 2020, Mr Stephan Husi resigned and was replaced by Mr Baptise Verbruggen as a member of the Board of Management.

Risk management

The Company has the benefit of the Keep-Well Agreement mentioned above and the notes issued under the Euro Medium Term note program as well as the Euro Commercial Paper program are guaranteed by ABB Ltd, which mitigate the Company's financial risks. Furthermore, exposure to market risks is substantially transferred to ABB Asea Brown Boveri Ltd, through the interest compensation arrangement described in note 1 to the financial statements. More specific risk management measures are described below.

To minimize the financial risks from its financing, investing and liquidity management activities (see note 9 to the financial statements), the Company generally funds itself in the same currency and on similar terms as its investments. However, where this is not possible, the Company uses derivative transactions to reduce its risks. The exposures from the Company's financing, investing and liquidity management activities are regulated by financial policies containing strict rules for the monitoring of all financial risks of the Company. Real time and end-of-day monitoring of market risks is performed by a separate risk control department to ensure that the policies are adhered to at all times. These financial policies are reviewed and updated annually to take into consideration current market conditions and measurement practices.

The Company has sufficient access to funding sources to repay any of its external borrowings, as it is a designated issuer under the ABB Group's EMTN program, the designated issuer under the Euro Commercial Paper program and one of the two designated borrowers under the ABB Group's USD 2 billion revolving credit facility (see notes 1 and 7 to the financial statements for further details).

The Management of the Company reviews compliance and regulation risks on an ongoing basis. All mentioned risks and uncertainties have a low risk level and are in line with the preferred risk profile of the Company. Consequently, no changes have been implemented in the actual risk management systems and none of the risks had an impact during the financial years presented in these statements. The Company is not significantly exposed to operational and/or strategic risks.

Services which are not provided by its employees are provided by a related company and covered by a service agreement that can be adjusted at any point in time to cover the Company's operational demand.

Result for the year

The Company's net result for 2020 was USD 3.4 million (2019: USD 3.4 million). While the net result remained stable there were significant moves in certain line items. The Company's interest income decreased by USD 26.8 million compared to 2019, mainly due to lower USD interest rates on the short-term deposits with banks and lower interest rates on short-term loans to related companies that replaced a fixed rate long-term loan (at 2.77%) that had matured in 2019. Similarly, interest expense decreased by USD 26.2 million compared to 2019, mainly due to lower USD interest rates on debt from related companies and the fact that the EUR 1.3 billion note (with a 2.625% coupon) which matured during 2019 was replaced by EUR 1 billion floating rate notes with a coupon of 3-month EURIBOR plus 35 basis points (with the coupon floored at 0%) resulting in zero interest expense during 2020 up to the notes' maturity in October 2020. Net gains on marketable securities decreased by USD 3.3 million compared to 2019, mainly due to lower gains on money market funds.

At December 31, 2020, the Company's total assets amounted to USD 3.9 billion compared to USD 4.3 billion at December 31, 2019. This decrease is mainly the result of the repayment of the EUR 1 billion floating rate notes, partially offset by additional loans from related companies.

The Company provides services, under service agreements, to other related companies and the level of service fee income decreased by USD 0.1 million to USD 1.2 million in 2020 compared to 1.3 million in 2019.

Operating expenses in 2020 increased by USD 0.9 million to USD 3.3 million compared to USD 2.4 million in 2019, mainly explained by the increase in the number of employees to 19 at December 31, 2020, compared to 14 at December 31, 2019 (see note 16 to the financial statements).

Outlook

The existing activities of the Company are expected to continue unchanged in 2021.

In January 2021, under the EMTN program, the Company issued zero percent notes having an aggregate principal of EUR 800 million, due in January 2030. The company recorded net proceeds (after underwriting fees) of EUR 791 million (equivalent to USD 960 million on the date of issuance) which were onlent to a related company.

Diversity

The Company's Board of Management currently consists of 4 members, one of whom is a woman, representing a 25% female quota. Therefore, currently there is not a balanced distribution of seats. Consequently, the Board of Management will consider the balanced distribution of seats when appointing new members to the Board.

Rotterdam, April 19, 2021

Board of Management

G. Stewart U. Arnold M. Wolodzko B. Verbruggen

Balance Sheet

(Before profit appropriation)

December 31 (USD in thousands)	Note	2020	2019
Financial fixed assets			
Loans – related companies	4, 9	1,610,254	1,471,567
Marketable securities	5, 9	—	80,658
Derivative assets - related companies	8	43,864	35,245
Total non-current assets		**1,654,118**	**1,587,470**
Loans – related companies	4, 9	556,597	1,280,563
Short-term deposits with banks	9	—	1,138,085
Marketable securities	5, 9	1,606,340	193,196
Interest receivable	10	9,227	8,296
Cash and cash equivalents	3	57,502	52,649
Total current assets		**2,229,666**	**2,672,789**
Total assets		**3,883,784**	**4,260,259**
Share capital	6	25	23
Share premium	6	998	998
Retained earnings	6	908	883
Other reserves	6	2	4
Net result	6	3,425	3,375
Total shareholder's equity		**5,358**	**5,283**
Debt - related companies	7, 9	—	80,000
Debt - third parties	7, 9	1,820,524	1,657,944
Total non-current liabilities		**1,820,524**	**1,737,944**
Debt - related companies	7, 9	2,045,137	1,383,301
Debt - third parties	7, 9	—	1,121,913
Interest payable	11	8,141	8,709
Tax accrual		1,376	215
Accrued liabilities		3,248	2,894
Total current liabilities		**2,057,902**	**2,517,032**
Total liabilities		**3,878,426**	**4,254,976**
Total shareholder's equity and liabilities		**3,883,784**	**4,260,259**

See accompanying notes.

Profit and Loss Account

Year ended December 31 (USD in thousands)	Note	2020	2019
Interest income	13	23,268	50,041
Interest expense	13	(14,246)	(40,487)
Interest compensation	1	(6,286)	(8,018)
Foreign exchange gains (losses), net		(39)	(1,982)
Net interest result		**2,697**	**(446)**
Net gains on marketable securities	14	3,984	7,280
Result from financial transactions		**6,681**	**6,834**
Income from service fees	12	1,168	1,346
Operating expenses	15	(3,283)	(2,443)
Result before taxes		**4,566**	**5,737**
Income tax	17	(1,141)	(2,362)
Net result		**3,425**	**3,375**

See accompanying notes.

Notes to Financial Statements

Note 1
General

The Company, registered in Rotterdam with registry number 33232125 at the Dutch Chamber of Commerce, is a wholly-owned subsidiary of ABB Holdings B.V., Rotterdam, the Netherlands and a member of the world-wide group of related companies of ABB Ltd, Zurich, Switzerland. The Company is engaged primarily in funding and investment activities on behalf of the ABB Group. All transactions with related companies are made on an arm's length basis and have been disclosed in these financial statements.

The consolidated financial statements of the ultimate parent, ABB Ltd, Zurich, are available on the ABB Group's website (www.abb.com) and include the Consolidated Statements of Cash Flows. Consequently, the Company has not presented a cash flow statement in these financial statements.

The Company has the benefit of a "Keep-Well Agreement" with ABB Ltd, dated March 2012. Under the Keep-Well Agreement, ABB Ltd will (i) ensure that the Company has a net worth of at least USD 1 million, (ii) retain ownership (direct or indirect) of the Company as long as the Company has obligations from financial transactions which are not guaranteed by ABB Ltd, and (iii) upon request of the Company, provide the Company with sufficient funds to meet obligations from financial obligations not guaranteed by ABB Ltd. The Keep-Well Agreement is not a guarantee by ABB Ltd of the payment of any indebtedness, liability or obligation of the Company. Holders of notes or other debt are not parties to the Keep-Well Agreement; the only parties to the Keep-Well Agreement are the Company and ABB Ltd. Consequently, the Keep-Well Agreement does not confer to any noteholders or holders of other debt any rights or claims against ABB Ltd. The Keep-Well Agreement will not be enforceable against ABB Ltd by anyone other than the Company (and/or its trustee, receiver, liquidator or administrator in the event of a bankruptcy or, as the case may be, moratorium).

Notes issued by the Company under the ABB Group's EMTN program for the issuance of up to USD 8 billion debt instruments and notes issued by the Company under the ABB Group's USD 2 billion Euro Commercial Paper program are guaranteed by ABB Ltd, whereby ABB Ltd guarantees to the holders of the notes the punctual payment of principal and interest.

In 2012, the Company entered into agreements with ABB Asea Brown Boveri Ltd, whereby, (i) the Company absorbs, and is compensated for, or remits, on a quarterly basis, any interest differential to market rates (positive or negative) on its intercompany lendings and borrowings (the interest differential, arises due to differing credit risks between the assets and liabilities) and (ii) the Company receives a remuneration for its service provider function related to these intercompany lending/borrowing activities. In 2020, total net compensation paid by the Company under these agreements amounted to USD 6.3 million (2019: USD 8.0 million) which was included in "Interest compensation" in the profit and loss account.

These financial statements are as at and for the year ended December 31, 2020.

Note 2
Summary of significant accounting policies

Basis of presentation:

The financial statements have been prepared in accordance with Part 9 of Book 2 of the Civil Code of the Netherlands.

The accounting policies applied to the measurement of assets and liabilities and the determination of results are based on the historical cost convention, unless otherwise stated in this summary of significant accounting policies.

An asset is recognized in the balance sheet when it is probable that the expected future economic benefits attributable to the asset will flow to the Company and the asset has a cost price or a value which can be measured reliably.

A liability is recognized in the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources and the amount necessary to settle the obligation can be measured reliably. Provisions are included in the liabilities of the Company.

Assets and liabilities that are not recognized in the balance sheet are considered as off-balance sheet assets and liabilities.

An asset or liability is derecognized when a transaction results in all (or substantially all) of the rights to economic benefits and all (or substantially all) of the risks related to the asset or liability being transferred to a third party. In such cases, the results of the transaction are directly recognized in the profit and loss account, taking into account any provisions related to the transaction.

In preparing these financial statements, the Company presents its assets and liabilities at amortized cost, except securities (other than held-to-maturity) and derivatives which are stated at fair value with changes in fair value through the profit and loss account. Debt that is subject to a fair value hedge is held at amortized cost adjusted to fair value through the profit and loss account.

Income and expenses are recognized when they are probable and can be measured reliably. Income and expenses are reported in the periods to which they relate.

The Company's accounting records are maintained in U.S. dollars, the functional currency of the Company's operations.

Related companies refer to group companies of ABB Ltd.

Going concern:

The financial statements have been prepared on a going concern basis.

Use of estimates:

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting principles and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The fair value measurement accounting policy is, in the opinion of management, the most critical in preparing these financial statements and requires judgements, estimates and assumptions.

Translation of foreign currencies:

Monetary assets, share capital and monetary liabilities denominated in foreign currencies are translated at the balance sheet date into U.S. dollars using year-end exchange rates. Transactions in foreign currencies are recorded at rates applicable at the transaction date. Exchange gains and losses resulting from translating monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account. The exchange differences on the euro-denominated share capital are included in the "Other reserves" account in shareholder's equity.

Financial Instruments:

a) General:
These financial statements include the following financial instruments: loans, cash and cash equivalents, marketable securities, derivatives and debt.

Financial assets and liabilities are recognized in the balance sheet when the contractual risks or rewards with respect to the financial instrument(s) arise.

Financial instruments are derecognized if a transaction results in substantially all of the contractual risks or rewards with respect to the financial instrument(s) being transferred to a third party.

Financial instruments (and individual components of financial instruments) are presented in the financial statements in accordance with the economic substance of the contractual terms, that is, as a financial asset, financial liability or equity instrument.

Financial instruments are initially recognized at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognized in the profit and loss account at the initial recognition.

After initial recognition, financial instruments are valued in the manner described below.

b) Loans, short-term deposits with banks:
In preparing its financial statements, the Company states all loans and short-term deposits with banks on an amortized cost basis.

c) Cash and cash equivalents:
Cash and cash equivalents are readily available and measured at nominal value.

d) Marketable securities:
Management determines the appropriate classification of securities at the time of purchase. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for accretion of discounts to maturity and, where not denominated in U.S. dollars, are translated into U.S. dollars at year-end exchange rates. Accretion of discount is included in "Interest income" in the profit and loss account.

Marketable securities not classified as held-to-maturity are reported at fair value. Unrealized gains and losses on such securities are included in the profit and loss account as part of "Net gains on marketable securities". Realized gains and losses on such securities are computed based upon the cost of those securities using the specific identification method.

e) Derivatives:
The Company uses derivative financial instruments to manage certain interest rate exposures arising from its financing activities and to manage foreign exchange exposures in its balance sheet arising from its liquidity management activities. Derivative assets and liabilities have been presented on a gross basis (see note 8).

The Company recognizes all derivatives at fair value in the balance sheet, with the corresponding gains and losses on interest rate swaps reported in the "Hedge ineffectiveness" component of "Interest expense" (see notes 8 and 13), and gains and losses on foreign exchange contracts reported in "Foreign exchange gains (losses), net".

The Company applies fair value hedge accounting to interest rate swaps hedging long-term debt and documents the relationship between the hedging instruments and hedged items at the inception of the hedging transaction. The Company tests, both at hedge inception and on an ongoing basis, whether the derivatives designated as hedging transactions are highly effective in offsetting changes in fair values of the hedged items. This is done by comparing the cumulative change in the fair value of the hedging instrument (interest rate swaps) with the cumulative change in fair value of the hedged position (long-term debt). Changes in the fair value of the interest rate swaps for the period are recorded in the "Hedge ineffectiveness" component of "Interest expense" in the profit and loss account, as are changes in fair value of the hedged item attributable to the risk being hedged and consequently ineffectiveness is recognized in the profit and loss account.

f) Debt:
Debt is stated at amortized cost or at amortized cost adjusted to fair value when it is 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 amounts to par over the period to maturity. Such accretion or amortization is included in "Interest expense" in the profit and loss account. Capitalized upfront 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.

Commercial papers issued at a discount or premium are accreted or amortized to the nominal amount (par) over the remaining period to maturity of the commercial paper, with the accretion or amortization amounts recorded in the profit and loss account in "Interest expense" or in "Interest income", respectively.

Fair value measurement:

The Company uses fair value measurement principles to record certain financial assets and liabilities on a recurring basis and to determine fair value disclosures for certain financial instruments carried at amortized cost in the financial statements. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If no fair value can be readily and reliably established, fair value is approximated by deriving it from the fair value of components or of a comparable financial instrument, or by approximating fair value using valuation models and valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analysis.

In determining fair value, the Company uses observable market data for identical or similar assets (e.g. when valuing marketable securities or third-party debt), while it uses discounted cashflow models to determine the fair value of other financial assets/liabilities (e.g. derivatives or intercompany lendings/borrowings).

Financial assets and liabilities recorded at fair value on a recurring basis include interest rate and foreign exchange rate derivatives, debt that is hedged, as well as marketable securities (other than held-to-maturity securities).

Offsetting:

A financial asset and a financial liability may be offset when the entity has a legally enforceable right to set off the financial asset and financial liability and the Company has the firm intention to settle the balance on a net basis, or to settle the asset and the liability simultaneously. No offset has been made in these financial statements.

Impairment of financial assets:

Financial assets measured at amortized cost are assessed at each reporting date to determine whether there is any evidence of impairment. Impairment occurs when, after initial recognition of the asset, there is objective evidence that one or more events have occurred that will negatively impact the estimated future cash flows of the asset and these cash flows can be reliably estimated.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in the profit and loss account and reflected in the balance sheet in an allowance account against the respective asset.

Accrued liabilities:

Accrued liabilities are carried at face value.

Interest:

Interest income and expense are recognized in the profit and loss account on an accruals basis for all financial instruments, using the effective interest rate method.

Taxation:

Corporate income tax is calculated in accordance with Dutch income tax regulations and provided based on income earned during the year. Until October 30, 2019, the Company was part of the fiscal unity with ABB Capital B.V. and as such was consolidated with ABB Capital B.V. for tax purposes. However, corporate income tax was calculated as if the Company was separately liable for income tax. Both fiscal unity members are jointly and severally liable for the tax position of the fiscal unity as a whole. The head of the fiscal unity is responsible for the remittance of all corporate income tax payments to the tax authorities and the tax position of the Company will be settled with ABB Capital B.V. for the period the Company was part of the fiscal unity. Since October 30, 2019, the Company is taxed as a separate taxable entity and the corresponding liability is shown in “Tax accrual” in the balance sheet.

From time to time the Company is liable to withholding taxes arising on financing activities with third parties outside the Netherlands. Such charges are included in “Income tax” in the profit and loss account.

Subsequent events:

Subsequent events occur after the balance sheet date but prior to the issuance of the financial statements. When such events provide additional information on the actual situation at the balance sheet date, they are recognized in the financial statements. However, if the events do not provide information on the situation at the balance sheet date but are relevant to users of the financial statements, the nature and estimated financial effects of the events are disclosed but not recognized in the financial statements.

Note 3
Cash and cash equivalents

Cash represented balances with various banks and was free from liens, pledges or other restrictions.

Note 4
Loans – related companies

Short-term loans:

At December 31, 2020, the short-term loans of USD 556.6 million (2019: USD 1,280.6 million) bore interest at rates ranging from 0% to 2.85% (2019: -0.44% to 1.93%) and were denominated in various currencies. At December 31, 2019, short-term loans included a loan to the shareholder in the amount of USD 1,214 million. At December 31, 2020, no loans to the shareholder were outstanding.

Long-term loans:

At December 31, 2020, the long-term loans bore interest of 0.72% (2019: 0.72%) and were denominated in EUR.

Changes in long-term loans for the years ended December 31, 2020 and 2019 were:

(USD in thousands)	2020	2019
Balance at January 1	**1,471,567**	**1,780,804**
Repayment of long-term loans	—	(104,368)
Foreign exchange movements	138,687	(33,096)
Reclassification to short-term loans	—	(171,773)
Balance at December 31	**1,610,254**	**1,471,567**

“Repayment of long-term loans” in the table above represents long-term loans that were in whole, or in part, terminated prior to maturity by the respective counterparties.

The Company has not recorded an allowance for credit losses as the Company is not significantly exposed to credit risk. During 2019, the Company received security for the long-term loan remaining at December 31, 2020 and 2019, in the form of a pledge of the debtor’s shareholding in one of its subsidiaries (also part of the ABB Group).

The long-term loans are with related parties of the ABB Group, which itself at December 31, 2020, had A3 / A- (2019: A2 / A) long-term credit ratings from Moody’s and Standard & Poor’s, respectively (see also the Keep-Well Agreement, described in note 1).

Note 5
Marketable securities

At December 31, 2020 and 2019, the Company had no held-to-maturity securities. Marketable securities consisted of the following:

December 31, 2020 (USD in thousands)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
Current assets:				
Securities lending agreement:				
U.S. government obligations	79,985	463	—	80,448
Other marketable securities:				
Money market funds	1,526,365	645	(1,118)	1,525,892
	1,606,350	**1,108**	**(1,118)**	**1,606,340**

December 31, 2019 (USD in thousands)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
Financial fixed assets:				
Securities lending agreement:				
U.S. government obligations	79,916	742	—	80,658
Current assets:				
Other marketable securities:				
Money market funds	189,601	3,595	-	193,196

In May 2020, the Company prolonged the securities' lending agreement with a bank until March 2021 and replaced the securities with U.S. government obligations maturing in 2021. The bank is required to return these securities to the Company (or replacement securities, if exchanged by the Company) upon maturity of the agreement. During the period of the agreement, interest on the securities will be remitted to the Company by the bank, as well as a monthly fee. In March 2021, the Company further prolonged this lending agreement with a bank until March 2022 and replaced the securities maturing in 2021 with securities maturing in 2023; other terms and conditions remained unchanged.

Note 6
Shareholder's equity

At December 31, 2020 and 2019, 20,103 ordinary shares of the authorized capital of 100,000 ordinary shares (each of EUR 1 par value), were issued.

Changes in shareholder's equity for the year ended December 31, 2020 were:

	Issued capital		Share premium	Retained earnings	Other reserves	Unappro-priated result	Total 2020	Total 2019
(EUR and USD in thousands)	**EUR**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**
Balance at January 1	**20**	**23**	**998**	**883**	**4**	**3,375**	**5,283**	**5,158**
Appropriation of result	—	—	—	3,375	—	(3,375)	**—**	**—**
Dividend payment	—	—	—	(3,350)	—	—	**(3,350)**	**(3,250)**
Translation differences	—	2	—	—	(2)	—	**—**	**—**
Net result for the year	—	—	—	—	—	3,425	**3,425**	**3,375**
Balance at December 31	**20**	**25**	**998**	**908**	**2**	**3,425**	**5,358**	**5,283**

The valuation of the share capital is in accordance with Article 2:373.5 of the Dutch Civil Code. This Article requires share capital to be stated at year-end exchange rates (2020: EUR 1 = USD 1.22725; 2019: EUR 1 = USD 1.12155) and the corresponding translation adjustment to be recorded as "Other reserves".

The Board of Management proposes to distribute the 2020 net result of USD 3.425 million as follows:

(USD in thousands)	
Dividend distribution	3,400
Transfer to retained earnings	25
	3,425

Note 7
Debt

The Company's total debt, at December 31, 2020 and 2019, amounted to USD 3,866 million and USD 4,243 million, respectively.

Short-term debt

The Company's short-term debt consisted of:

	2020		2019	
December 31 (USD in thousands, except % data)	**Balance**	**Weighted-average nominal interest rate**	**Balance**	**Weighted-average nominal interest rate**
Related parties:				
Short-term debt	2,045,137	0.54%	1,383,301	1.07%
Third parties:				
Current maturities of long-term debt	—	—	1,121,913	0.00%
	2,045,137		**2,505,214**	

Short-term debt – related companies was denominated in various currencies and bore interest at rates ranging from -0.11% to 2.64% (2019: -0.56% to 1.95%).

Commercial paper program

The Company has a USD 2 billion Euro Commercial Paper program for the issuance of commercial paper in a variety of currencies. Papers issued under this program are guaranteed by ABB Ltd.

Credit facility

The Company is one of the ABB Group's designated borrowers under a USD 2 billion multicurrency revolving credit facility guaranteed by ABB Ltd with an original maturity of 2024. ABB Group had the option in 2020 to extend the maturity to 2025, which it has exercised, and in 2021 has the option to further extend the maturity to 2026. The facility is for general corporate purposes. Interest costs on drawings under the facility are LIBOR or EURIBOR (depending on the currency of the drawings) plus a margin of 0.175 percent, while commitment fees (payable on the unused portion of the facility) amount to 35 percent of the margin, which represents commitment fees of 0.06125 percent per annum. Utilization fees, payable on drawings, amount to 0.075 percent per annum on drawings up to one-third of the facility, 0.15 percent per annum on drawings in excess of one-third but less than or equal to two-thirds of the facility, or 0.30 percent per annum on drawings over two-thirds of the facility. The facility contains cross-default clauses whereby an event of default would occur if ABB Ltd or any of its subsidiaries were to default on indebtedness, as defined in the facility, at or above a specified threshold. No amount was drawn at December 31, 2020 and 2019 under the facility.

Long-term debt

The Company's long-term debt consisted of:

	2020			2019		
December 31 (USD in thousands, except % data)	**Balance**	**Weighted-average nominal interest rate**	**Effective rate**	**Balance**	**Weighted-average nominal interest rate**	**Effective rate**
Related parties:						
Long-term debt	—	—	—	80,000	2.33%	—
Third parties:						
Floating rate	1,820,524	0.69%	-0.11%	2,779,857	0.41%	-0.06%
Current portion of long-term debt	—	—	—	(1,121,913)	0.00%	-0.17%
	1,820,524			**1,737,944**		

At December 31, 2019, long-term debt – related companies was denominated in USD and bore interest of 2.33%. During 2020, the long-term debt – related companies was terminated and repaid, prior to maturity, to the respective counterparty.

Long-term debt third parties (including current maturities) consisted of the following:

	2020		2019	
December 31 (EUR and USD in thousands)	**Nominal amount out-standing (EUR)**	**Balance sheet amount (USD)**	**Nominal amount out-standing (EUR)**	**Balance sheet amount (USD)**
EUR FRN, due 2020	—	—	1,000,000	1,121,913
0.625% EUR notes, due 2023	700,000	874,833	700,000	798,640
0.75% EUR notes, due 2024	750,000	945,691	750,000	859,304
		1,820,524		**2,779,857**

During 2020, the Company repaid, at maturity in October 2020, the EUR 1,000 million notes which paid interest at a floating rate of 3-month EURIBOR plus 0.35 percent with a coupon floor of zero percent. The cash outflow on repayment amounted to the equivalent of USD 1,180 million.

The EUR 700 million notes, due 2023, pay interest annually in arrears at a fixed rate of 0.625 percent.

The EUR 750 million notes, due 2024, pay interest annually in arrears at a fixed rate of 0.75 percent.

The notes have been issued under the ABB Group's EMTN program (see note 1) and are guaranteed by ABB Ltd, whereby ABB Ltd guarantees to the noteholders the punctual payment of principal and interest.

In addition, these 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.

At December 31, 2020 and 2019, the Company had in place interest rate swaps for (i) an aggregate notional amount of EUR 700 million to hedge its obligations on the notes due 2023 and (ii) an aggregate notional amount of EUR 750 million to hedge its obligations on the notes due 2024. After considering the impact of the swaps, both note issuances are shown as floating rate debt in the table of long-term debt above.

Note 8
Derivatives - related companies

The Company enters into interest rate and foreign exchange derivatives with a related company to manage its exposures. The fair values of outstanding derivatives at December 31, were as follows:

	Fair Values			
	2020		2019	
December 31 (USD in thousands)	**Asset**	**Liability**	**Asset**	**Liability**
Non-current:				
Interest rate derivatives	43,864	—	35,245	—

At December 31, 2020 and 2019, the Company had outstanding interest rate swaps, with a gross notional amount of EUR 1,450 million, to manage certain interest rate exposures arising from its financing activities (see note 7). These swaps were designated as fair value hedges and the changes in fair value of these swaps, as well as the changes in the fair value of the risk component of the underlying debt being hedged, were recorded as offsetting gains and losses in "Interest expense". Consequently, in 2020 and 2019, hedge ineffectiveness in the profit and loss account was USD 0.4 million and USD 0.2 million, respectively:

(USD in thousands)	**2020**	**2019**
Gains (losses) recognized in the "Hedge ineffectiveness" component of "Interest expense":		
on derivatives designated as fair value hedges	8,619	22,120
on hedged items	(8,231)	(22,272)
Hedge ineffectiveness	**388**	**(152)**

Note 9
Financial risks, repayment terms and fair values

Financial risks are considered to be interest, credit, and foreign exchange risk. The company does not consider itself to be exposed to liquidity risk as it has access to funding through the commercial paper program, EMTN program and ABB Group's credit facility (all described in note 7) which are all guaranteed by ABB Ltd.

The Company's financial policies contain strict rules for the management of financial risks arising from its financing, investing and liquidity management activities. Real time and end-of-day monitoring of market risk is performed by a separate risk control department to ensure that the policies are adhered to at all times.

Foreign exchange and interest rate risk management:

To minimize the foreign exchange and interest rate risk from its financing, investing and liquidity management activities, the Company generally invests in the same currency and on similar terms as its funding. However, where this is not possible, the Company uses foreign exchange derivative transactions to eliminate its foreign exchange risks and mismatches between the maturities of the liability and the asset.

Funds raised by the Company from issuances under the ABB Group's Euro Medium Term Note program are onlent to other ABB Group companies. The Company entered into interest rate swaps to hedge its interest rate obligations on the EUR 700 million notes maturing in 2023 and the EUR 750 million notes maturing in 2024.

Credit risk management:

The Company maintains tight controls over credit risk through strict credit review and credit limit setting procedures for each counterparty, as well as the daily monitoring of credit risks.

Repayment terms:

At December 31, 2020 and 2019, the repayment terms of financial assets and liabilities were as follows:

December 31, 2020 (USD in millions)	<1year	1–5 years	Total carrying value	Total fair value
Non-current assets:				
Loans – related companies	—	1,610	**1,610**	**1,630**
Current assets:				
Loans – related companies	557	—	**557**	**557**
Marketable securities (1)	1,606	—	**1,606**	**1,606**
Non-current liabilities:				
Debt – third parties	—	1,821	**1,821**	**1,825**
Current liabilities:				
Debt – related companies	2,045	—	**2,045**	**2,045**

December 31, 2019 (USD in millions)	<1year	1–5 years	Total carrying value	Total fair value
Non-current assets:				
Loans – related companies	—	1,472	**1,472**	**1,500**
Marketable securities	—	81	**81**	**81**
Current assets:				
Loans – related companies	1,281	—	**1,281**	**1,282**
Short-term deposits with banks	1,138	—	**1,138**	**1,138**
Marketable securities (1)	193	—	**193**	**193**
Non-current liabilities:				
Debt – related companies	—	80	**80**	**80**
Debt – third parties	—	1,658	**1,658**	**1,664**
Current liabilities:				
Debt – related companies	1,383	—	**1,383**	**1,383**
Debt – third parties	1,122	—	**1,122**	**1,124**

(1) at December 31, 2020 and 2019, "Marketable Securities" classified as current assets, included USD 1,526 million and USD 193 million, respectively, invested in Money Market Funds that have no fixed repayment date but can be sold and settled daily.

The fair values of financial assets and liabilities, other than those listed above, reflected the carrying value of such items, given the short-term nature of those instruments.

Nominal interest rates:

The Company borrows and invests in various currencies on an arm's length basis.

At December 31, 2020 and 2019, the nominal interest rates (excluding the impact of the interest rate swaps) of interest-bearing financial assets and liabilities were as follows:

December 31, 2020 (USD in millions)	<0% (1)	0–1%	>1–2%	>2–3%	Total
Non-current assets:					
Loans – related companies	—	1,610	—	—	**1,610**
Current assets:					
Loans – related companies	—	173	—	384	**557**
Marketable securities	—	—	—	80	**80**
Non-current liabilities:					
Debt – third parties	—	1,821	—	—	**1,821**
Current liabilities:					
Debt – related companies	57	1,604	—	384	**2,045**

December 31, 2019 (USD in millions)	<0% (1)	0–1%	>1–2%	>2–3%	Total
Non-current assets:					
Loans – related companies	—	1,472	—	—	**1,472**
Marketable securities	—	—	—	81	**81**
Current assets:					
Loans – related companies	63	1,214	4	—	**1,281**
Short-term deposits with banks	371	—	517	250	**1,138**
Non-current liabilities:					
Debt – related companies	—	—	—	80	**80**
Debt – third parties	—	1,658	—	—	**1,658**
Current liabilities:					
Debt – related companies	422	—	961	—	**1,383**
Debt – third parties	—	1,122	—	—	**1,122**

(1) interest rates <0% represented negative interest rates in line with market conditions.

Note 10
Interest receivable

December 31 (USD in thousands)	2020	2019
Interest receivable:		
Related companies	8,678	7,694
Third parties	549	602
	9,227	**8,296**

Note 11
Interest payable

December 31 (USD in thousands)	2020	2019
Interest payable:		
Related companies	250	1,515
Third parties	7,891	7,194
	8,141	**8,709**

Note 12
Income from service fees

Income from service fees represents revenues from accounting and treasury services provided to related companies.

Note 13
Interest income and expense

(USD in thousands)	2020	2019
Interest income:		
Related companies	15,499	31,073
Third parties	7,769	18,968
	23,268	**50,041**
Interest expense:		
Interest expense – related companies	(11,167)	(29,700)
Interest expense – third parties	(1,533)	(8,705)
Amortization of fees on note issuance	(1,934)	(1,930)
Hedge ineffectiveness (see note 8)	388	(152)
	(14,246)	**(40,487)**

Note 14
Net gains on marketable securities

(USD in thousands)	2020	2019
Net gains on marketable securities consisted of:		
Money market funds	4,262	6,226
European government obligations	27	—
U.S. government obligations	(305)	1,054
	3,984	**7,280**

The net gains on marketable securities in 2020 and 2019 consisted of realized and unrealized market value effects.

Note 15
Operating expenses

(USD in thousands)	2020	2019
Personnel expenses	2,224	1,674
Other – related parties	654	599
Other – third parties	405	170
	3,283	**2,443**

The remuneration of the auditors, as required by section 382, sub a, Book 2 of the Netherlands Civil Code, amounted to EUR 17,500 in 2020 and 2019. This related entirely to audit services performed by KPMG Accountants N.V., in respect of the financial statements. No other services were provided by KPMG Accountants N.V. to the Company in 2020 and 2019.

Note 16
Employee data

At December 31, 2020, the Company had 19 employees (2019: 14), all employed in the Netherlands.

Personnel expenses (see note 15) consisted of the following:

(USD in thousands)	2020	2019
Salaries	1,762	1,323
Social security charges	239	200
Pension expense	168	107
Other personnel expenses	55	44
	2,224	**1,674**

The Board of Management remuneration for 2020 and 2019, included in personnel expenses above, amounted to USD 209 thousand (2019: USD 202 thousand).

Note 17
Income tax

The income tax is based on Dutch income tax regulations and also includes non-recoverable withholding taxes. Dutch current income taxes are provided based on income earned during the year.

Tax Reconciliation

(USD in thousands, except % data)	2020	2019
Result before taxes	**4,566**	**5,737**
Dutch tax rate	25%	25%
Income tax applying Dutch tax rate	1,141	1,434
Items taxed at rates other than the Dutch tax rate	—	1,107
Prior years' adjustments	—	(179)
Income tax	**1,141**	**2,362**
Overall effective tax rate	25%	41.2%

At December 31, 2020, corporate income taxes due amounted to USD 1.4 million (2019: USD 0.2 million) as reported under "Tax accrual" in the balance sheet and USD 2.7 million (2019: USD 2.5 million), included in "Accrued liabilities" in respect of the period that the Company was part of the fiscal unity with ABB Capital B.V. until October 30, 2019, (see note 2 for a description of the fiscal unity with ABB Capital B.V.).

Note 18
Transactions with related parties

Related parties include the Company's shareholder, ABB group companies and the Company's Board of Management. All transactions with related parties are made on an arm's length basis and have been reflected in these financial statements.

Note 19
Subsequent events

In January 2021, the Company issued notes with an aggregate principal of EUR 800 million that pay interest at zero percent and will mature in January 2030.

Rotterdam, April 19, 2021

Board of Management

G. Stewart U. Arnold M. Wolodzko B. Verbruggen

Other information

Articles of association governing profit appropriation

In accordance with article 22 of the Articles of Association, the net result of the Company should be at the disposal of the General Meeting. The Company may distribute only if, and to the extent that, its shareholder's equity is greater than the sum of the paid and called-up part of the issued capital and the reserves which must be maintained by virtue of the law.

Independent auditor's report

To: the General Meeting of ABB Finance B.V.

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of ABB Finance B.V. as at 31 December 2020 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2020 of ABB Finance B.V. (the ‘Company’) based in Rotterdam, the Netherlands.

The financial statements comprise:

1 the balance sheet as at 31 December 2020;

2 the profit and loss account for 2020; and

3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the ‘Our responsibilities for the audit of the financial statements’ section of our report.

We are independent of ABB Finance B.V. in accordance with the ‘Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten’ (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the ‘Verordening gedrags- en beroepsregels accountants’ (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality
— Materiality of USD 35 million
— 1% of total assets

Key audit matters
— US GAAP to Dutch GAAP conversion and compliance with Dutch accounting standards
— Mitigation of exposure to third party debt by guarantees provided by ABB Ltd.

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at USD 35 million (2019: USD 40 million). The materiality is determined with reference to total assets (approximately 1%). We consider total assets as the most appropriate benchmark because the Company's third-party debt is utilized to fund the ABB group and this funding represents a significant part of the total assets in the balance sheet. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons, in particular those impacting shareholder's equity and net income as these accounts are relatively low in comparison with total assets.

We agreed with those charged with governance that misstatements in excess of USD 1.75 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

To achieve the most efficient audit approach, given the common IT, back office and risk control systems and activities of the ABB Corporate Treasury function, we requested KPMG Switzerland to perform the majority of the audit procedures on the Company's financial statements.

We have:

- performed audit procedures in respect of the conversion of the US Generally Accepted Accounting Principles (US GAAP) financial statements prepared for group reporting purposes to Dutch Generally Accepted Accounting Principles (Dutch GAAP) for statutory reporting; and
- performed audit procedures on the financial statements in order to assess whether they have been prepared in accordance with Dutch law.

We provided instructions to KPMG Switzerland, covering the significant audit areas, including the relevant risks of material misstatement identified by us, and set out the information required to be reported back to us. Based on our assessment of the effectiveness of internal control, including general IT controls, we decided to adopt a substantive audit approach.

Telephone conferences were held with KPMG Switzerland to discuss the planning, audit approach, findings and observations reported to us. We also performed a review of the audit file prepared by KPMG Switzerland.

By performing the procedures mentioned above we have been able to obtain sufficient and appropriate audit evidence about the Company's financial information to provide an opinion about the financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

US GAAP to Dutch GAAP conversion and compliance with Dutch accounting standards

Description

The Company's primary accounting records are maintained based on US GAAP which is used for ABB group reporting purposes. However, the statutory financial statements of the Company, filed in the Netherlands, have to be prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code (Dutch GAAP). Therefore management prepared an analysis to convert the US GAAP financial statements to Dutch GAAP financial statements. As Dutch GAAP is not embedded in the primary accounting records, this conversion, together with the application of Dutch law in preparing the financial statements, was an area of focus during our audit.

Our response

We evaluated the completeness and accuracy of the management's conversion of the US GAAP financial statements to the Dutch GAAP financial statements by assessing the different GAAP accounting treatment for the financial statement captions. Furthermore, we held regular meetings with management and with KPMG Switzerland and reviewed their audit files, in order to identify events or transactions that occurred, that could result in a materially different accounting treatment under Dutch GAAP compared to US GAAP. We recalculated the adjustments and reconciled them to underlying evidence and assessed the financial statements for compliance with Dutch law.

Our observation

Based on our procedures performed, we consider the conversion from the US GAAP to the Dutch GAAP financial statements, which comprise a limited number of adjustments, including the disclosure notes, to be appropriate.

Mitigation of exposure to third party debt by guarantees provided by ABB Ltd.

Description

The Company issues debt instruments to investors under the EMTN programme and Commercial Paper programme and utilises the proceeds to fund the ABB group. As the Company's shareholder's equity is low in relation to the size of third-party debt, the exposure to the issued debt is guaranteed by the Company's ultimate parent, ABB Ltd. (Ultimate parent). Furthermore, under the terms of the EMTN programme and the Revolving Credit Facility (undrawn as at 31 December 2020), a default above a defined threshold by certain subsidiaries of the ABB group, as defined in these debt agreements, could trigger an event that would materially impact the Company's equity if the guarantees provided by the Ultimate parent would not mitigate the risk to the Company in full.

We therefore consider the mitigation of the exposure to third party debt by the guarantees provided by the Ultimate parent and the ability of the Ultimate parent to fulfil its obligations to ABB Finance B.V. to be a key audit matter.

Our response

In order to satisfy ourselves as to the extent to which the guarantees provided by the Ultimate parent mitigate the exposure to the third-party debt our audit procedures included:

- assessing the design and effectiveness of the Company's risk management controls;
- obtaining an understanding of the debt agreements, including covenants and anything that could trigger a default event;
- inspecting management's assessment of the group's compliance with the debt agreements;
- assessing whether ABB Ltd. is able to meet its obligations toward the Company thereby allowing the third-party debt to be serviced by the Company in accordance with the contractual terms;
- assessing whether the guarantees given by ABB Ltd. (as well as the Keep-well agreement provided by ABB Asea Brown Boveri Ltd.) provide sufficient mitigation to ABB Finance B.V. in the event of a default event or penalty and are accurately disclosed in the financial statements;
- assessing ABB Ltd.'s credit ratings; and
- assessing the adequacy of the disclosure of the guarantees in note 1 of the financial statements.

Our observation

The results of our procedures performed were satisfactory and we consider the disclosures in note 1 to the financial statements to be adequate.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

— the Report of the Board of Management; and

— the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

— is consistent with the financial statements and does not contain material misstatements; and

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Management is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were re-engaged by the Board of Management as auditor of ABB Finance B.V. on 6 July 2020, as of the audit for the year 2020 and have operated as statutory auditor since the financial year 2018.

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Management for the financial statements

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_beursgenoteerd_01. This description forms part of our independent auditor's report.

Rotterdam, 19 April 2021

KPMG Accountants N.V.

T.A. Kalmár RA

ABB Group Reports

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Parts of the ABB Annual Report have been translated into German. Please note that the English-language version of the ABB Annual Report is the binding version.

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