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ABB Finance (USA) Inc.

# Financial Statements

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## 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, 2022 and 2021, 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, 2022 and 2021, 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 14, 2023

# Balance Sheets

December 31 (USD in thousands, except per share data)	2022	2021
<b>Current assets:</b>		
Accounts receivable – affiliated companies	1,696	6,790
Accrued interest receivable – affiliated companies	7,558	13,727
Loans – affiliated companies	10,727	1,254,423
Derivative assets – affiliated companies	—	8,963
<b>Total current assets</b>	<b>19,981</b>	<b>1,283,903</b>
<b>Non-current assets:</b>		
Loans – affiliated companies	965,779	965,779
Deferred taxes	—	102
<b>Total non-current assets</b>	<b>965,779</b>	<b>965,881</b>
<b>Total assets</b>	<b>985,760</b>	<b>2,249,784</b>
<b>Current liabilities:</b>		
Accounts payable – affiliated companies	1,695	3,395
Accrued interest payable – affiliated companies	—	491
Accrued interest payable – third parties	7,365	12,555
Debt – third parties	—	1,257,937
<b>Total current liabilities</b>	<b>9,060</b>	<b>1,274,378</b>
<b>Non-current liabilities:</b>		
Debt – third parties	971,398	970,580
<b>Total non-current liabilities</b>	<b>971,398</b>	<b>970,580</b>
<b>Stockholder's equity:</b>		
Common stock, par value \$0.01 per share; 1,000 shares authorized, issued, and outstanding	—	—
Additional paid-in capital	2,739	2,719
Retained earnings	2,563	2,107
<b>Total stockholder's equity</b>	<b>5,302</b>	<b>4,826</b>
<b>Total liabilities and stockholder's equity</b>	<b>985,760</b>	<b>2,249,784</b>

See accompanying notes.

# Statements of Income

Year ended December 31 (USD in thousands)	2022	2021
<b>Revenues:</b>		
Interest income – affiliated companies	47,367	55,135
<b>Total revenues</b>	<b>47,367</b>	<b>55,135</b>
<b>Expenses:</b>		
Interest expense – third parties	46,535	54,056
Amortization of fees on bond issuance	579	972
Other (income)/expense, net	(324)	(609)
<b>Total expenses, net</b>	<b>46,790</b>	<b>54,419</b>
<b>Income before taxes</b>	<b>577</b>	<b>716</b>
Provision for income taxes	121	150
<b>Net income</b>	<b>456</b>	<b>566</b>

See accompanying notes.

# Statements of Changes in Stockholder's Equity

Years ended December 31, 2022 and 2021 (USD in thousands)	Additional			Total
	Common Stock	Paid-in Capital	Retained Earnings	
Balance at December 31, 2020	—	2,719	1,541	4,260
Net income	—	—	566	566
<b>Balance at December 31, 2021</b>	<b>—</b>	<b>2,719</b>	<b>2,107</b>	<b>4,826</b>
Contribution from Parent	—	20	—	20
Net income	—	—	456	456
<b>Balance at December 31, 2022</b>	<b>—</b>	<b>2,739</b>	<b>2,563</b>	<b>5,302</b>

See accompanying notes.

# Statements of Cash Flows

Year ended December 31 (USD in thousands)	2022	2021
<b>Operating activities:</b>		
Net income	456	566
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash charges in lieu of income taxes	20	—
Non-cash charges for amortization of deferred costs	579	972
Non-cash charges for amortization of discount on debt	1,588	3,526
Changes in fair value related to fair value hedges	(324)	(609)
Net (increase) decrease in accounts receivable – affiliated companies	5,094	(1,458)
Net decrease in interest receivable – affiliated companies	6,169	94
Net decrease in accounts payable – affiliated companies	(1,700)	(1,937)
Net decrease in interest payable – affiliated companies	(491)	(95)
Net decrease in accrued interest payable – third parties	(5,190)	—
Deferred taxes	102	150
<b>Net cash provided by operating activities</b>	<b>6,303</b>	<b>1,209</b>
<b>Investing activities:</b>		
Net increase in short-term loans – affiliated companies	26,409	(1,209)
Loan repayment – affiliated companies	1,217,288	—
<b>Net cash provided by/(used in) investing activities</b>	<b>1,243,697</b>	<b>(1,209)</b>
<b>Financing activities:</b>		
Repayment of debt – third parties	(1,250,000)	—
<b>Net cash used in financing activities</b>	<b>(1,250,000)</b>	<b>—</b>
<b>Change in cash and cash equivalents</b>	<b>—</b>	<b>—</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	46,268	50,624

See accompanying notes.



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# Notes to Financial Statements

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## 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, 2022, the Company's expense under the Agreement was \$9.2 million (2021: \$13.6 million), reported in "Other (income)/expense, net" in the Statements of Income. As of December 31, 2022, \$1.7 million (2021: \$3.4 million) of this expense was due to the Guarantor and reported in "Accounts payable – affiliated companies." In 2022, the total fee of \$9.2 million (2021: \$13.6 million) was re-charged to another ABB Group company and the corresponding income was 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 2022 or 2021.

The Company has evaluated subsequent events up to the close of business on April 14, 2023, the date of issuance of these financial statements.

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## 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**

From time to time, 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, 2022 and 2021. 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, “Loans – affiliated companies”, shown as current assets, consisted of the following:

December 31 (USD in thousands)	2022	2021
Cash pool arrangement with affiliated companies	10,727	37,136
Current maturities of long-term loans:		
Floating rate loans due 2022	—	1,022,522
3.23% loan due 2022	—	194,766
<b>Total</b>	<b>10,727</b>	<b>1,254,423</b>

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”.

At December 31, 2021, the weighted-average interest rate of the floating rate loans due 2022 was 0.63%.

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

December 31 (USD in thousands)	2022	2021
3.8624% loan due 2028	380,951	380,951
4.697% loan due 2042	584,828	584,828
<b>Total</b>	<b>965,779</b>	<b>965,779</b>

## 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:

December 31 (USD in thousands; except % data)	2022		2021	
	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:

December 31 (USD in thousands; except % data)	2022			2021		
	Balance	Weighted-average nominal interest rate	Effective rate	Balance	Weighted-average nominal interest rate	Effective rate
Floating	—	—	—	1,058,153	2.88%	0.54%
Fixed	971,398	4.15%	4.27%	1,170,364	3.94%	4.08%
	<b>971,398</b>			<b>2,228,517</b>		
Current portion of long-term debt	—	—	—	(1,257,937)	2.88%	0.95%
<b>Total</b>	<b>971,398</b>			<b>970,580</b>		

At December 31, 2022, the principal amounts of long-term debt (including current maturities) repayable at maturity were as follows (dollars in thousands):

(USD in thousands)	
Due in 2023	—
Due in 2024	—
Due in 2025	—
Due in 2026	—
Due in 2027	—
Thereafter	991,932
<b>Total</b>	<b>991,932</b>

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

	2022		2021	
	Nominal amount out-standing	Carrying value	Nominal amount out-standing	Carrying value
<b>December 31 (USD in thousands)</b>				
2.875% notes due 2022	—	—	1,250,000	1,257,937
3.8% notes due 2028	382,673	381,391	382,673	381,175
4.375% notes due 2042	609,259	590,007	609,259	589,405
<b>Total</b>		<b>971,398</b>		<b>2,228,517</b>

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.

## 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, 2022, no derivatives were outstanding. At December 31, 2021, 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 \$0.3 million in 2022 and \$0.6 million in 2021.

(USD in thousands)	2022	2021
Gains (losses) recognized:		
on derivatives designated as fair value hedges	(8,963)	(25,022)
on hedged item	9,287	25,631

## Note 6

### Fair Values

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

December 31, 2022 (USD in thousands)	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets</b>				
Derivative assets – affiliated companies	—	—	—	—

  

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

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

December 31, 2022 (USD in thousands)	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets</b>					
Short-term loans – affiliated companies	10,727	10,727	—	—	10,727
Long-term loans – affiliated companies	965,779	—	891,071	—	891,071
<b>Liabilities</b>					
Long-term debt – third parties	971,398	889,441	—	—	889,441

  

December 31, 2021 (USD in thousands)	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets</b>					
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
<b>Liabilities</b>					
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

## 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)	2022	2021
<b>Current expense:</b>		
Federal	20	—
<b>Deferred expense:</b>		
Federal	101	150
<b>Total</b>	<b>121</b>	<b>150</b>

The deferred tax asset for 2021 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)	2022	2021
Income before income taxes	577	716
Statutory tax rate	21%	21%
Computed taxes at statutory tax rate	121	150
<b>Provision for income taxes</b>	<b>121</b>	<b>150</b>

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