

ABB LIMITED

Strategic Report, Director's Report and Financial Statements
For the Year Ended 31 December 2021
Registered number: 03780764

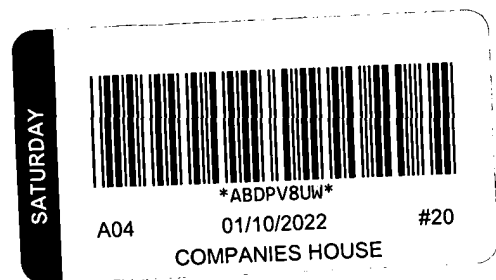


ABB LIMITED

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ABB LIMITED

COMPANY INFORMATION

Directors	DJ Hughes ME Moussa VA Mac Lean
Company secretary	VA Mac Lean
Registered number	03780764
Registered office	Daresbury Park Daresbury Warrington Cheshire WA4 4BT
Independent auditor	KPMG LLP 1 St Peter's Square Manchester M2 3AE
Banker	Deutsche Bank Winchester House 1 Great Winchester Street London EC2N 2DB

ABB LIMITED

STRATEGIC REPORT For the Year Ended 31 December 2021

INTRODUCTION

The Directors present their Strategic Report for ABB Limited ("the Company") for the year ended 31 December, 2021.

PRINCIPAL ACTIVITIES

The Company is a member of the ABB Group and is owned by ABB Holdings Limited, a company registered in England and Wales.

The principal activities of the Company in the year were the provision of solutions for secure, energy efficient generation, transmission and distribution of electricity and for increasing productivity in industrial, commercial and utility operations.

RESULTS

The results for the year are set out on page 14. Turnover for the year was £392,982,000 (2020: £392,404,000). The profit for the year after taxation amounted to £17,629,000 (2020: £96,827,000).

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

The Company's turnover comprises delivery of projects, sale of products and associated service operations. Many of the products sold during the year, either directly or as part of integrated projects are manufactured by both the company in the UK and ABB facilities overseas. The ABB group is organised on worldwide divisional lines and individual budgets and targets are set for each business.

The business segments are

- 1) Industrial Automation
- 2) Electrification products
- 3) Motion
- 4) Robotics & Discrete Automation

	2021	2020	Change
	£'000	£'000	%
Turnover	392,982	392,404	0.15
Operating profit	9,453	28,193	(66.47)
Shareholder's funds	199,824	172,926	15.55

The year 2021 was characterised by uncertainty related to the continuing impacts of the COVID-19 pandemic, especially in the second half. Although demand increased, broad disruptions in the global supply chain – including component shortages and challenging logistics hampered our ability to convert strong order intake into actual customer deliveries. We expect supply-chain problems to ease during the course of this year, and while rising inflation is a concern, it seems likely that the era of ultra-loose monetary policy is coming to an end, which is good news for the economy. When it comes to longer-term trends, ABB is well positioned in very attractive markets. Despite the absence of a global agreement on actions to achieve the Paris climate goal, the COP26 climate conference showed that reducing emissions and making more efficient use of resources are now a must for governments and businesses. For ABB, as a provider of electrification, automation and digital technologies, this represents a huge opportunity. Demand for electricity is growing twice as fast as for any other form of energy and software-driven automation is the most effective way to improve energy and resource efficiency.

Approximately 60% (2020: 62%) of our customers are industrial customers. We serve production facilities and factories from process industries such as oil and gas and pulp and paper to discrete industries including

ABB LIMITED

STRATEGIC REPORT (CONTINUED) For the Year Ended 31 December 2021

automotive, food and beverage and consumer electronics. Automation, software and digital services that help customers achieve improved safety, uptime, energy efficiency and productivity are key to the success of our offerings in this market. The ongoing COVID-19 pandemic has served as a prominent reminder for companies of the importance of simplicity and flexibility in automated production and has accelerated customer demand for the digital services and solutions we offer. Industrial end-markets recovered from the initial pandemic-related impacts. In discrete industries, end-markets such as food and beverage, consumer electronics, machine builders and general industry grew strongly. Investments in robotics by the automotive industry recovered and we applied a strategic selective order approach aimed at improving long-term profitability in the segment. Later-cycle process industries segments picked up especially during the second half of 2021, benefiting from a rebound in commodity prices and generally easing international travel restrictions. This was particularly the case for the oil and gas segment, while the recovery in segments such as pulp and paper or water and wastewater had already started earlier.

Approximately 25% (2020: 22%) of our customers operate in the transport & infrastructure market. Our expertise provides efficient, reliable and sustainable solutions for these customers, with a focus on energy efficiency and reduced operating costs. Transport & infrastructure markets were strong in 2021. Activity in the buildings sector rebounded from the widespread lockdowns of the previous year. Underlying demand in rail for electrification and traction solutions was also high, while modest growth rates were impacted by the strong order intake in 2020. Services in the cruise segment started to pick-up in the second half of 2021 in anticipation of a recovery in cruising activities. Electric Vehicle charging markets also continued to see very strong growth rates.

The utilities market accounts for approximately 15% (2020: 16%) of our customer base. In this market we deliver solutions mainly for distribution utilities and renewables customers, while continuing to service conventional power generation customers with our control and automation solutions. Following the divestment of our Power Grids business to Hitachi in July 2020, our exposure to the utilities market has decreased significantly. During 2021, the renewables markets saw very strong growth after a challenging, pandemic - impacted 2020. Business levels in the conventional power generation market improved, albeit from a low level. Demand from electrical distribution utilities was strong, with ongoing investments to increase grid reliability and resilience with integrating increased renewables.

During 2021, demand for ABB's offering recovered from the low level in 2020 when the adverse business impact of the pandemic was most significant. Orders and revenues increased but whilst our orders increased 3 percent in 2021, revenues only grew by 0.15 percent. Supply chain constraints, and imbalances in the overall supply chain limited our ability to convert orders into actual deliveries resulting in an increase of our order backlog by 18 percent to £167 million at the end of the year.

Gross profit percentage decreased from 17.5% in 2020 to 8.1% in 2021 and operating profit decreased to £9,453,000 (2020: £28,193,000) a decrease of 67%. However, the prior year gross profit included a pension plan amendment credit of £40,045,000 so the underlying performance showed a significant improvement. This result was driven by continuous improvements, improved internal efficiency and the absence of non-core project losses incurred in 2020. Active price management and productivity gains were able to offset increasing raw material costs and general cost inflation emphasized by the tight supply situation over the year. While some costs such as discretionary travel or certain marketing costs are still expected to rebalance from low pandemic levels, we believe we are on track to achieve our future business targets.

Active portfolio management is part of the ABB Group's performance culture. On the back of systematic portfolio reviews the Group ascertains whether ultimately ABB is the best owner of the different businesses. As a result, during 2021 we have successfully carved out our E-mobility division into a separate legal entity (ABB E-Mobility UK Limited, part of the ABB E-Mobility Group) and the Group is working towards an initial public offering to create a platform for accelerated growth and value creation whilst remaining a majority owner of the new business. The E-mobility business was transferred at fair value resulting in a profit of £10,591,000 being recognized in the current year profit. In February 2022 we carved out our Turbocharging Division into Turbocharging UK Limited, and the Group is currently running a dual track process for a spin-off or divestment. The Turbocharging business was also transferred at fair value resulting in a profit of £25,858,000 being recognized in 2022.

STRATEGIC REPORT (CONTINUED)
For the Year Ended 31 December 2021

The challenges posed by the COVID-19 pandemic accelerated several trends and none more so than the shift to digital connectivity and automation, as industries sought ways to maintain operations with fewer people on site. At the same time, growing public awareness of the need for action on climate change and the over-use of natural resources has driven sustainability to the top of the agenda for governments, investors, corporations and multilateral organizations. A related trend is urbanization, which is placing cities under huge pressure to expand sustainably, reduce energy consumption and traffic congestion, and improve air and water quality. For ABB, these trends represent compelling business opportunities. Our market and technology leadership in electrification position us strongly in a market where demand is growing at twice the pace of other energy sources. Our leadership in automation, robotics and motion means we are ideally placed to help industries improve energy efficiency and productivity. And our solutions for the transport sector gives us commanding positions in marine, rail and electric mobility on the road.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Company in the UK are in the areas of market competition, operational delivery, safety and finance. The management team operates a comprehensive risk review process to address all commercial, delivery and financial aspects of both prospects in pursuit and projects in execution. It also specifically monitors and reviews all aspects of health and safety on a monthly basis. The Company has dedicated Health and Safety professionals across the organisation whose responsibility it is to manage health and safety performance on a daily basis. Extensive training of all staff is undertaken to reduce the risk of failure to comply with best practice or legislative standards which could have a material impact on the Company's licence to operate.

Financial risks are addressed as part of a stringent process of budgeting and forecasting. Credit assessments are made of all new customers and appropriate limits set and monitored. A rolling forecast of cash flows is maintained and a revolving credit facility with the ultimate parent company's treasury centre is available if required.

The Company has transactional currency exposures arising from sales and purchases in foreign currencies. It is group policy to hedge all contracted exposures plus at least 50% of forecast foreign currency sales of standard products over a rolling 12-month period, by taking forward foreign currency contracts.

The Directors work closely with the Management team to anticipate risks from economic or global factors and plan accordingly. The Company has remained vigilant over the warning signs exhibited in the global economy and uncertainty in the UK economy. An evaluation of the potential impact of market factors is undertaken regularly by the management so that the Company can respond appropriately. This includes considering the effects of the United Kingdom's recent exit from the European Union ("Brexit") and the Brexit trade deal with regard to any short to medium term impact. Risks around these macro-economic factors has not had a material impact on the business and there is no impact on the figures presented as at 31 December 2021

The Directors continue to consider ongoing risks related to the COVID-19 outbreak which was declared a pandemic by the World Health Organisation in March 2020. The Company has assessed the ongoing potential impact on its business to be manageable. The Company continuously updates its business practices with regard to local laws and regulations to ensure business continuity in all working environments. As a result, the Company has continued to operate throughout the crisis and trade appropriately. This view is underpinned by business continuity planning, risk management and an integrated internal control framework. At the time of signing these financial statements the Directors have not identified any impacts of COVID-19 which might require a material change in the Company's current activities nor would require any adjustments to the financial amounts presented in the financial statements at 31 December 2021.

ABB LIMITED

STRATEGIC REPORT (CONTINUED) For the Year Ended 31 December 2021

Directors' statement of compliance with duty to promote the success of the Company

S172(1) of the Companies Act sets out the duties of each Director of a company to act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of shareholders as a whole and in doing so, have regard to a number of broader matters which are set out below:

- (a) the likely consequences of any decision in the long term,
- (b) the interest of the company's employees,
- (c) the need to foster the company's business relationships with suppliers, customers and others,
- (d) the impact of the company's operations on the community and the environment;
- (e) the desirability of the company maintaining a reputation for high standards of business conduct,
- (f) the need to act fairly between members of the company.

The Directors of ABB Limited have created a Management Team to make strategic decisions on behalf of the Company and to manage the Company on a day to day basis. In making these decisions the Management Team will consider their legal duty and also the priorities and requirements of the sole shareholder ABB Holdings Limited. The Management Team comprises the head of each of the businesses and the head of the legal, HR, finance, communications and HSE support functions. The Directors are all members of the Management Team in their business capacities. This Management Team meets monthly to discuss and prioritise actions to benefit the Company and its stakeholders.

- (a) the likely consequences of any decision in the long term,

The strategic decisions of the ABB Group influence the decisions taken by the Management Team in areas such as structure of the business, current product ranges, research and development, supply chain, sustainability, IT infrastructure, IT tools and key internal processes. The Management Team will adapt the ABB Group strategy for the UK market taking into account UK laws and regulations and UK customer and employee needs.

The Management Team need to take into account the impact of any decision on the short term and long term interests of the Company and its stakeholders. In 2021 the Group moved ahead with its efforts to separately list the E-mobility business and to separate the Turbocharging business for either divestment or spin off. Although these decisions were made at the Group Board level, the Management Team and the Directors consider the impact on the key UK stakeholder groups (Customers, Suppliers and employees), and ensure appropriate communications and updates are provided to all groups throughout the period leading up to and during this process. The separation of the E-mobility business into a separate legal entity was completed in 2021, the separation of the Turbocharging business was completed in 2022.

- (b) the interests of the Company's employees

The ABB Group recognises that its strength is rooted in its people and there is therefore a need to ensure that they are empowered and motivated to perform their best, and that ABB continues to attract and retain the best talent globally. This is fostered and encouraged in many ways, including

- global CEO webcasts for all employees, covering topics including Company results, innovative solutions developed by the Company's employees and other important issues of the time.
- a global employee engagement survey, the results of which are shared anonymously with management and used to focus actions for each function and site,
- the use of social channels in which everyone in ABB, from executives to production employees, has the opportunity to share their views, best practices and ideas for improvement,
- various publications circulated throughout the group which along with the regular distribution of notices and regular meetings of consultative committees aim to ensure employees are fully informed about the Company and the Group, and
- employees are also encouraged to invest in the Group through participation in share option schemes.

ABB LIMITED

STRATEGIC REPORT (CONTINUED) For the Year Ended 31 December 2021

Directors' statement of compliance with duty to promote the success of the Company (Continued)

At ABB, we are creating an inclusive culture that represents our communities in all of their diversity. The Group's goal is that every one of the 105,000 colleagues around the world feels that they are working in a safe, fair, equitable and inclusive environment, where they can succeed and develop. The 2030 diversity and inclusion (D&I) strategy seeks to increase diversity across all dimensions, including gender, LGBTQ+, abilities, ethnicity and generations. This commitment is reflected in the fact that each dimension is sponsored by a member of our Group Executive Committee, with the Group CEO Björn Rosengren being the sponsor for gender diversity.

(c) the need to foster the Company's business relationships with suppliers, customers and others,

The ABB Group recognizes that in today's competitive and fast-growing digital world, growth depends on getting closer to our customers. The more we understand their businesses and operations, the better we are able to help them take advantage of new technologies and to partner with them for long-term mutual success.

With the divestment of its Power Grids business to Hitachi in July 2020 and complementing the shift away from power transmission and large-scale infrastructure projects, the Group focused on simplifying the business model and operational structure to create a leaner, more agile and customer-focused ABB

By empowering the four businesses with full operational responsibility for all functions and territories, the businesses have been given freedom to serve their markets and customers to the best of their abilities. Performance is driven through a decentralized business model that moves accountability for strategy, operations and performance to our individual Divisions within the businesses. This enables decisions to be made closer to the customer, meaning that our Divisions can be more entrepreneurial – fast, innovative and responsive to customer needs.

ABB operates a range of key policies and processes that help us to prevent child or forced labour within our operations and our value chain. These include the ABB Code of Conduct, ABB Supplier Code of Conduct, the ABB Policy Combating Trafficking in Persons, ABB Policy on Conflict Minerals, Human Rights policy, Social policy, our supply chain and contractor questionnaires, as well as certain internal directives and guidelines. The ABB Group has a supplier code of conduct which can be found online at this address <https://global.abb/group/en/about/supplying>. Group Purchasing Teams work collaboratively with our suppliers to ensure that this code of conduct is met by suppliers. The Company's payment practice filing shows that on average suppliers are paid after 65 days.

(d) the impact of the company's operations on the community and environment,

ABB Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities. The Company operates in accordance with ABB Group policies, details of which can be found online at this address <https://new.abb.com/sustainability>. Initiatives aimed at minimising the Company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

(e) the desirability of the Company maintaining a reputation for high standards of business conduct,

ABB is committed to fostering a culture where integrity is woven into the fabric of everything we do and has developed and implemented a systematic approach designed to prevent, detect, and resolve any potential integrity concerns. This is supported by tools and processes and a zero tolerance policy for any violations. ABB's integrity program has created an environment where all employees can be open about identifying risks, asking questions, and raising concerns.

ABB LIMITED

STRATEGIC REPORT (CONTINUED)
For the Year Ended 31 December 2021

Directors' statement of compliance with duty to promote the success of the Company
(Continued)

Employees are not just encouraged, but are required to speak up and to report any suspected or observed violations of the law, the ABB Code of Conduct, or if they are asked to do something that might be a violation.

Reports may be made to a supervisor, a regional or country integrity officer, the chief integrity officer, or the ABB Business Ethics Hotline.

Every employee receives mandatory training and is required to read, acknowledge and follow the ABB Code of Conduct

The ABB Code of Conduct can be found here <https://global.abb/group/en/about/supplying/code-of-conduct>.

(f) the need to act fairly between members of the company,

The Company is a wholly owned subsidiary of ABB Holdings Limited. The Company's directors are also the directors of ABB Holdings Limited and all decisions made by the Directors are made having regard for the interests of its parent company.

This report was approved by the board on 28 September 2022 and signed on its behalf.


VA Mac Lean
Director

29 September 2022

ABB LIMITED

DIRECTORS' REPORT

For the Year Ended 31 December 2021

The Directors present their report and the financial statements for the year ended 31 December 2021.

Results and dividends

The profit for the year, after taxation, amounted to £17,629,000 (2020 - £96,827,000.)

The company paid an interim dividend of £47,600,000 in respect of 2021 (2020: £nil).

Directors

The Directors who served during the year were:

DJ Hughes
ME Moussa
VA Mac Lean

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Health and safety of employees

The well-being of the Company's employees is safeguarded through strict adherence to health and safety standards. The Safety, Health and Welfare at Work Act 1989 imposes certain requirements on employers and the Company has taken the necessary action to ensure compliance with the Act, including the adoption of a Safety Statement.

Disabled employees

It is the Company's policy to give full and fair consideration to disabled applicants in recruitment, training and career development and whenever possible to continue the employment of and arrange appropriate facilities for employees who become disabled whilst employed.

Qualifying third party indemnity provisions

The Company has granted indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Disclosure of information to auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 28 September 2022 and signed on its behalf.



VA Mac Lean
Director

29 September 2022

ABB LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT For the Year Ended 31 December 2021

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ABB LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABB LIMITED

Opinion

We have audited the financial statements of ABB Limited ("the company") for the year ended 31 December, 2021 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December, 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABB LIMITED (CONTINUED)

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected, or alleged fraud.
- Reading board minutes.
- Considering remuneration incentive schemes and performance targets.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment assumptions.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABB LIMITED (CONTINUED)

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: certain aspects of company legislation recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic Report and Directors' Report

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

ABB LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABB LIMITED (CONTINUED)

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

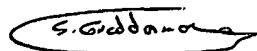
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Slim Gueddana (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 St Peter's Square
Manchester
M2 3AE

30 September 2022

ABB LIMITED**PROFIT AND LOSS ACCOUNT**
For the Year Ended 31 December 2021

	Note	2021 £000	2020 £000
Turnover	4	392,982	392,404
Cost of sales		(361,285)	(323,721)
Gross profit		31,697	68,683
Distribution costs		(3,517)	(3,740)
Administrative expenses		(18,727)	(36,750)
Operating profit	5	9,453	28,193
Dividends income from investments		854	-
Profit on disposal of subsidiary	6	-	78,442
Profit on disposal of business	6	7,843	-
Amounts written off	6	-	(3,782)
Interest receivable and similar income	11	5	27
Interest payable and similar expenses	12	(770)	(2,525)
Other finance income	13	(119)	(319)
Profit before tax		17,266	100,036
Tax on profit	14	363	(3,209)
Profit for the financial year		17,629	96,827

The notes on pages 19 to 56 form part of these financial statements.

Included within cost of sales is a pension plan amendment credit of £nil (2020:£40,045,000)

ABB LIMITED**STATEMENT OF COMPREHENSIVE INCOME**
For the Year Ended 31 December 2021

	Note	2021 £000	2020 £000
Profit for the financial year		17,629	96,827
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit schemes	28	71,332	(52,188)
Pension surplus not recognised	28	(1,123)	1,291
Movement of deferred tax relating to pension (deficit)/surplus	25	(13,340)	9,670
		<u>56,869</u>	<u>(41,227)</u>
Total comprehensive income for the year		<u><u>74,498</u></u>	<u><u>55,600</u></u>

The notes on pages 19 to 56 form part of these financial statements.

BALANCE SHEET
As at 31 December 2021

	Note	2021 £000	2020 £000
Fixed assets			
Goodwill	15	13,830	13,830
Intangible assets	16	49	91
Tangible fixed assets	17	51,594	42,212
Fixed asset investments	18	90,242	45,195
		<u>155,715</u>	<u>101,328</u>
Current assets			
Stocks	19	38,039	37,017
Debtors: amounts falling due after more than one year	20	8,301	21,439
Debtors: amounts falling due within one year	20	126,504	176,399
Cash at bank and in hand	21	(119)	518
		<u>172,725</u>	<u>235,373</u>
Creditors: amounts falling due within one year	22	(145,397)	(129,348)
Net current assets		<u>27,328</u>	<u>106,025</u>
Total assets less current liabilities		<u>183,043</u>	<u>207,353</u>
Creditors: amounts falling due after more than one year	23	(69,987)	(15,695)
		<u>113,056</u>	<u>191,658</u>
Provisions for liabilities			
Other provisions	26	(6,316)	(7,223)
		<u>(6,316)</u>	<u>(7,223)</u>
Net assets excluding pension liability/asset		<u>106,740</u>	<u>184,435</u>
Pension asset / (liability)		93,084	(11,509)
Net assets		<u>199,824</u>	<u>172,926</u>
Capital and reserves			
Called up share capital	27	120,000	120,000
Profit and loss account		79,824	52,926
		<u>199,824</u>	<u>172,926</u>

ABB LIMITED
Registered number:03780764

BALANCE SHEET (CONTINUED)
As at 31 December 2021

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 September 2022.



ME Moussa
Director

29 September 2022

The notes on pages 19 to 56 form part of these financial statements.

ABB LIMITED

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2021

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2020	120,000	(2,674)	117,326
Comprehensive income for the year			
Profit for the year	-	96,827	96,827
Actuarial losses on pension scheme	-	(41,227)	(41,227)
Other comprehensive income for the year	-	(41,227)	(41,227)
Total comprehensive income for the year	-	55,600	55,600
Total transactions with owners	-	-	-
At 1 January 2021	120,000	52,926	172,926
Comprehensive income for the year			
Profit for the year	-	17,629	17,629
Actuarial gains on pension scheme	-	56,869	56,869
Other comprehensive income for the year	-	56,869	56,869
Total comprehensive income for the year	-	74,498	74,498
Dividends: Equity capital	-	(47,600)	(47,600)
Total transactions with owners	-	(47,600)	(47,600)
At 31 December 2021	120,000	79,824	199,824

The notes on pages 19 to 56 form part of these financial statements.

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the Year Ended 31 December 2021**

1. GENERAL INFORMATION

The Company has taken advantage of the exemption under S.401 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of ABB Ltd, a company incorporated in Switzerland. A copy of the accounts can be obtained from PO Box 8131, CH-8050, Zurich, Switzerland.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.3 GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared forecasts for a period covering at least 12 months from the date of approval of these financial statements, evaluating the downside impacts of COVID-19. However, given the trade of the Company is dependent on its penultimate parent company, ABB Asea Brown Boveri Ltd ("ABB"), the directors have sought confirmation from ABB that it will continue to trade with the entity and provide financial support if and when needed.

ABB has indicated its intention to continue to trade with and to make available such funds as are needed by the company for a period of at least 12 months from the date of approval of these financial statements.

The directors have considered the ability of ABB to continue to trade and provide any financial support as and when required based on the information provided by ABB. As with any company placing reliance on other group entities for trade and financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on these indications, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

2.4 REVENUE AND MARGIN RECOGNITION

Revenue and margin recognition on contracts is based on constraints on variable consideration, estimates of future costs and an assessment of technical and other risks.

Revenue is accounted for in accordance with IFRS15 Revenue from Contracts with Customers. For most of the contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.

The ultimate probability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks, which are reliant on knowledge and experience of the project managers, engineers and finance and commercial professionals. Material changes in these estimates could affect the probability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, and more frequently as determined by events or circumstances.

The long term nature of the Group's contracts means that judgements are made in estimating future costs on a contract as well as when risks will be mitigated or retired, which impacts when revenue and associated margin are recognised.

Construction contract debtors are presented as part of debtors in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as accruals and deferred income in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.5 TURNOVER (REVENUES)

The Company recognizes revenue when it transfers the control over a good or service to a customer. The control is deemed to be transferred when the customer has the ability to direct the use of the asset or has the ability to obtain substantially all of the remaining benefits from that good or service.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Revenue is recognized on long term contracts over time as control is transferred. The basis used to determine the progress of the transfer of control is cost incurred.

Revenue is recognised on short term construction type contracts at a point in time when the customer has control over substantially all the remaining benefits from the contract.

Revenue is recognised on product sales on delivery of goods.

Revenue is recognized on services sales at the time the service has been rendered or in the case of period service contracts over the life of the contract.

2.6 INTANGIBLE ASSETS

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Amortisation is provided on a straight line basis over the use of its economic life up to a maximum 5 years.

2.7 CURRENT AND DEFERRED TAXATION

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.8 VALUATION OF INVESTMENTS

Investments in subsidiaries are measured at cost less accumulated impairment.

On disposal of investments in subsidiaries the difference between the disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.9 GOODWILL

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

When a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the company includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination. Changes in the estimated value of contingent consideration arising on business combinations completed as a consequence result in a change in the carrying value of the related goodwill.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit or loss. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. It has been deemed, however, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view. The effect of this departure has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

2.10 IMPAIRMENT OF FIXED ASSETS AND GOODWILL

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.11 TANGIBLE FIXED ASSETS

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, .

Depreciation is provided on the following basis:

Freehold property	- 15 to 50 years
Long-term leasehold property	- over the lease term
Plant and machinery	- 3 to 15 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.12 STOCKS

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.13 RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliability the expenditure during development.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.14 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Profit and Loss Account within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

2.15 LEASES

The Company leases primarily real estate, vehicles and machinery.

The Company evaluates if a contract contains a lease at inception of the contract. A contract is or contains a lease if it conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. To determine this, the Company assesses whether, throughout the period of use, it has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. Leases are classified as either finance or operating, with the classification determining the pattern of expense recognition in the Consolidated Income Statements. Lease expense for operating leases continues to be recorded on a straight-line basis over the lease term. Lease expense for finance leases is separated between amortization of right-of-use assets and lease interest expense.

In many cases, the Company's leases include one or more options to renew, with renewal terms that can extend up to 5 years. The exercise of lease renewal options is at the Company's discretion. Renewal periods are included in the expected lease term if they are reasonably certain of being exercised by the Company. Certain leases also include options to purchase the leased property. None of the Company's lease agreements contain material residual value guarantees or material restrictions or covenants.

Long-term leases (leases with terms greater than 12 months) are recorded in the Balance Sheet at the commencement date of the lease based on the present value of the minimum lease payments. The present value of the lease payments is determined by using the interest rate implicit in the lease if available. As most of the Company's leases do not provide an implicit rate, the Company's incremental borrowing rate is used for most leases and is determined for portfolios of leases based on the remaining lease term, currency of the lease, and the internal credit rating of the subsidiary which entered into the lease.

Short-term leases (leases with an initial lease term of 12 months or less and where it is reasonably certain that the property will not be leased for a term greater than 12 months) are not recorded in the

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.15 LEASES (continued)

Balance Sheet and are expensed on a straight-line basis over the lease term. The majority of short-term leases relate to real estate and machinery.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Right of use assets are included in Tangible Fixed Assets. Lease liabilities are reported both as current and non-current lease liabilities.

Lease and non-lease components for leases other than real estate are not accounted for separately.

2.16 SHARE BASED PAYMENTS

The group has share based employee incentive plans which are described more fully in note 32. The relevant shares are those of the ultimate holding company, ABB Ltd registered in Switzerland. The plans are run and administered by companies in the ABB group, outside of the UK. The fair value of share based payments is charged to the profit and loss account on a straight line basis over the vesting period after taking account of forfeitures.

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Balance Sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.17 PENSIONS

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

Defined benefit pension plan

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Balance Sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

2.18 FINANCIAL INSTRUMENTS

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets and financial liabilities are initially measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.18 FINANCIAL INSTRUMENTS (continued)

Financial assets

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial assets.

Fair value through profit or loss

All of the Company's financial assets are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses being recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Impairment of financial assets

The Company always recognises lifetime ECL for trade receivables and amounts due on contracts with customers. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

2.19 INTEREST INCOME

Interest income is recognised in profit or loss using the effective interest method.

2.20 FINANCE COSTS

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.21 DIVIDENDS

Dividend income is recognised when the right to receive payment is established.

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

This does not mean that every accounting judgement should be disclosed. However, disclosure would be appropriate in cases where the accounting outcome is materially different dependent on the judgement taken.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Pension and other post employment benefits

The cost of defined benefit pensions plans and other post employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

Further details are given in note 28

Goodwill

An annual assessment is made as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. See note 15 for more information.

Impairment of Investments

An annual assessment is made as to whether the current carrying value of investments is impaired. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. See note 18 for more information.

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 31 December 2021

4. TURNOVER AND SEGMENTAL ANALYSIS

Turnover represents the amounts derived from the provision of goods and services to third parties which fall within the company's ordinary activities, stated net of value added tax.

Turnover, profit on ordinary activities before tax and net assets are analysed as follows:

	2021 £000	2020 £000
Turnover		
Industrial Automation	163,476	162,006
Electrification Products	127,787	111,378
Robotics	40,999	49,087
Motion	65,884	68,939
Other non trading divisions	(5,164)	994
Total turnover	<u>392,982</u>	<u>392,404</u>

Included in the above IAS 11 construction contract revenues of £17,592,000 in Industrial Automation, £18,240,000 in Robotics, £nil in Other non trading divisions (2020: £14,023,000 in Industrial Automation, £23,782,000 in Robotics and £164,000 in Other non trading divisions).

	2021 £000	2020 £000
Operating profit		
Industrial Automation	12,778	7,612
Electrification Products	9,947	4,530
Robotics	4,749	1,785
Motion	2,670	4,594
Other non trading divisions	(20,691)	9,672
Operating profit	<u>9,453</u>	<u>28,193</u>
Investment income	854	-
Profit/(loss) on disposal of investments	7,843	74,660
Net interest	(765)	(2,498)
Other finance expense	(119)	(319)
Profit on ordinary activities before taxation	<u>17,266</u>	<u>100,036</u>

	2021 £000	2020 £000
Net Assets		
Industrial Automation	228,736	217,225
Electrification Products	52,546	36,690
Robotics	27,305	22,563
Motion	107,755	98,378
Other non trading divisions	(216,518)	(201,930)
Net assets	<u>199,824</u>	<u>172,926</u>

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**4. TURNOVER AND SEGMENTAL ANALYSIS**
(CONTINUED)

	2021 £000	2020 £000
Turnover		
UK	316,045	298,693
Rest of Europe	56,489	67,092
Rest of World	<u>20,448</u>	<u>26,619</u>
Total Turnover	<u>392,982</u>	<u>392,404</u>

	2021 £000	2020 £000
Operating profit		
UK	7,602	20,440
Rest of Europe	1,359	5,878
Rest of World	<u>492</u>	<u>1,875</u>
Operating Profit	<u>9,453</u>	<u>28,193</u>

Net assets held outside the UK are not material.

5. OPERATING PROFIT

The operating profit is stated after charging:

	2021 £000	2020 £000
Research & development charged as an expense	4,739	4,759
Depreciation of tangible fixed assets	7,872	7,235
(Release) / impairment of tangible fixed assets	(191)	413
Amortisation of intangible assets, including goodwill	44	51
Exchange differences	1,011	(283)
Defined contribution pension cost	6,478	6,655
Write down stocks to net realisable value	638	525

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 December 2021

6. OTHER INCOME STATEMENT ITEMS

	2021 £000	2020 £000
Recognised below operating profit:		
Disposal /impairment of investment	-	(3,782)
Profit on disposal of subsidiary	-	78,442
Profit on disposal of discontinued operations	10,591	-
Loss on hive up of business	(2,748)	-
	<u>7,843</u>	<u>74,660</u>

On 17 July 2020 the Company completed its divestment of the Power Grids business, generating a profit on disposal of £78,442,000.

On the 1st January 2021 the assets and liabilities of the Dynamotive Limited business were transferred into ABB Limited at fair market value generating a loss of £2,746,000.

On 1st October 2021 the Company disposed of its E-mobility business. The results of this business for the year are presented below:

	2021 £000	2020 £000
Turnover	7,832	14,994
Cost of sales	<u>(7,104)</u>	<u>(13,762)</u>
Gross Profit	728	1,232
Net operating expenses	<u>(186)</u>	<u>(118)</u>
Profit before interest, other finance costs and taxes	542	1,114
Interest Payable	<u>(15)</u>	<u>(95)</u>
Profit from discontinued operations before tax	527	1,019
Tax on profit	-	(33)
Profit for the year from discontinued operations	<u>527</u>	<u>986</u>

7. AUDITORS' REMUNERATION

	2021 £000	2020 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	<u>426</u>	<u>644</u>

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 December 2021

8. EMPLOYEES

Staff costs, including Directors' remuneration, were as follows:

	2021 £000	2020 £000
Wages and salaries	86,695	82,993
Social security costs	12,073	10,786
Cost of defined benefit scheme	656	(37,535)
Cost of defined contribution scheme	6,478	6,655
	<u>105,902</u>	<u>62,899</u>

Included in the 2020 cost of defined benefit scheme is a pension plan amendment credit of £40,045,000 relating to deferred or retired members.

The average monthly number of employees, including the Directors, during the year was as follows:

	2021 No.	2020 No.
Research and Development	40	28
Manufacturing and Installation Business	186	185
Engineering	410	450
Sales, Marketing, Consulting and Office Management	493	500
	<u>1,129</u>	<u>1,163</u>

In addition to the employees shown above there are 324 people (2020: 352 people) whose costs have been recharged to other group companies.

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**9. DIRECTORS' REMUNERATION**

	2021 £000	2020 £000
Directors' emoluments	569	542
Company contributions to defined contribution pension schemes	53	48
	<u>622</u>	<u>590</u>

During the year retirement benefits were accruing to 3 Directors (2020: 3) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £227,000 (2020: £215,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £13,000 (2020: £26,000).

During the year 1 director received shares under the long term incentive schemes (2020: 1).

10. INCOME FROM INVESTMENTS

	2021 £000	2020 £000
Income from fixed asset investments	854	-
	<u>854</u>	<u>-</u>

11. INTEREST RECEIVABLE

	2021 £000	2020 £000
Interest receivable from group companies	-	5
Other interest receivable	5	22
	<u>5</u>	<u>27</u>

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**12. INTEREST PAYABLE AND SIMILAR EXPENSES**

	2021 £000	2020 £000
Other loan interest payable	-	9
Loans from group undertakings	142	1,611
Finance leases and hire purchase contracts	382	754
Interest on lease liabilities	246	151
	<u>770</u>	<u>2,525</u>

13. OTHER FINANCE COSTS

	2021 £000	2020 £000
Interest income on pension scheme assets	17,005	22,552
Net interest on net defined benefit liability	(17,040)	(22,871)
Interest on irrecoverable pension surplus	(84)	-
	<u>(119)</u>	<u>(319)</u>

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**14. TAXATION**

	2021 £000	2020 £000
CORPORATION TAX		
Current tax on profits for the year	53	18
	<u>53</u>	<u>18</u>
Group taxation relief	(219)	169
	<u>(166)</u>	<u>187</u>
FOREIGN TAX		
Foreign tax on income for the year	-	(76)
	<u>-</u>	<u>(76)</u>
TOTAL CURRENT TAX	<u>(166)</u>	<u>111</u>
DEFERRED TAX		
Origination and reversal of timing differences	3,026	4,969
Changes to tax rates	(3,304)	(1,716)
Adjustments in respect of prior periods	81	(155)
	<u>(197)</u>	<u>3,098</u>
TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	<u>(363)</u>	<u>3,209</u>

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 December 2021

14. TAXATION (CONTINUED)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2020 - lower than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	2021 £000	2020 £000
Profit on ordinary activities before tax	17,266	100,036
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	3,281	19,007
EFFECTS OF:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	720	912
Capital allowances for year in excess of depreciation	136	108
Adjustments to tax charge in respect of prior periods	(86)	31
Difference between current and deferred tax rate	(1,250)	(1,792)
Non-taxable income	(2,012)	(14,903)
Other tax adjustment, relief and transfers	(1,152)	(154)
TOTAL TAX CHARGE FOR THE YEAR	(363)	3,209

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The Company has tax trading losses arising and carried forward in the UK of £89,793,783 (2020: £56,460,860) which are available indefinitely for offset against future taxable profits of the businesses in which the losses originally arose. It also has tax capital losses arising and carried forward in the UK of £29,612,122 (2020: £34,612,122) which are available indefinitely for offset against future capital gains in any part of the UK group. (see note 20)

The Company has transferred in tax trading losses in the UK of £2,568,155 (2020: £752,357) arising as a result of the hive up of the trade of Dynamotive Limited on 1 January 2021 (2020: IMV Invertomatic Victron UK Limited on 1 October 2020).

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The UK deferred tax asset as at 31 December 2020 was calculated at 19% (2020: 19%).

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly and increase the deferred tax asset by £2,150,000 (for ABB Limited)

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

15. GOODWILL

	2021 £000	2020 £000
Cost and Net book value	<u>13,830</u>	<u>13,830</u>

Goodwill acquired through business combinations has been allocated to cash generating units, which are also operating segments. These represent the lowest level within the Company at which goodwill is monitored for internal management purposes.

The recoverable amount of the units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a three year period.

16. INTANGIBLE ASSETS

	Computer software £000
Cost	
At 1 January 2021	10,600
Intra-group transfers	2
Disposals	(39)
At 31 December 2021	<u>10,563</u>
Amortisation	
At 1 January 2021	10,509
Charge for the year on owned assets	44
On disposals	(39)
At 31 December 2021	<u>10,514</u>
Net book value	
At 31 December 2021	<u>49</u>
At 31 December 2020	<u>91</u>

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

17. TANGIBLE FIXED ASSETS

	Land and buildings £000	Plant and machinery £000	Total £000
Cost or valuation			
At 1 January 2021	37,838	33,721	71,559
Additions	18,222	9,350	27,572
Transfers intra group	326	215	541
Disposals	(11,818)	(2,672)	(14,490)
At 31 December 2021	44,568	40,614	85,182
Depreciation			
At 1 January 2021	6,346	23,001	29,347
Charge for the year on owned assets	806	1,339	2,145
Charge for the year on right-of-use assets	3,068	2,659	5,727
Transfers intra group	40	196	236
Disposals	(1,371)	(2,305)	(3,676)
Impairment charge	(191)	-	(191)
At 31 December 2021	8,698	24,890	33,588
Net book value			
At 31 December 2021	35,870	15,724	51,594
At 31 December 2020	31,492	10,720	42,212

The net book value of owned and leased assets included as "Tangible fixed assets" in the Balance Sheet is as follows:

	2021 £000	2020 £000
Tangible fixed assets owned	38,097	24,119
Right-of-use tangible fixed assets	13,498	18,093
	51,595	42,212

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**17. TANGIBLE FIXED ASSETS (CONTINUED)**

Information about right-of-use assets is summarised below:

Net book value

	2021 £000	2020 £000
Property	7,069	14,763
Plant and machinery	6,429	3,330
	<u>13,498</u>	<u>18,093</u>

On 22nd December 2021 the Company purchased a property previously held on finance lease. The termination of this lease resulted in a reduction in the net book value of right of use assets by £9,943,000.

Depreciation charge for the year ended

	2021 £000	2020 £000
Property	3,068	2,059
Plant and machinery	2,659	3,238
	<u>5,727</u>	<u>5,297</u>

Additions to right-of-use assets

	2021 £000	2020 £000
Additions to right-of-use assets	<u>11,690</u>	<u>4,694</u>

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**18. FIXED ASSET INVESTMENTS**

	Investments in subsidiary companies £000
COST OR VALUATION	
At 1 January 2021	69,599
Additions	45,047
At 31 December 2021	<u>114,646</u>
IMPAIRMENT	
At 1 January 2021	24,404
At 31 December 2021	<u>24,404</u>
NET BOOK VALUE	
At 31 December 2021	<u>90,242</u>
At 31 December 2020	<u>45,195</u>

On 24th November 2021 the company acquired the whole share capital of ABB Limited (Ireland).

During the year, the carrying value of the Company's investments are reviewed to determine whether there is an indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Any change in value is measured as an impairment through the Profit and Loss.

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 December 2021

18. FIXED ASSET INVESTMENTS (CONTINUED)

SUBSIDIARY UNDERTAKINGS

Details of the investments included above in which the Company directly or indirectly holds more than 20% of the nominal value of any class of share capital are as follows:

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Dynamotive Limited	Daresbury Park, Daresbury, Warrington, Cheshire WA4 4BT	Ordinary	100%
Cable Management Products Limited	27/28 Eastcastle Street, London, W1W 8DH	Ordinary	100%
ABB Power T&D Limited	Hareness Rd, Altens, Aberdeen, Scotland, AB12 3LE	Ordinary	100%
ABB Installation Products Limited	27/28 East Castle Street, London W1 8DH	Ordinary	100%
Cylon Controls (UK) Limited	1st Floor Templeback, 10 Temple Back, Bristol, BS1 6FL	Ordinary	100%
ABB Limited	5th Floor The Concourse, Beacon Court, Dublin 18, D18 P6N4, Ireland	Ordinary	100%

19. STOCKS

	2021 £000	2020 £000
Raw materials and consumables	9,843	13,166
Work in progress (goods to be sold)	18,101	14,278
Finished goods and goods for resale	10,095	9,573
	<u>38,039</u>	<u>37,017</u>

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**20. DEBTORS**

	2021 £000	2020 £000
DUE AFTER MORE THAN ONE YEAR		
Other debtors	433	433
Deferred tax asset	7,860	21,003
Financial instruments	8	3
	<u>8,301</u>	<u>21,439</u>
	2021 £000	2020 £000
DUE WITHIN ONE YEAR		
Trade debtors	85,658	84,563
Amounts recoverable on long-term contracts	1,631	5,368
Amounts owed by group undertakings	30,901	77,509
Other debtors	1,166	1,329
Prepayments and accrued income	5,542	6,017
Tax recoverable	784	1,068
Financial instruments	822	545
	<u>126,504</u>	<u>176,399</u>

No interest is charged on amounts owed by group undertakings as these are trading balances which will settle within two months.

21. CASH AND CASH EQUIVALENTS

	2021 £000	2020 £000
Cash at bank and in hand	(119)	518
	<u>(119)</u>	<u>518</u>

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**22. CREDITORS: Amounts falling due within one year**

	2021 £000	2020 £000
Payments received on account	22,736	17,170
Trade creditors	18,502	22,062
Amounts owed to group undertakings	53,600	45,545
Other taxation and social security	8,581	13,018
Lease liabilities	3,468	2,767
Other creditors	3,094	643
Accruals and deferred income	34,811	27,616
Financial instruments	605	527
	<u>145,397</u>	<u>129,348</u>

Included in payments received on account is £8,895,000 (2020: £1,261,000) in respect of construction contracts. At 31 December 2021 retentions held by customer was £nil (2020: £nil). Advances received from customers for contract work amounted to £44,000 (2020: £13,000).

No interest is charged on amounts owed by group undertakings as these are trading balances which will settle within two months.

23. CREDITORS: Amounts falling due after more than one year

	2021 £000	2020 £000
Lease liabilities	9,981	15,690
Amounts owed to group undertakings	60,000	-
Financial instruments (after 1 yr)	6	5
	<u>69,987</u>	<u>15,695</u>

The amounts owed to group undertakings includes the amount of £60,000,000 drawn down to date (2020: £nil) against a £60,000,000 (2020: £nil) revolving credit facility provided to the Company. The facility expires on 25 November 2024 and attracts interest at a variable rate based on LIBOR plus a market based rate assessed annually by ABB Group. The fair value of these loans at inception was not materially different from the loan amount. The loans have therefore been recorded at the original loan amount.

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**24. LEASES****Company as a lessee**

The Company leases property, motor vehicles and plant and machinery.

Lease liabilities are due as follows:

	2021 £000	2020 £000
Not later than one year	3,468	2,767
Between one year and five years	5,037	5,312
Later than five years	4,944	10,377
	<u>13,449</u>	<u>18,456</u>

Contractual undiscounted cash flows are due as follows:

	2021 £000	2020 £000
Not later than one year	4,048	3,738
Between one year and five years	8,271	6,524
Later than five years	1,825	21,322
	<u>14,144</u>	<u>31,584</u>

The following amounts in respect of leases, where the Company is a lessee, have been recognised in profit or loss:

	2021 £000	2020 £000
Interest expense on lease liabilities	<u>246</u>	<u>151</u>

25. DEFERRED TAXATION

	2021 £000
At beginning of year	21,003
Charged to the profit or loss	197
Charged to other comprehensive income	(13,340)
AT END OF YEAR	<u><u>7,860</u></u>

ABB LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the Year Ended 31 December 2021**25. DEFERRED TAXATION (CONTINUED)**

The deferred tax asset is made up as follows:

	2021 £000	2020 £000
Accelerated capital allowances	2,339	1,946
Tax losses carried forward	21,010	10,728
Pension surplus	(15,616)	8,220
Other timing differences	127	109
	<u>7,860</u>	<u>21,003</u>

26. PROVISIONS

	Restructuring Provision £000	Warranty Provision £000	Other provision £000	Total £000
At 1 January 2021	1,731	2,480	3,012	7,223
Charged to profit or loss	110	1,007	2,146	3,263
Utilised in year	(1,165)	(1,737)	(1,268)	(4,170)
AT 31 DECEMBER 2021	<u>676</u>	<u>1,750</u>	<u>3,890</u>	<u>6,316</u>

27. SHARE CAPITAL

	2021 £000	2020 £000
Allotted, called up and fully paid		
120,000,000 (2020 - 120,000,000) Ordinary shares shares of £1.00 each	<u>120,000</u>	<u>120,000</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

28. PENSION COMMITMENTS

The Company operates a defined contribution and defined benefit schemes.

The defined contribution pension scheme designed to provide retirement benefits for the majority of its employees. Contributions to the defined contribution pension scheme were £6,477,818 (2020: £6,655,680).

In addition, the Company operates two defined benefit pension schemes. The ABB Plan and the Fischer & Porter Limited Pension and Life Assurance Fund. Both these schemes are funded externally under the supervision of the board of Trustees for each scheme.

Total annual contributions to the schemes are based on independent actuarial advice, and are gauged to fund future pension liabilities (including projected increases in earnings and pensions) in respect of service up to the balance sheet date.

Company contributions into the ABB Plan were £35,159,000, lower than prior year £48,851,000. £35,000,000 was in respect of a recovery plan payment to fund the deficit as per the 6 April 2020 actuarial valuation, £135,000 was in respect of payments to augment benefits and £24,000 was in respect of regular employer contributions. No employer contributions are expected to be paid for the ABB Plan in 2022.

On 20 November 2020, the High Court ruled that individual transfer payments made since 17 May 1990 would need to be equalised for the effects of GMP. This judgement followed on from the previous judgement on 26 October 2018, which has previously been allowed for in accounting disclosures, where the High Court ruled that schemes had a legal obligation to pay benefits allowing for GMP equalization. The previous judgement had not considered historical transfer values. Allowing for available data, together with an assumed level of transfers for missing data, leads us to an approximately impact of £500,000 for the ABB Plan and £25,000 for the F&P Fund being recognised as a past service cost for the ABB Plan and F&P Fund in 2021.

Valuations for The ABB Plan and the Fischer and Porter Limited Pension and Life Assurance Fund were last carried out on 6 April 2020 and 1 January 2019 respectively and both have been updated to 31 December 2021 by qualified independent actuaries. These schemes are subject to an independent actuarial valuation at least every three years.

The estimated actuarial consolidated valuation at 31 December 2021 showed a surplus of £93,084,000 (2020: deficit £11,509,000). The service cost has been calculated using the projected unit method. For the ABB Plan the last valuation was carried out 6 April 2020.

For the Fischer & Porter Limited Pension and Life Assurance Fund the last valuation was carried out 1 January 2019. The accounting update at 31 December 2021 showed a surplus of £7,537,000 (2020: £6,330,000). The Company can derive an economic benefit for F&P plan from the existing FRS 101 surplus only through a reduction in future contributions. The economic benefit has been calculated as the present value of all future service costs less any future service "Minimum Funding Requirement (MFR)" contributions, which has been interpreted as the contributions set out in the current Schedule of Contributions. As at 31 December 2021, the Company could recognise £1,000 of this surplus.

No adjustments have been made to the mortality assumptions to account for the impact of COVID-19 as the actual Plan experience from the period of the pandemic is not yet available and it is too soon to make a credible judgement on the impact of the pandemic on future mortality improvements.

The weighted average duration of the defined benefit obligation is 16.50 years for ABB plan and 13.74 years for F&P plan.

The Company has recognised a retirement benefit surplus position at the balance sheet date. The recognition of a surplus is determined by IAS 19 and applying IFRIC 14 which is an interpretation providing further guidance about when a surplus can be recognised. The Company considers that under the ABB Pension scheme rules, the Company has an unconditional right to a refund of surplus assuming the

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

28. PENSION COMMITMENTS (CONTINUED)

gradual settlement of the liabilities over time until all the members have left the plan. The Company considers that for Fischer and Porter Limited Pension and Life Assurance Fund the Company can derive an economic benefit from the existing IAS 19 surplus only through a reduction in future contributions.

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

28. PENSION COMMITMENTS (CONTINUED)

Reconciliation of present value of plan (assets) / liabilities:

	2021 £000	2020 £000
Reconciliation of present value of plan (assets) / liabilities		
At the beginning of the year	11,509	46,679
Current service cost	656	2,510
Interest income	(17,005)	(22,552)
Interest cost	17,124	22,871
Actuarial gains/losses	(71,332)	52,188
Contributions	(35,159)	(48,851)
Past service cost	-	(40,045)
Derecognition of surplus	1,123	(1,291)
At the end of the year	(93,084)	11,509

Composition of plan assets:

	2021 £000	2020 £000
Equity securities	147,652	196,329
Debt securities	977,246	888,891
Real estate pooled fund	91,578	80,923
Cash and cash equivalents	43,595	62,548
Insurance policies	10,434	15,000
Other	47,917	29,827
Total plan assets	1,318,422	1,273,518

The valuation of insurance policies were calculated using market conditions at 31 December 2021.

None of the plan assets are represented by financial instruments of the Entity. None of the plan assets are occupied or used by the Entity.

	2021 £000	2020 £000
Market value of assets	1,318,422	1,273,518
Present value of scheme liabilities	(1,217,802)	(1,278,698)
Irrecoverable surplus	(7,536)	(6,329)
NET PENSION SCHEME ASSET / (LIABILITY)	93,084	(11,509)

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 December 2021

28. PENSION COMMITMENTS (CONTINUED)

The amounts recognised in profit or loss are as follows:

	2021 £000	2020 £000
Current service cost	22	139
Accrual for expected admin costs	634	2,371
Interest on obligation	17,040	22,871
Interest income on plan assets	(17,005)	(22,552)
Past service cost	-	(40,045)
Interest on irrecoverable surplus	84	-
TOTAL	775	(37,216)

The amounts recognised under other comprehensive income (OCI) are as follows:

Actual return less interest income included in net interest income	(47,667)	(109,603)
Actuarial loss due to experience	4,069	11,911
Actuarial (gain)/loss due to financial assumption changes	(36,111)	145,631
Actuarial loss due to demographic assumption changes	8,377	4,249
Change in irrecoverable surplus	1,123	(1,291)
	(70,209)	50,897

Change in actuarial value of plan liabilities were as follows:

	2021 £000	2020 £000
Opening defined benefit obligation	1,278,698	1,188,966
Current service cost	22	139
Interest cost	17,040	22,871
Actuarial gains and (losses)	(23,665)	161,791
Past service costs	-	(40,045)
Insurance policies	(4,566)	15,000
Benefits paid	(49,727)	(70,024)
Closing defined benefit obligation	1,217,802	1,278,698

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 December 2021

28. PENSION COMMITMENTS (CONTINUED)

Change in plan assets were as follows:

	2021 £000	2020 £000
Opening fair value of scheme assets	1,273,518	1,149,907
Interest income on plan assets	17,005	22,552
Actuarial gains and (losses)	47,667	109,603
Contributions by employer	35,159	48,851
Insurance policies	(4,566)	15,000
Benefits paid	(49,727)	(70,024)
Administrative costs	(634)	(2,371)
	<u>1,318,422</u>	<u>1,273,518</u>

No employer contributions are expected to be paid for the ABB Plan in 2022

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy and in accordance with the Company's policy for similarly held assets, except for the annuities which are valued in line with the proportion of the defined benefit obligation they cover. This includes the use of appropriate valuation techniques.

The major assumptions used in the defined benefit schemes for FRS101 purposes were as follows:

	ABB Limited 2021	F&P Limited 2021	ABB Limited 2020	F&P Limited 2020
Discount Rate	1.9%	1.87%	1.37%	1.32%
Future Pension	3.00%	3.25%	2.9%	2.9%
Inflation assumption (RPI)	3.5%	3.5%	3.0%	3.0%
Inflation assumption (CPI)	3.05%	3.05%	2.55%	2.55%
Mortality Rates (in years)				
- for a male aged 65 now	22.5	21.9	22.5	21.9
- at 65 for a male aged 45 now	23.8	23.2	23.8	23.2
- for a female aged 65 now	24.5	24.2	23.6	24.2
- at 65 for a female aged 45 now	25.9	25.6	25.1	25.6

The discount rate used for calculation of the defined benefit obligation are set using a consistent approach to that used in US GAAP purposes, which is an acceptable range for FRS 101 purposes.

Mortality assumption have been updated for the allowance of future improvements in mortality rates to be based on CMI 2020.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

PENSION COMMITMENTS (CONTINUED)

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

	2021 £000	2020 £000
Discount rate increase of 0.25%	(47,965)	(52,076)
Discount rate decrease of 0.25%	51,046	55,530

29. OTHER FINANCIAL COMMITMENTS

At 31 December, 2021 the Company had entered into commitments to buy/sell foreign currencies in future months amounting to £7,046,499 (2020: £15,535,843).

30. CONTINGENT LIABILITIES

At 31 December 2021 there were no outstanding contingent liabilities in respect of the Company (2020: £nil), other than the matters detailed below:

Guarantees related to contracts

In accordance with industry practice guarantees of performance under contracts with customers and under offers on tenders are given. Such guarantees can, in the normal course, extend from the tender period until the final acceptance by the customer, or the end of the warranty period and may include guarantees on project completion, of contract specific defined performance criteria or plant availability.

The guarantees are provided by banks or surety companies by way of performance bonds, surety bonds and letters of credit and are normally for defined amounts and periods. At 31 December 2021, these guarantees amounted to £25,218,248 (2020: £61,486,780). The Company provides a counter indemnity to the bank or surety company.

Projects for which the guarantees are given are regularly reviewed by management and when it becomes probable that payments pursuant to performance guarantees will be required to be made, accruals are recorded in the financial statements at that time.

Suspect payments

As a result of an internal investigation, the Company self-reported to the Securities and Exchange Commission (SEC) and the Department of Justice (DoJ) in the United States as well as the Serious Fraud Office (SFO) in the United Kingdom concerning certain past dealings with Unaoil and its subsidiaries, including alleged improper payments made by these entities to third parties. In May 2020, the SFO closed its investigation, which it originally announced in February 2017, as the case did not meet the relevant test for prosecution. The Company continues to cooperate with the U.S. authorities as requested. At this time, it is not possible for the Company to make an informed judgement about the outcome of this matter.

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For the Year Ended 31 December 2021

31. EMPLOYEE INCENTIVE PLANS

The ABB Group has three share-based employee incentive plans applying to employees of the UK group as described below. All the incentive plans are run and administered by companies in the ABB Group, outside of the UK group.

i) Management Incentive Plan (MIP))

Under the MIP, share warrants or options and warrant appreciation rights (WARs) are offered to key employees for no consideration. Each launch of the MIP is approved by the Board of Directors of the ultimate parent company, ABB Ltd.

Warrants and options granted under the MIP allow participants to purchase shares of ABB Ltd at predetermined prices. Participants may sell the warrants or options rather than exercise the right to purchase shares. Equivalent warrants are listed by a third party bank on the SWX Swiss Exchange, which facilitates pricing and transferability of warrants granted under this plan. The options entitle the holder to request that a third party bank purchase such options at the market price of equivalent listed warrants related to that MIP launch. If the participant elects to sell the warrants or options on the market rather than exercise the right to purchase shares, the instruments may then be held by a non-employee of ABB Ltd. Each WAR gives the participant the right to receive, in cash, the market price of a warrant on the date of exercise of the WAR. The WARs are non-transferable.

Participants may exercise or sell warrants and options and exercise WARs after the vesting period, which is three years from the date of grant. Vesting restrictions can be waived in certain circumstances such as death or disability. All warrants, options and WARs expire six years from the date of grant. As the primary trading market for shares of ABB Ltd is the SWX Swiss Exchange (virt-x), the exercise prices of warrants and options and the trading prices of equivalent warrants listed on the SWX Swiss Exchange are denominated in Swiss francs. Accordingly, exercise prices are presented below in Swiss francs.

ABB Limited in the UK receives a charge for the costs (the initial fair value of the awards and the administrative costs) of providing the MIP to employees of the UK group. If an employee forfeits the awards during the vesting period, ABB Limited in the UK receives a credit note for the charges previously paid. If an employee is transferred to/from another country during the vesting period, ABB Limited in the UK receives a credit note/invoice for the respective portion of the initial charge. A credit of £27,245 is included in administration costs in 2021 (2020: £72,240 charge).

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NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 December 2021

Presented below is a summary of the activity related to warrants and options of the company's employees for the years ended 31 December 2021 and 2020:

	Number of warrants or options	Number of shares (1)	Weighted- average exercise price (in swiss francs) (2) (3)	Weighted- average remaining contractual term (in years) (3)	Aggregate intrinsic value (in thousands of Swiss francs)(4)
2021					
Outstanding at 1 January	1,773,020	354,964	21	4	-
Forfeited	(127,500)	(25,500)	-	-	-
Expired	(95,625)	(19,125)	-	-	-
Sold	(773,505)	(154,701)	23	-	-
Outstanding at 31 December	<u>776,390</u>	<u>155,638</u>	<u>20</u>	<u>3</u>	<u>-</u>
Exercisable at 31 December	<u>34,000</u>	<u>6,800</u>	<u>23</u>	<u>2</u>	<u>-</u>

	Number of warrants or options	Number of shares (1)	Weighted- average exercise price (in swiss francs) (2) (3)	Weighted- average remaining contractual term (in years) (3)	Aggregate intrinsic value (in thousands of Swiss francs)(4)
2020					
Outstanding at 1 January	6,252,950	1,250,950	21	4	-
Forfeited	(243,315)	(48,663)	-	-	-
Expired	(2,230,070)	(446,014)	-	-	-
Sold	(1,055,920)	(211,184)	21	-	-
Employees transferred in	159,375	31,875	-	-	-
Employees transferred out	<u>(1,110,000)</u>	<u>(220,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Outstanding at 31 December	<u>1,773,020</u>	<u>356,964</u>	<u>21</u>	<u>4</u>	<u>-</u>
Exercisable at 31 December	<u>273,065</u>	<u>54,613</u>	<u>22</u>	<u>2</u>	<u>-</u>

- (1) Information presented reflects the number of shares of ABB Ltd that warrant holders can receive upon exercise. Warrants and options have a conversion ratio of 5:1.
- (2) Information presented reflects the exercise price per share of ABB Ltd.
- (3) Information presented is weighted on the number of shares.
- (4) Computed using the closing price, in Swiss francs, of ABB Ltd shares on the SWX Swiss Exchange (virt-x) and the exercise share price of ABB limited.

The aggregate fair value at date of grant of warrants and options granted in the year was CHF nil (2020: CHF nil). This is the basis of the charge received by ABB Limited in the UK. The range of exercise prices for warrants and options outstanding at 31 December 2021 was CHF 19.00 – CHF 23.50 (2020: CHF 19.00 – CHF 23.5).

The fair value of each warrant or option is estimated on the date of grant using a lattice model that uses assumptions noted in the table below. Expected volatilities are based on implied volatilities from traded warrants and options on ABB Ltd's shares. The risk-free rate is based on a six-year Swiss Franc interest rate, reflecting the contractual life of the warrants and options. The maximum term of options granted is 6 years.

No warrants or options were granted in 2021 or 2020.

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ii) Employee Share Acquisition Plan (ESAP)

The ESAP is an employee share option plan with a savings feature. Employees save over a twelve-month period, by way of monthly salary deductions. At the end of the savings period, employees choose whether to exercise their share options using their savings plus interest to buy ABB Ltd shares at the exercise price set at the grant date, or have their savings returned with interest. The savings are accumulated in a bank account held by a third party trustee on behalf of the participants and earn interest. Employees can withdraw from the ESAP at any time during the savings period and will be entitled to a refund of their accumulated savings.

ABB Limited in the UK receives a charge for the costs of providing ESAP to employees of the UK group. The costs approximate the difference between the exercise price and market price of the ABB Ltd share at vesting, as well as administrative costs. Charges of £25,218,248 are included in administration costs in 2021 (2020: £63,661).

Presented below is a summary of activity under the ESAP during the years ended 31 December 2021 and 2020

	Number of shares	Weighted average exercise price (in Swiss francs)	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands of Swiss francs) (1)
2021				
Outstanding at 1 January	35,910	23	1	0
Granted during the year	36,950	30	-	-
Forfeited during the year	(2,956)	23	-	-
Exercised during the year	(26,224)	23	-	-
Not exercised (savings returned plus interest) during the year	(6,730)	23	-	-
Outstanding at 31 December	36,950	30	1	0
Vested and expected to vest at 31 December	36,950	30	-	-
Exercisable at 31 December	-	-	-	-
	Number of shares	Weighted average exercise price (in Swiss francs)	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in thousands of Swiss francs) (1)
2020				
Outstanding at 1 January	36,200	21	1	0
Transfers	630	21	-	-
Granted during the year	35,910	23	-	-
Forfeited during the year	(2,950)	21	-	-
Exercised during the year	(14,336)	21	-	-
Not exercised (savings returned plus interest) during the year	(19,544)	21	-	-
Outstanding at 31 December	35,910	23	1	0
Vested and expected to vest at 31 December	35,910	23	-	-
Exercisable at 31 December	-	-	-	-

(1) Computed using the closing price, in Swiss francs, of ABB Ltd shares on the SWX Swiss Exchange (virt-x) and the exercise price of each option in Swiss francs.

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NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 December 2021

iii) Long Term Incentive Plan (LTIP)

The long term incentive plan (LTIP) involves annual grants of the Company's stock subject to certain conditions (Performance Shares) to members of the Company's Executive Committee and selected other senior executives, as defined in the terms of the LTIP. The ultimate amount delivered under the LTIP's Performance Shares grant is based on achieving certain results against targets over a three-year period from grant and the final amount is delivered to the participants at the end of this period. In addition, for certain awards to vest, the participant has to fulfill a three-year service condition as defined in the terms and conditions of the LTIP.

The Performance Shares under the 2021, 2020, 2019 and 2018 LTIP launches include a performance component, based on the Company's earnings per share performance, and a market component, based on the Company's relative total shareholder return.

For the relative total shareholder return component of the Performance Shares, the actual number of shares that will be delivered at a future date is based on the Company's total shareholder return performance relative to a peer group of companies over a three-year period starting with the year of grant. The actual number of shares that will ultimately be delivered will vary depending on the relative total shareholder return outcome achieved between a lower threshold (no shares delivered) and an upper threshold (the number of shares delivered is capped at 200 percent of the conditional grant).

For the earnings per share performance component of the Performance Shares, the actual number of shares that will be delivered at a future date is based on the Company's average earnings per share over three financial years, beginning with the year of launch. The actual number of shares that will ultimately be delivered will vary depending on the earnings per share outcome as computed under each LTIP launch, interpolated between a lower threshold (no shares delivered) and an upper threshold (the number of shares delivered is capped at 200 percent of the conditional grant).

	2021			2020		
	Number of shares granted	Number of shares conditionally granted	Weighted average grant date fair value per share (Swiss Francs)	Number of shares granted	Number of shares conditionally granted	Weighted average grant date fair value per share (Swiss Francs)
Non vested at 1 January	20,384	6,157	18	-	-	-
Forfeited during the year	(2,167)	-	18	-	-	-
Transferred during the year	2,685	-	-	-	-	-
Granted during the year	<u>14,054</u>	<u>7,745</u>	-	<u>20,384</u>	<u>6,157</u>	18
Non vested at 31 December	<u><u>34,956</u></u>	<u><u>13,902</u></u>		<u><u>20,384</u></u>	<u><u>6,157</u></u>	

32. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption conferred by IAS 24 in that transactions with other wholly owned group companies are not disclosed, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

ABB LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the Year Ended 31 December 2021**

33. CONTROLLING PARTY

The immediate parent company is ABB Holdings Limited. The ultimate holding company is ABB Ltd, a company incorporated in Switzerland. This is the largest and smallest group in which ABB Limited is consolidated. A copy of the accounts can be obtained from PO Box 8131, CH-8050, Zurich, Switzerland.