# ABB A/S

Meterbuen 33, DK-2740 Skovlunde

CVR no. 31 37 17 16

# Annual report 2018

Approved at the Company's annual general meeting on 28 May 2019.

Chairman:

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## Contents

## Statement by Management on the annual report

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of ABB A/S for the financial year 1 January – 31 December 2018.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Skovlunde, 28 May 2019

Executive Board:

Claus Madsen
CEO

Board of Directors:

| | | |
|---|---|---|
| Johan Söderström<br>Chairman | Peter Jansson | Claus Madsen |

## Independent auditor's report

### To the shareholder of ABB A/S

### Opinion

We have audited the financial statements of ABB A/S for the financial year 1 January – 31 December 2018 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

## Independent auditor's report

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Statement on the Management's review**

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 28 May 2019

**KPMG**

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Jon Beck
State Authorised
Public Accountant
mne32169

# Management's review

## Financial highlights

| In DKK millions | 2018* | 2017* | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Key figures** | | | | | |
| Revenue | 1.765 | 1.660 | 2.465 | 2.244 | 1.928 |
| Gross profit | 370 | 353 | 427 | 460 | 470 |
| Operating profit/loss | 76 | 48 | 119 | 116 | 125 |
| Profit/loss from financial income and expenses | -3 | -3 | 1 | 3 | -2 |
| Profit/loss for the year | 57 | 35 | 94 | 91 | 93 |
| Total assets | 613 | 622 | 903 | 954 | 713 |
| Current assets | 596 | 604 | 884 | 938 | 698 |
| Investment in property, tools and equipment | 2 | 5 | 2 | 3 | 3 |
| Equity | 218 | 205 | 254 | 250 | 252 |
| Non-current liabilities | 40 | 43 | 46 | 50 | 47 |
| Current liabilities | 357 | 420 | 603 | 654 | 414 |
| **Financial ratios** | | | | | |
| Gross margin | 21,0% | 21,3% | 17,3% | 20,5% | 24,4% |
| Operating margin | 4,3% | 2,9% | 4,8% | 5,2% | 6,5% |
| Current ratio | 1,67 | 1,44 | 1,47 | 1,43 | 1,69 |
| Solvency ratio | 35,6% | 33,0% | 28,1% | 26,2% | 35,3% |
| Return on equity | 27,0% | 15,3% | 37,3% | 36,3% | 38,0% |
| Average number of full-time employees | 406 | 422 | 458 | 503 | 539 |

* Financial highlights for 2017-18 reflect continuing operations only.

With reference to section 101(3) of the Danish Financial Statements Acts, the financial highlights for the financial years 2014-2016 reflect both continuing and discontinuing operations.

### Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Gross margin $$\frac{\text{Gross profit x 100}}{\text{Revenue}}$$

Operating margin $$\frac{\text{Operating profit (EBIT) x 100}}{\text{Revenue}}$$

Current ratio $$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$$

Solvency ratio $$\frac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$$

Return on equity $$\frac{\text{Profit for the year x 100}}{\text{Average equity}}$$

## Management's Review

**Presentation of the company**
ABB Group is a pioneering technology leader with a comprehensive offering for digital industries. With a history of innovation spanning more than 130 years, ABB is today a leader in digital industries with four customer-focused, globally leading businesses: Electrification, Industrial Automation, Motion, and Robotics & Discrete Automation, supported by its common ABB Ability™ digital platform. ABB Group's market-leading Power Grids business will be divested to Hitachi in 2020. The legal separation in Denmark expects to occur in the end of 2019. ABB operates in more than 100 countries with about 147,000 employees.

ABB A/S develops, manufactures and market products and services for the manufacturing-, process- and consumer goods industries, supply enterprises, the oil and gas sector and the infrastructure market. At year-end ABB A/S had 445 employees.

**Development in activities and financial position**
The market is influenced by increased competition within certain areas. There continues to be increased investments in automation, renewable energy, buildings, e-mobility and data centers. The realised revenue in 2018 was as expected. The Company's income statement for 2018 shows a net profit of TDKK 59,627 and the balance sheet by 31 December 2018 shows a net worth of TDKK 217,513. The result for the year was as expected higher than result for 2017 and is considered satisfactory.

**Unusual circumstances**
***Discontinuing operations***
On December 17th ABB Group announced, that Hitachi will acquire ABB's Power Grids business. Consequently, the Power Grids business has been reported as discontinued operations in the 2018 financial statements. The sale of ABB A/S' Power Grids Business is expected to be completed by the end of 2019.

**Uncertainties regarding recognition and measurement**
The annual report for ABB A/S for 2018 does not contain material uncertainties regarding recognition and measurement.

**Particular risks**
***Operating risks***
The company is exposed to the market and operational risks which are usual for the markets we operate in, as well as to risks associated with the company's warranty commitments. It is the opinion of management that the provisions made are sufficient to cover the company's warranty commitments.

***Financial risks***
The company is financed internally within the ABB Group. The ABB Group is exposed to certain currency, commodity and interest rate risks arising from its global operating, financing and investing activities. The ABB Group uses derivative instruments to reduce and manage the economic impact of these exposures.

***Currency risks***
The company's foreign currency risk exposure is mainly hedged by offsetting payments received against expenses in the same currency, and by the use of derivative financial instruments. Currency risks are mainly hedged via forward exchange contracts in order to reduce the impact of ex-change rate fluctuations.

**Intellectual capital**
It is the company's objective to possess the latest knowledge. To meet this end, it is crucial that the company continues to be able to recruit and retain highly qualified employees. Therefore we continuously invest in personal and professional development.



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## Management's Review

### Environmental matters

We seek to minimize ABB's environmental footprint and to conduct our business in a socially responsible manner. The ABB Groups commitment to combatting climate change includes limiting the environmental impact of its own operations.

More than half of the ABB Groups revenue is related to energy efficiency, renewable energy and resource conservation, and our technologies contribute directly or indirectly to all 17 of the United Nations' Sustainable Development Goals.

### Research and development activities

Throughout 2018, the Group continued its development activities. A significant number of the Company's R&D activities are carried out by the rest of the ABB group in its international R&D centres.

### Social responsibility

In accordance with 99(a) of the Danish Financial Statements Act, ABB A/S follows and refers to the ABB Group's Statutory Report on Corporate Social Responsibility, aligned with Section 99(a) of the Danish Financial Statements Act, which is published by the Group. The report is available at https://sustainabilityreport2018.abb.com.

Furthermore, a Code of Conduct has been implemented both in the Group and in Denmark; it shows our commitment to act with ethical correct behavior and integrity in any given situation.

### Gender distribution in the management / Diversity in the management

The board of directors today consists of three members, of which all are male. The target is to have one woman (33%) within four years, depending on replacements in the board. With this change, the gender distribution would be aligned with 99b requirements for gender composition in the Board. The members of the board are appointed by the parent company, which determines the composition of the board.

Other level of management consists of 10% female managers by year-end. The distribution is similar to last year.

Management has decided on a policy to increase the share of the underrepresented gender at other levels of management. The policy contains internal targets for the share of female managers and guidelines for recruiting and maintaining female managers in the company. When recruiting we aim at having one of each gender presented. In addition, we have an annual process for identification of technical and managerial talents with specific focus on female talents.

As a consequence of these initiatives, the company expects the share of female managers at other levels of management to be slightly increased in the coming years.

### Events after the balance sheet date

No events have occurred that could materially affect the assessment of the Company's financial position.

### Outlook

ABB A/S expects an increase in level of activities despite challenging market terms. The operating profit from continuing operations for 2019 is expected to be higher than in 2018.

# Financial statements 1 January – 31 December

## Income statement

| Note | DKK'000 | 2018 | 2017 |
|---|---|---|---|
| 2 | **Revenue** | 1.764.969 | 1.660.174 |
| | Changes in inventories of finished goods, work in progress and goods for resale | -37.907 | -14.436 |
| | Other operating income | 2.634 | 2.629 |
| | Raw materials, consumables and goods for resale | -1.214.720 | -1.115.515 |
| 3 | Other external expenses | -145.049 | -180.197 |
| | **Gross profit** | 369.927 | 352.655 |
| 4 | Staff costs | -291.682 | -302.569 |
| 5 | Amortisation, depreciation and impairment losses | -2.467 | -2.389 |
| | **Operating profit/loss** | 75.778 | 47.697 |
| | Financial income | 291 | 466 |
| 6 | Financial expenses | -2.940 | -3.532 |
| | **Profit/loss before tax** | 73.129 | 44.631 |
| 7 | Tax for the year | -16.561 | -9.707 |
| | **Profit/loss for the year after tax from continuing operations** | 56.568 | 34.924 |
| 8 | **Profit/loss for the year after tax from discontinuing operations** | 3.059 | 9.449 |
| 9 | **Profit/loss for the year** | 59.627 | 44.373 |

# Financial statements for the period 1 January – 31 December

## Balance sheet

| Note | DKK'000 | 2018 | 2017 |
|---|---|---|---|
| | **ASSETS** | | |
| | **Fixed assets** | | |
| 10 | **Intangible assets** | | |
| | Acquired intangible assets | 871 | 1.312 |
| | | 871 | 1.312 |
| 11 | **Property, tools and equipment** | | |
| | Leasehold improvements | 1.481 | 1.453 |
| | Tools and machinery | 3.651 | 4.230 |
| | Fixtures and fittings, tools and equipment | 2.687 | 2.342 |
| | Property, plant and equipment under construction | 1.829 | 1.585 |
| | | 9.648 | 9.610 |
| 12 | **Financial assets** | | |
| | Deposits | 7.168 | 6.969 |
| | | 7.168 | 6.969 |
| | **Total fixed assets** | 17.687 | 17.891 |
| | **Non-fixed assets** | | |
| | **Inventories** | | |
| | Raw materials and consumables | 10.519 | 12.835 |
| | Work in progress | 34.235 | 59.958 |
| | Finished goods and goods for resale | 38.297 | 50.482 |
| | Prepayments for goods | 421 | 29.599 |
| | | 83.472 | 152.874 |
| | **Receivables** | | |
| | Trade receivables | 364.730 | 360.811 |
| 13 | Construction contracts | 52.185 | 29.193 |
| 14 | Receivables from group enterprises | 53.068 | 6.300 |
| | Income taxes | 4.161 | 217 |
| | Other receivables | 5.431 | 7.040 |
| 15 | Prepayments | 4.655 | 8.430 |
| | | 484.230 | 411.991 |
| 16 | **Cash** | 27.935 | 39.231 |
| | **Total non-fixed assets** | 595.637 | 604.096 |
| 8 | **Total assets relating to discontinuing operations** | 137.060 | 236.727 |
| | **TOTAL ASSETS** | 750.384 | 858.714 |

# Financial statements for the period 1 January – 31 December

## Balance sheet

| Note | DKK'000 | 2018 | 2017 |
|---|---|---|---|
| | **EQUITY AND LIABILITIES** | | |
| | **Equity** | | |
| 17 | Share capital | 100.000 | 100.000 |
| | Retained earnings | 57.513 | 57.886 |
| | Proposed dividend for the year | 60.000 | 47.000 |
| | **Total equity** | 217.513 | 204.886 |
| | **Provisions** | | |
| 18 | Deferred tax | 2.007 | 1.600 |
| 19 | Other provisions | 33.743 | 37.144 |
| | **Total provisions** | 35.750 | 38.744 |
| | **Liabilities other than provisions** | | |
| | **Non-current liabilities other than provisions** | | |
| 20 | Other liabilities | 4.108 | 4.752 |
| | | 4.108 | 4.752 |
| | **Current liabilities other than provisions** | | |
| 20 | Current portion of non-current liabilities other than provisions | 644 | 169 |
| 13 | Construction contracts | 4.457 | 11.571 |
| | Prepayments received from customers | 10.491 | 14.962 |
| | Trade payables | 44.124 | 54.771 |
| | Payables to group enterprises | 177.510 | 238.965 |
| | Income taxes | 0 | 1.123 |
| | Other payables | 120.229 | 98.347 |
| | | 357.455 | 419.908 |
| | **Total liabilities other than provisions** | 361.563 | 424.660 |
| 8 | **Total liabilities relating to discontinuing operations** | 135.558 | 190.424 |
| | **TOTAL EQUITY AND LIABILITIES** | 750.384 | 858.714 |

1 Accounting policies
21 Contractual obligations and contingencies, etc.
22 Related parties

# Financial statements 1 January – 31 December

## Statement of changes in equity

| Note | DKK'000 | Share capital | Retained earnings | Proposed dividend for the year | Total |
|---|---|---|---|---|---|
| | **Equity at 1 January 2018** | 100.000 | 57.886 | 47.000 | 204.886 |
| | Dividend distribution | | | -47.000 | -47.000 |
| 9 | Transferred over the profit appropriation | | -373 | 60.000 | 59.627 |
| | **Equity at 31 December 2018** | 100.000 | 57.513 | 60.000 | 217.513 |

# Financial statements 1 January – 31 December

## Notes

### 1 Accounting policies

The annual report of ABB A/S for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

The accounting policies are consistent with those of last year.

#### Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at closing rates. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

#### Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Fair value adjustments of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement on an ongoing basis.

### Income statement

#### Revenue

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are deducted from revenue.

A contract is broken down by individual transactions when the fair value of the individual sales transactions may be reliably measured, and the individual sales transactions are of separate value to the buyer. Sales transactions are deemed to be of a separate value to the buyer when the transaction is individually identifiable and usually sold individually. The contract price is broken down by the individual sales transactions in accordance with the relative current cost approach. The separate sales transactions are recognised as revenue when complying with the criteria applying to the sale of goods and services.

***Revenue from construction contracts***

Income from contract work in progress is measured by reference to the stage of completion. The value is calculated on the basis of the stage of completion at the balance sheet date and the total expected income from the contract in question. The stage of completion is calculated on the basis of the costs incurred relative to the expected total costs.

Write-downs for losses are made up as the total expected loss on the contract irrespective of the stage of completion.

***Revenue from the sale of goods***

Income from the sale of goods for resale and finished goods, is recognised in revenue when the most significant rewards and risks have been passed on to the buyer and provided the income can be measured reliably and payment is expected to be received. The date at which the most significant rewards and risks are passed on is based on standardised terms of delivery based on Incoterms® 2010.

## Financial statements 1 January – 31 December

### Notes

**1 Accounting policies (continued)**

***Revenue from the sale of services***

Income from the sale of services, which include service contracts, is recognised in revenue on a straight-line basis as the services are rendered, as the services are provided in the form of an indefinite number of actions over a specified period of time.

Services based on time spent are recognised in revenue as the work is performed.

**Other operating income**

Other operating income comprises items secondary to the Company's activities.

**Other operating expenses**

Other operating expenses comprise items secondary to the Company's activities.

**Raw materials and consumables, etc.**

Raw materials and consumables include expenses relating to raw materials and consumables used in generating the year's revenue.

**Other external expenses**

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

**Staff costs**

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

**Amortisation/depreciation and impairment**

The item comprises amortisation/depreciation and impairment of intangible assets and property, tools and equipment.

The residual value of intangible and tangible assets is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

**Financial income and expenses**

Financial income and expenses comprise interest income and expenses, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

**Tax for the year**

The company is covered by the Danish rules on compulsory joint taxation of the Danish subsidiaries of the ABB Group. The Danish subsidiaries of the ABB Group form part of the joint taxation from the date on which they are included in the consolidated financial statements and up to the date on which they exit the consolidation.

The company, ABB A/S, is the administrative company for the joint taxation and consequently settles all corporation tax payments with the tax authorities.

## Financial statements 1 January – 31 December

### Notes

**1 Accounting policies (continued)**

The current Danish corporation tax is allocated by the settlement of joint taxation contributions between the jointly taxed enterprises in proportion of their taxable income. In this relation, enterprises with tax loss carryforwards receive joint taxation contributions from enterprises that have used these losses to reduce their own taxable profits.

Tax for the year comprises current tax for the year and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

### Balance sheet

#### Intangible assets

Acquired intangible assets comprise software and are measured at cost less accumulated amortisation and impairment losses. Acquired intangible assets are amortised on a straight-line basis over the expected useful life, however not exceeding 5 years.

Gains and losses on the disposal of acquired intangible assets are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

#### Property, tools and equipment

Property, tools and equipment is measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, and wages and salaries as well as borrowing costs relating to specific and general borrowing directly attributable to the construction of the individual asset.

Interest expenses on loans to finance the production of items of property, tools and equipment, and which relate to the production period, are recognised in cost. All other borrowing costs are recognised in the income statement.

Where individual components of an item of property, tools and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight-line basis over the expected useful life. The expected useful lives of the assets are as follows:

| | |
|---|---|
| Leasehold improvements | 5 years |
| Tools and machinery | 10-15 years |
| Fixtures and fittings, tools and equipment | 3-10 years |

The basis of depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In case of changes in the amortisation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Gains and losses on the disposal of items of property, tools and equipment are calculated as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. The gains or losses are recognised in the income statement.

## Financial statements 1 January – 31 December

### Notes

**1 Accounting policies (continued)**

**Leases**

On initial recognition, leases for fixed assets that transfer substantially all risks and rewards incident to ownership to the Company (finance leases) are recognised in the balance sheet at the lower of fair value and the net present value of future lease payments.

All other leases are operating leases. Payments relating to operating leases and other leases are recognised in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed as contractual obligations and contingencies, etc.

**Impairment of non-current assets**

The carrying amount of intangible assets and property, tools and equipment is tested annually for evidence of impairment other than the decrease in value reflected by amortisation/depreciation.

Impairment tests are conducted on individual assets or groups of assets when there is evidence of impairment. Assets are written down to the lower of the carrying amount and the recoverable amount.

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the net present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

**Inventories**

Inventories are measured at cost in accordance with the weighted average method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct labour and production overheads. Production overheads include the indirect cost of material and labour.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

**Receivables**

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are assessed for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the country of domicile and credit ratings of the debtors in accordance with the Group's credit risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the net present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

## Financial statements 1 January – 31 December

### Notes

**1 Accounting policies (continued)**

**Construction contracts**

Contract work in progress is measured by reference to the stage of completion. The value is calculated on the basis of the stage of completion at the balance sheet date and the total expected income from the contract in question. The stage of completion is calculated on the basis of the costs incurred relative to the expected total costs.

Write-downs for losses are made up as the total expected loss on the contract irrespective of the stage of completion.

The value of the individual contracts, less prepayments, is classified under 'Receivables' if the amounts are positive and under 'Payables' if the amounts are negative.

**Prepayments**

Prepayments recognised under "Current assets" comprise expenses incurred concerning subsequent financial years.

**Equity**

***Dividend***

Proposed dividend for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the financial year is presented as a separate line item under "Equity".

**Income tax and deferred tax**

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes or on office premises and other items where temporary differences arise at the date of acquisition without affecting neither the profit/loss for the year nor the taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

**Provisions**

Provisions comprise anticipated costs related to warranty commitments, restructuring, etc. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at net realisable value. If the obligation is expected to be settled far into the future, the obligation is measured at fair value.

When it is probable that total costs will exceed total income from a construction contract, the total projected loss on the work is recognised as a provision.

Warranty commitments include expenses for remedial action in respect of the contract work within the warranty period of 1-5 years. Provisions for warranty commitments are measured at net realisable value and recognised based on past experience.

## Financial statements 1 January – 31 December

### Notes

**1 Accounting policies (continued)**

**Liabilities**

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

**Omission of a cash flow statement**

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are reflected in the consolidated cash flow statement for the higher-ranking parent company ABB Ltd., Zürich, Switzerland.

### Segment information

Information is disclosed by geographical market. Segment information is based on the Company's accounting policies.

## Financial statements 1 January – 31 December

### Notes

| DKK'000 | 2018 | 2017 |
|---|---|---|
| **2 Geographical segment information** | | |
| **Revenue** | | |
| National | 1.405.047 | 1.323.751 |
| International | 359.922 | 336.423 |
| | 1.764.969 | 1.660.174 |

With reference to section 96(1) of the Danish Financial Statements Acts, the revenue is not split into further segments. With only few competitors in some of the segments ABB A/S acts in, management asses that the company's competitors will benefit from knowing the turnover within the individual segments and the development thereof. Management asses that the revenue distribution on segments will cause significant damage to the company.

**3 Fees to auditor appointed at the general meeting**

| | 2018 | 2017 |
|---|---|---|
| Total fees: | | |
| KPMG | 677 | 0 |
| EY | 0 | 891 |
| | 677 | 891 |
| Specification of fees: | | |
| Statutory Audit | 669 | 841 |
| Non-audit services | 8 | 50 |
| | 677 | 891 |

**4 Staff costs**

| | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 255.953 | 263.179 |
| Pensions | 20.705 | 20.754 |
| Other social security costs | 3.417 | 2.940 |
| Other staff costs | 11.607 | 15.696 |
| | 291.682 | 302.569 |
| Average number of full-time employees | 406 | 422 |

No fee has been paid to the Board of Directors. By reference to section 98b(3), (ii) of the Danish Financial Statement Act, remuneration to management is not disclosed.

**5 Amortisation/depreciation and impairment losses**

| | 2018 | 2017 |
|---|---|---|
| Intangible assets | 441 | 442 |
| Property, tools and equipment | 2.026 | 1.947 |
| | 2.467 | 2.389 |

## Financial statements 1 January – 31 December

### Notes

| DKK'000 | 2018 | 2017 |
|---|---|---|
| **6 Financial expenses** | | |
| Interest expenses, group enterprises | 334 | 634 |
| Other interest expenses | 2.606 | 2.898 |
| | 2.940 | 3.532 |
| **7 Tax for the year** | | |
| Current tax for the year | 16.144 | 19.197 |
| Adjustment of the deferred tax charge for the year | 407 | -8.780 |
| Prior-year adjustments | 10 | -710 |
| | 16.561 | 9.707 |

**8 Discontinuing operations**

Starting in 2018, ABB Group will report our Power Grids business as discontinued operations. The Power Grid business primarily consists of three areas: High Voltage, Medium Voltage and Transformer Products. The business supplies all the products needed by the Danish power supply and power production. The completion of the transaction is expected by the end of 2019 for ABB A/S.

| DKK'000 | 2018 | 2017 |
|---|---|---|
| **Income statement for discontinuing operations** | | |
| **Revenue** | 276.731 | 400.123 |
| Changes in inventories of finished goods, work in progress and goods for resale | 219 | -21.764 |
| Raw materials, consumables and goods for resale | -231.657 | -333.174 |
| Other external expenses | -19.867 | -15.096 |
| **Gross profit** | 25.426 | 30.089 |
| Staff costs | -21.208 | -17.263 |
| Amortisation, depreciation and impairment losses | -5 | -4 |
| **Operating profit/loss** | 4.213 | 12.822 |
| Financial income | 0 | 1 |
| Financial expenses | -285 | -709 |
| **Profit/loss before tax** | 3.928 | 12.114 |
| Tax for the year | -869 | -2.665 |
| **Profit/loss for the year from discontinuing operations** | 3.059 | 9.449 |

# Financial statements 1 January – 31 December

## Notes

| DKK'000 | 2018 | 2017 |
|---|---|---|
| **8 Discontinuing operations (continued)** | | |
| **Balance Sheet for discontinuing operations** | | |
| Fixed assets | 16 | 23 |
| Inventories | 2.696 | 2.338 |
| Trade receivables | 43.173 | 87.089 |
| Construction contracts | 24.610 | 142.234 |
| Receivables from group enterprises | 64.046 | 1.627 |
| Other receivables | 1 | 3.243 |
| Prepayments | 2.518 | 173 |
| **Total assets for discontinuing operations** | 137.060 | 236.727 |
| Provisions | 3.687 | 4.349 |
| Construction contracts | 54.168 | 58.008 |
| Prepayments received from customers | 24.048 | 11.357 |
| Trade payables | 7.253 | 15.379 |
| Payables to group enterprises | 30.573 | 86.384 |
| Income taxes | 1.043 | 2.491 |
| Other payables | 14.786 | 12.456 |
| **Total liabilities for discontinuing operations** | 135.558 | 190.424 |
| **9 Proposed profit appropriation** | | |
| Dividend proposed for the year | 60.000 | 47.000 |
| Transferred to reserves under equity | -373 | -2.627 |
| | 59.627 | 44.373 |

**10 Intangible assets**

| DKK'000 | Acquired intangible assets |
|---|---|
| Cost at 1 January 2018 | 36.764 |
| Cost at 31 December 2018 | 36.764 |
| Amortisation and impairment losses at 1 January 2018 | -35.452 |
| Amortisation | -441 |
| Amortisation and impairment losses at 31 December 2018 | -35.893 |
| **Carrying amount at 31 December 2018** | 871 |

## Financial statements 1 January – 31 December

### Notes

### 11 Property, tools and equipment

| DKK'000 | Leasehold improve-ments | Tools and machinery | Fixtures and fittings, tools and equipment | Property, tools and equipment under construction | Total |
|---|---|---|---|---|---|
| Cost at 1 January 2018 | 12.007 | 42.203 | 11.873 | 1.585 | 67.668 |
| Additions | 0 | 0 | 0 | 2.253 | 2.253 |
| Transferred | 318 | 643 | 1.048 | -2.009 | 0 |
| Disposals | 0 | -294 | 0 | 0 | -294 |
| Cost at 31 December 2018 | 12.325 | 42.552 | 12.921 | 1.829 | 69.627 |
| Depreciation and impairment losses at 1 January 2018 | -10.554 | -37.973 | -9.531 | 0 | -58.058 |
| Depreciation | -290 | -1.033 | -703 | 0 | -2.026 |
| Disposals | 0 | 105 | 0 | 0 | 105 |
| Depreciation and impairment losses at 31 December 2018 | -10.844 | -38.901 | -10.234 | 0 | -59.979 |
| **Carrying amount at 31 December 2018** | 1.481 | 3.651 | 2.687 | 1.829 | 9.648 |

### 12 Financial assets

| DKK'000 | Deposits |
|---|---|
| Cost at 1 January 2018 | 6.969 |
| Additions | 199 |
| Cost at 31 December 2018 | 7.168 |
| **Carrying amount at 31 December 2018** | 7.168 |

| DKK'000 | 2018 | 2017 |
|---|---|---|
| **13 Construction contracts** | | |
| Selling price of work performed | 121.891 | 99.789 |
| Advance payment and progress billings | -74.163 | -82.167 |
| | 47.728 | 17.622 |
| recognised as follows: | | |
| Construction contracts (assets) | 52.185 | 29.193 |
| Construction contracts (liabilities) | -4.457 | -11.571 |
| | 47.728 | 17.622 |

## Financial statements 1 January – 31 December

### Notes

| DKK'000 | 2018 | 2017 |
|---|---|---|
| **14 Receivables from group enterprises** | | |
| Trade receivables from group enterprises | 13.068 | 6.300 |
| Cash placed within the group | 40.000 | 0 |
| | 53.068 | 6.300 |

**15 Prepayments**
Prepayments recognised as assets include expenses incurred concerning subsequent financial years.

**16 Cash**
The company's cash can be placed internally within the group. If the internally placed cash according to note 14 is included, the company's total cash as per 31. December 2018 is TDKK 67.935.

**17 Share capital**

The share capital, 100.000 TDKK, consists of 1 A-share at 100.000 TDKK.

There has been no change to the contributed capital in the last 5 years.

| DKK'000 | 2018 | 2017 |
|---|---|---|
| **18 Deferred tax** | | |
| Deferred tax at 1 January | 1.600 | 10.380 |
| Deferred tax adjustment for the year | 407 | -8.780 |
| **Deferred tax at 31 December** | 2.007 | 1.600 |
| The deferred tax charge relates to: | | |
| Other non-current assets | 192 | 694 |
| Property, tools and equipment | 15 | -454 |
| Current assets | 4.741 | 6.975 |
| Provisions | -2.941 | -5.615 |
| | 2.007 | 1.600 |
| **19 Other provisions** | | |
| Warranty provisions | 14.128 | 13.941 |
| Provision for loss-making orders | 1.258 | 669 |
| Other provisions* | 18.357 | 22.534 |
| | 33.743 | 37.144 |

* Other provisions includes work-due provisions, refurbishment provisions etc.

## Financial statements 1 January – 31 December

### Notes

### 19 Other provisions (continued)

| DKK'000 | 2018 | 2017 |
|---|---|---|
| Other provisions at 1 January | 37.144 | 30.648 |
| Used during the year | -17.638 | -8.104 |
| Reversal | -3.715 | -178 |
| Provision for the year | 17.952 | 14.778 |
| **Other provisions at 31 December** | 33.743 | 37.144 |
| Other provisions are expected to mature within: | | |
| 0-1 year | 20.912 | 24.271 |
| 1-5 years | 7.983 | 11.654 |
| > 5 years | 4.848 | 1.219 |
| | 33.743 | 37.144 |

### 20 Non-current liabilities other than provisions

Non-current liabilities other than provisions can be specified as follows:

| | | |
|---|---|---|
| Vacancy provisions: | | |
| 0-1 year | 644 | 169 |
| 1-5 years | 2.733 | 2.678 |
| > 5 years | 1.375 | 2.074 |
| **Total non-current liabilities other than provisions** | 4.752 | 4.921 |

### 21 Contractual obligations and contingencies, etc.

**Contingent liabilities**

ABB A/S is party to a few pending legal actions. In Management's opinion, the outcome of these legal actions will not affect the Company's financial position apart from the receivables and payables recognised in the balance sheet at 31 December 2018.

ABB A/S is jointly taxed with other Danish group companies. As a group company, the company has unlimited and joint liability with other group companies for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation unit.

# Financial statements 1 January – 31 December

## Notes

### 21 Contractual obligations and contingencies, etc. (continued)

| DKK'000 | 2018 | 2017 |
|---|---|---|
| **Operating lease liabilities** | | |
| Obligations under operating leases concerning cars, computer hardware, operating equipment, land and buildings. | | |
| The total payments in the remaining term of the leases are: | | |
| Continuing operations | 56.858 | 57.690 |
| Discontinuing operations | 512 | 550 |
| **Total operating lease liabilities** | 57.370 | 58.240 |
| Of which falls due for payment within 5 years: | | |
| Continuing operations | 47.390 | 48.049 |
| Discontinuing operations | 512 | 550 |

### 22 Related party disclosures

ABB A/S' related parties comprise the following:

**Parties exercising control**

ABB Norden Holding AB, Sweden

ABB Norden Holding AB holds 100 % of the contributed capital in the Company.

ABB A/S is part of the consolidated financial statements of ABB Ltd, Affolternstrasse 44, CH-8050 Zürich, Switzerland, which is both the smallest and largest group, which prepares consolidated financial statements, in which ABB A/S is included as a subsidiary.

The consolidated financial statements of ABB Ltd can be obtained by contacting the company at the above address.

| DKK'000 | 2018 | 2017 |
|---|---|---|
| **Related party transactions** | | |
| Sale of goods and services to group companies | 56.201 | 53.773 |
| Purchase of goods and services from group companies | 1.439.356 | 1.285.988 |

Interest expenses to group are disclosed in the income statement. Payables and receivables to group are disclosed in the balance sheet.

No remuneration has been paid to the Board of Directors. By reference to section 98b(3), (ii) of the Danish Financial Statement Act, remuneration to management is not disclosed.

Besides distribution of dividend, no other transactions were carried through with shareholder in the year.