Babcock & Wilcox A/S

Falkevej 2, 6705 Esbjerg Ø

CVR no. 25 05 36 64

Annual report 2021

Approved at the Company's annual general meeting on 7 July 2022

Chair of the meeting:

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Rodney Ernest Carlson
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Rodney Ernest Carlson

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Babcock & Wilcox A/S for the financial year 1 January - 31 December 2021.

The annual report is 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 2021 and of the results of the Company's operations for the financial year 1 January - 31 December 2021.

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.

Esbjerg, 7 July 2022
Executive Board:

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Gary Cochrane
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Gary Campbell Cochrane
Managing Director

Board of Directors:

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Rodney Ernest Carlson Chair	Jan Sahl	Gary Campbell Cochrane
DocuSigned by: Brandy Johnson DB049F6473BA47F...	DocuSigned by: 54A7B8985B35498...	DocuSigned by: DDCFBF54BA7B467...
Brandy Lynn Johnson Aungst	Helge Steenstrup	Rasmus Peter Sejerup Rasmussen

Independent auditor's report

To the shareholder of Babcock & Wilcox A/S

Opinion

We have audited the financial statements of Babcock & Wilcox A/S for the financial year 1. January 2021 - 31. December 2021, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant 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 Entity's financial position at 31. December 2021 and of the results of its operations and cash flows for the financial year 1. January 2021 - 31. December 2021 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 as 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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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 commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

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

Aarhus, 7 July 2022
Deloitte
Statsautoriseret Revisionspartnerselskab
CVR no. 33 96 35 56

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Henrik Vedel State Authorised Public Accountant mne10052	Mikael Møller State Authorised Public Accountant mne47835

Management's review

Company details

Name	Babcock & Wilcox A/S
Address, Postal code, City	Falkevej 2, 6705 Esbjerg Ø
CVR no.	25 05 36 64
Established	22 November 1999
Registered office	Esbjerg
Financial year	1 January - 31 December
Website	www.babcock.com
E-mail	bwv@volund.dk
Telephone	+45 76 14 34 00
Board of Directors	Rodney Ernest Carlson, Chair Jan Sahl Gary Campbell Cochrane Brandy Lynn Johnson Aungst Helge Steenstrup Rasmus Peter Sejerup Rasmussen
Executive Board	Gary Campbell Cochrane, Managing Director
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab City Tower, Værkmestergade 2, 8000 Aarhus C
Bankers	Danske Bank A/S - Finanscenter Sydjylland Strandbygade 2, 6700 Esbjerg

Management's review

Financial highlights

DKK'000	2021	2020	2019	2018	2017
Key figures					
Revenue	388,262	436,632	660,562	646,906	1,604,025
Gross profit	82,249	192,349	27,777	-1,497,194	-1,135,830
Profit before interest and tax (EBIT)	-42,477	37,114	-169,575	-1,665,898	-1,294,685
Net financials	-17,458	-194,535	-258,268	-104,960	-16,675
Profit/loss for the year	-48,057	-166,026	-443,452	-1,797,212	-1,321,270
Total assets	414,896	392,475	310,001	461,534	589,122
Investments in property, plant and equipment	3,671	7,102	4,003	3,451	7,065
Equity	-20,972	26,810	-4,178,842	-3,726,134	-1,927,269
Financial ratios					
Gross margin	21.2%	44.1%	4.2%	-231.4%	-70.8%
Equity ratio	-5.1%	6.8%	-1,348.0%	-807.3%	-327.1%
Net margin (%)	-6.1%	-38.0%	-67.1%	-277.8%	-82.4%
Average number of full-time employees	222	271	325	382	552

For terms and definitions, please see the accounting policies.

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the CFA Society Denmark.

Management's review

Business review

Babcock & Wilcox A/S is a fully owned subsidiary of Babcock & Wilcox Enterprises, Inc. (B&W), a U.S.-based public company listed on the New York Stock Exchange (Ticker: BW). We are a leading international supplier of technologies for renewable energy plants that use various types of waste and biomass as fuel. We design, engineer, manufacture, install and service components of various dimensions and configurations primarily based on our own stoker/grate firing technology. We also provide operating and maintenances services and aftermarket equipment for renewable energy plants.

Unusual matters having affected the financial statements

The financial position at 31 December 2021 of the Company and the results of the activities of the Company for the financial year for 2021 have resulted in loss of the share capital. It is the management’s expectations that the equity will be reestablished based on the Company's operation.

Going concern

B&W PGG Luxembourg Finance has issued a letter of comfort inter alia stating that it is in the interest of the parent company to ensure that the company meets its financial obligations at all times and that it is the policy of the parent company to provide the company with such support and assistance as may be required to ensure that it maintains capital and liquidity levels to enable it at all times to meet its obligations in conformity with standards of prudence generally accepted for its field of business. This letter of comfort is valid until date of the general meeting in the company where the annual report for the year ending 31 December 2022 is approved, however, in no event later than 30 June 2023. Based on this, it is the Management's assessment that the Company can continue as going concern.

Financial review

The end-market demand for our products is strong. The markets in Europe, North and South America and Asia are showing increasing interest in renewable power generation projects from waste and biomass fuel sources, which are well aligned with our products and services.

We are confident in our leading technology, which is in high demand in all markets. In 2021, we continued to focus on our core technologies and on transitioning into a fully integrated and efficient global projects and engineering execution model leveraging our knowledge and expertise with the rest of the global B&W operations. At the same time, we continued to focus on growing our service and maintenance business in Europe. Our sales and growth efforts were to some extent slowed by the COVID-19 pandemic; however, while we cannot fully predict how the pandemic will continue to affect the timing of new project bookings, we continue to see strong demand for our renewable technologies. As a result, we expect sales to increase as we continue to pursue our growth strategy.

Our parent company, B&W, has provided considerable support through the past years as we worked to complete six projects that negatively impacted our financial results. As of December 31, 2021, only punch list or agreed remediation items remain, some of which are expected to be performed during the customers' scheduled maintenance outages in 2022.

We have handed over well-performing plants to our customers, and these plants function as showcases for future customers and offer longer-term opportunities for our service and O&M business.

A more detailed project status summary is contained in our parent company's 10-K to be found at Investors.babcock.com.

The shareholders’ support letter provided in 2017, in which B&W committed to fund our company with the cash required to meet our obligations and allow the business to continue as a going concern, has been extended through at minimum December 2023 (see note 2).

Profit/loss for the year in relation to expected developments

Our full-year 2021 net revenues were DKK 388 million, which is a decrease of DKK 49 million compared to the prior year due to a reduction in large project activities. Operating profit was reduced from a profit of DKK 37 million to a loss of DKK 42 millions. We have remained focused on serving our customers, making important decisions to better position our businesses for the future, and driving improved financial performance. The year-end results reflected a loss of DKK 48 million.

Management's review

We generally recognize revenues and related costs from long-term contracts on a percentage-of-completion basis. Accordingly, we review contract price and cost estimates regularly as work progresses and reflect adjustments in profit proportionate to the percentage of completion in the periods in which we revise estimates to complete the contract. To the extent that these adjustments result in a reduction of previously reported profits from a contract, we recognize a charge against current earnings. If a contract is estimated to result in a loss, such loss is recognized in the current period as a charge to earnings and the full loss is accrued on our balance sheet, which results in no expected gross profit from the loss contract in the future unless there are revisions to our estimated revenues or costs of completion in periods following the accrual of the contract loss. Changes in the estimated results of our percentage-of-completion contracts are necessarily based on information available at the time of the estimates and are based on judgments that are inherently uncertain, as they are predictive in nature. As with all estimates to complete used to measure contract revenue and costs, actual results can and do differ from our estimates made over time.

Insurance recoveries and sub-contractor claims

We have collected on claims in 2021 and we continue to pursue insurance recoveries and sub-contractor claims related to the previous loss-making projects.

Restructuring and growth activities

In May 2020, we aligned under The Babcock & Wilcox Company (B&W) in a global company structure for all B&W operations. Under this structure, sales, engineering, project management, procurement, manufacturing, and other project-related support is provided through a globally matrixed structure. The structure helps us better address workload ebbs and flows, while also allowing employees across the global B&W operations to expand their skills and gain greater experience in supporting all of B&W's product line areas, thus increasing overall manpower flexibility.

Throughout 2021, we continued to identify and implement multiple actions to proactively improve our cost structure. Key actions included workforce reductions to align with the new global structure and our activity levels, other selling, general and administrative cost reductions as well as other process improvements. These actions have continued into 2021 and were focused on productivity and efficiency gains to enhance profitability and cash flow going forward.

Conclusion

The 2-year main warranty phases for the European EPC loss contracts have expired in 2021, and we thus now have these loss contracts behind us.

Based on the new structure for bidding and executing new-build projects, and the continued cost-savings, management expects improved results going forward.

Financial risks and use of financial instruments

Particular risks operations

The key operational risks relate to the execution of new projects within schedule and budget. To ensure a strong project execution a relaunch of the Global Project Management Manual is ongoing across the B&W Group including B&W A/S. The purpose is to enable an effective use of the global execution resource pool supported by a common B&W project governance model.

Other risks involve failure by third-party subcontractors, partners or suppliers to perform their obligations on time and as specified; our ability to successfully resolve claims by vendors for goods and services provided and claims by customers for items under warranty; our ability to realize anticipated savings and operational benefits from our cost-savings initiatives; our ability to successfully address productivity and schedule issues; and our ability to successfully partner with third parties to win and execute contracts.

The situation in Ukraine is creating a particular risk in our supply chain with availability and cost of materials, equipment, and transportation. We are continuously monitoring the situation and following up with our global supplier and logistics network.

Management's review

Market risks

The key market risks relate to a continued development of our technological expertise and our different delivery models to enable us to meet market requirements in our core areas. This is ensured through dialogue with our customers, partners, and the academia.

COVID-19 Impact

The global COVID-19 pandemic has disrupted business operations including global supply chains, trade, commerce, financial and credit markets, and daily life throughout the world. The Company's business has been, and continues to be, adversely impacted by the measures taken and restrictions imposed in the countries in which it operates and by local governments and others to control the spread of this virus. These measures and restrictions have varied widely and have been subject to significant changes from time to time depending on the changes in the severity of the virus in these countries and localities. These restrictions, including travel and curtailment of other activity, negatively impact the Company's ability to conduct business.

The COVID-19 pandemic has also disrupted global supply chains including the manufacturing, supply, distribution, transportation, and delivery of the Company's products. The Company could also see significant disruptions of the operations of logistics, service providers, delays in shipments and negative impacts to pricing of certain products. Disruptions and delays in the Company's supply chains as a result of the COVID-19 pandemic could adversely impact the ability to meet customers' demands. Additionally, the prioritization of shipments of certain products as a result of the pandemic could cause delays in the shipment or delivery of the Company's products. Such disruptions could result in reduced sales.

The volatility and variability of the virus has limited the Company's ability to forecast the impact of the virus on its customers and its business. The ongoing impact of COVID-19, including new strains such as the Delta and Omicron variants, has resulted in the reimposition of certain restrictions and may lead to other restrictions being implemented in response to efforts to reduce the spread of the virus. These varying and changing events have caused many of the projects the Company had anticipated would begin in 2020 to be delayed into 2022 and beyond. Many customers and projects require B&W's employees to travel to customer and project worksites. Certain customers and significant projects are located in areas where travel restrictions have been imposed, certain customers have closed or reduced on-site activities, and timelines for completion of certain projects have, as noted above, been extended into 2022 and beyond. Additionally, out of concern for the Company's employees, even where restrictions permit employees to return to its offices and worksites, the Company has incurred additional costs to protect its employees as well as advised those who are uncomfortable returning to worksites due to the pandemic that they are not required to do so for an indefinite period of time.

The resulting uncertainty concerning, among other things, the spread and economic impact of the virus has also caused significant volatility and, at times, illiquidity in global equity and credit markets. The full extent of the COVID-19 impact on the Company's operational and financial performance will depend on future developments, including the ultimate duration and spread of the pandemic and related actions taken by governments to prevent outbreaks, as well as the availability, effectiveness, and acceptance of COVID-19 vaccinations, all of which are uncertain, out of the Company's control, and cannot be predicted.

Currency exposure

As we sell projects and make purchases in foreign currencies, these involve a foreign exchange risk. Transactions are made in EUR, GBP, USD, and SEK, for example. We engage in new currency hedging activities to limit the risks of currency fluctuations as appropriate. Fluctuations in foreign currencies could have a negative impact on the profitability of our global operations, which would harm our financial results and cash flows.

Interest risks

As of December 31, 2021, the net floating-rate interest-bearing debt is primarily provided through our parent company's credit facility, so we do not enter into transactions to hedge against interest rate exposure. (On February 16, 2021, B&W prepaid its remaining outstanding U.S. Revolving Credit Facility. The Senior Notes issued in 2021 have fixed interest rates.)

Management's review

Credit risks

According to our policy for assuming credit risks, major customers and business partners are credit rated regularly.

Research and development activities

Our research and development activities are aimed at developing and optimizing production processes and our product portfolio. These activities are partly carried out in cooperation with public authorities. Costs expensed for research and development amount to DKK 23.2 million net of contributions received, which is an increase of DKK 13.1 million compared to 2020. The amount is equal to 5.3% of the net revenues. Furthermore, there is project related development paid by customers.

Foreign branches

Babcock & Wilcox Vølund AB, Sweden, is included as a fully owned subsidiary.

Babcock & Wilcox Vølund Ltd., UK, is included as a fully owned subsidiary.

Babcock & Wilcox s.r.o., Slovakia, was included as a fully owned subsidiary until 1 April 2021.

Transactions with related parties

We have routine transactions involving contract work and administrative items with various related enterprises, which are subsidiaries of Babcock & Wilcox Enterprises, Inc. All transactions are carried out on an arm's length basis.

Statutory CSR report

This section on corporate social responsibility is included in accordance with the Danish Financial Statements Act, § 99a.

For information about our business, please see above under "Primary Activities".

Health, Safety and Environment (HSE)

We value the health and safety of each employee and are committed to ensuring that we have a workplace that is free of accidents and injuries. We have implemented the Target Zero program that reflects our commitment to the overall safety of each employee. Rather than just reacting to incidents and correcting contributing factors, our objective is to be proactive and prevent accidents from occurring. We promote Target Zero as a corporate-wide process that helps us ensure a safe work environment.

The most significant risks within HSE are:

- lifting of heavy structures in the production workshops and during assembly of energy plants on customer sites
- fumes and dust from welding and grinding in Inconel layers on boiler walls and pipes

We pursue HSE improvements leading to high-quality performance demonstrated through objective metrics and process reviews. Managers, supervisors, employees, subcontractors, vendors, and customers work together to practice and promote proper work habits, develop positive attitudes, use good judgment, and comply with applicable HSE requirements.

With preparation work starting already in 2020, a formal HSE business plan was established at the beginning of 2021. The business plan included various initiatives, all of which were launched to make our company an even safer, healthier, and greener workplace. We used a risk-based approach, which involved Zero Incident Planning for all activities. Another major focus area was COVID-19 precautions, and we created a safe workplace with, for example, temperature screening at the entrance, social distancing, and a great number of precautionary initiatives for our construction workers. In 2021, we developed our Business Management System to include Health & Safety Management, and we achieved certification according to the ISO 45001 OH&S Management Standard.

Management's review

We set ambitious targets for our safety performance and take corrective actions as needed. In 2021, we were not successful in meeting our DART (Days Away Restricted Transfer Rate) with recorded incident of 1,27 against a target of 1,04 and TRIR (Total Recordable Incident Rate) with recorded incident of 3,80 against a target of 1,80. However, the culture for reporting and registering near misses and accidents is still improving, and a strong incident investigation process involving top management is in place to support the preventive actions and to understand and share the lessons learned.

As part of our working environment efforts, the top management meets with elected employees in the Main Safety Committee taking care of strategic health and safety initiatives and the HSE Business Plan. Elected safety representatives from offices, workshop, warehouse, commissioning, and construction sites meet with local managers in Safety Groups to address improvement initiatives and incidents.

If we fail to manage our Health and Safety work and do not comply with our goals, it could have a negative impact on our employees, on our reputation, and on our future business opportunities. We will continue to focus on our efforts within HSE.

Climate and environment

Our core business contributes significantly to several UN Sustainable Development Goals including Sustainable Cities, Clean Energy, Climate Action, and Waste Management. We strive toward a world without landfills by offering and continuously improving our clean waste-to-energy solutions. Our solutions are an important part of the circular economy to reduce, reuse, recycle and reenergize.

Our environmental policy sets the overall frame for our environmental efforts. Our vision for environmental sustainability is to act according to our environmental management system and endeavor the least impact possible in relation to the environmental development and the technical and economical means at our disposal.

We are taking on responsibility for the environment. We prioritize preventions and continuously strive to reduce environmental impacts. We are committed to work systematically toward sustainability through development of best available technology and project management.

Our mission for environmental sustainability is based on the following:

- We comply with current legal requirements concerning environmental protection and we comply with environmental requirements from B&W.
- We are working to prevent pollution and contamination and to achieve a measurable decrease in our energy consumption as well as our waste volume in relation to our activities, as we deem these areas to pose the most significant risk on the environment. The end target is zero waste to landfill.
- Environmental goals and targets are set, and our performance is reviewed on a regular basis. If we do not manage our environmental work and fail our goals, we have a risk related to production having a negative impact on the environment, the climate, the surrounding communities, on our reputation, and on our future business opportunities.
- We continuously strive to ensure that environmental impact prevention is integrated into the development, design, calculation, purchasing, planning, organizing, and decision processes, into the implementation of new processes and equipment as well as into everyday tasks.
- Managers and employees are aware of the environmental management system, and they follow the requirements and the intentions of the system.
- We cooperate with our subcontractors about environmental protection, requiring that they follow the same approach and course of actions about environment as we do.

The Environmental Policy is communicated to all employees and subcontractors, and it is available to interested parties.

In terms of the environmental impact of our office locations and production facilities, energy audits are being carried out at regular intervals.

In 2021, we developed our Business Management System to include Environmental Management, and we achieved certification according to the ISO 45001 OH&S Management Standard.

Management's review

Going forward, we have planned the following activities broken down into goals:

- 2022: exchange lighting in all production halls, expected annual savings of 87,500 kWh
- 2023: insulation of production hall facades, expected annual savings of 120,000 kWh
- 2025: new energy control system, expected annual savings of 89,000 kWh

Recruiting, training, and retaining

Our mission is to be a supplier of technologies for efficient and environmentally sound waste-to-energy and biomass energy plants around the world and there is a continuous requirement for recruiting and retaining qualified staff. This is ensured through policies and procedures for recruiting, performance management, employee development, part-time post-retirement contracts, retirement, etc. To develop our employees, we conduct training activities. In 2021, a total of 701 training days (656 in 2020) were held, which corresponds to approx. 3.05 training days per employee (2.36 in 2020).

In 2021, HR focused on aligning the Danish organization with the global B&W organization, on supporting the Centre of Excellence and the new projects wins in addition to overcoming the HR challenges connected with the COVID-19 pandemic.

Ethics, Compliance and Human Rights

We consider corruption and other unethical behavior to represent a risk to our business and the surrounding society, because unethical behavior can damage our relations, our contracts and our reputation and erode trust.

Our business conduct is governed by our ethics and compliance rules "Code of Business Conduct" and a number of other policies on ethics and compliance (E&C) issues like Anti-Bribery, Anti-Corruption, Gift and Entertainment, etc. These rules apply to all employees and to sub-suppliers. E&C training is carried out continuously to ensure proper observance. As part of this training, a culture has been developed and is maintained that encourages employees to seek advice, voice concerns, and report misconduct without fear of retaliation. A system to report any non-compliance with the rules is implemented, and the reports are being registered and treated seriously. It is our assessment that these activities have contributed to maintaining a strong culture of ethics and compliance in our company.

We respect the human rights of our employees and recognize that our business carries risks of discrimination, of data breaches, and of negatively impacting our employees' rights to work-life balance. Our employee handbook and the above-mentioned E&C policies as well as HR and GDPR policies define our expectations and practices to manage these risks. All of these are made available to our employees through our intranet portal and several of these are reinforced through mandatory trainings.

In 2021, we have not identified any violations of our employees' human rights and we will diligently work to ensure this for the future as well. Additionally, no corruption incidents were identified in our reporting system in 2021.

In 2020 the Danish Parliament adopted an amendment § 99d, to the Danish Financial Statements act. The new amendment requires our company to actively adopt a policy on our responsibility for data ethics. In 2021 we have not yet adopted such a policy as we believed that the GDPR regulation was sufficient for our data. We will be working closely with our parent company in having such a policy in place in 2022.

Account of the gender composition of Management, cf. §99b

This section on the underrepresented gender is included in accordance with the Danish Financial Statements Act, § 99b.

Our policy about diversity is included in our Code of Business Conduct. The diversity of our workforce is a key asset, and we are committed to providing a professional atmosphere that promotes productivity and encourages creativity and innovation. We offer equal employment opportunities to qualified individuals, regardless of race, religion, national origin, age, sex, or disability, and we work to maintain a diverse workforce where employees are hired, retained, compensated, disciplined, and promoted based on their contribution to our company and their performance.

Management's review

In 2021, our Board of Directors was composed of 6 members of which 4 were elected by the general assembly. We target to have both sexes represented in the Board of Directors among the general assembly elected members. This was the case in 2021 as the general assembly elected members were 1 woman and 3 men.

At the end of 2021, the gender composition in our executive group and department management group was 15.38 % female managers (15.38 % in 2020) and 84.62 % male managers (84.62 % in 2020). The recruiting of executives and managers is solely based on the skills and competences needed for the job, cf. our Fair Employment Practices policy; however, we also focus on diversity and have a goal to increase the female representation at the management level to 20% over the next two years. To action and bring forward female leadership, we are launching a B&W Women's Employee Resource Group (ERG), which is an employee-led group designed to elevate, motivate, and celebrate female colleagues across our global organization, to connect with others to develop leadership skills, broaden knowledge, and inspire conversation. As another action to promote gender diversity, we give specific instructions to recruitment agencies to present at least one candidate of either gender for vacant leadership roles.

Events after the balance sheet date

On November 30, 2021, the parent company B&W acquired 100% ownership of VODA A/S ("VODA") through their wholly-owned subsidiary, B&W PGG Luxembourg Finance SARL. In 2022, B&W plan to form B&W Renewable Services to integrate VODA and Babcock & Wilcox A/S' waste-to-energy and biomass aftermarket services businesses. As of 1 January 2022, the Service Business segment will thus no longer be part of Babcock & Wilcox A/S.

No other events have occurred after the balance sheet date, which could influence this Annual Report.

Outlook

We expect the results of the year for 2022 to be at, or just below, DKK 0 thousand, but this can be impacted by the uncertainty in supply chain due to the war in Ukraine.

Capital and cash resources

The loss for the year combined with exchange rate adjustments decreased our equity from DKK 27 million to negative DKK 21 million. As noted previously in this report, our parent company has issued a letter of support that commits to provide the cash required to meet our obligations through at minimum December 2023.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2021	2020
5	Revenue	388,262	436,632
6,7	Production costs	-306,013	-244,283
	Gross profit	82,249	192,349
6	Distribution costs	-48,463	-51,654
6	Administrative expenses	-76,262	-103,581
	Operating profit/loss	-42,476	37,114
	Income from investments in group enterprises	10,597	-6,677
8	Financial income	4,496	6,921
9	Financial expenses	-21,954	-201,456
	Profit/loss before tax	-49,337	-164,098
10	Tax for the year	1,280	-1,928
	Profit/loss for the year	-48,057	-166,026

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2021	2020
	ASSETS		
	Fixed assets		
11	Intangible assets		
	Development projects in progress and prepayments for intangible assets	2,347	2,347
		2,347	2,347
12	Property, plant and equipment		
	Land and buildings	29,297	33,555
	Plant and machinery	17,761	16,769
	Fixtures and fittings, other plant and equipment	2,573	4,693
	Leasehold improvements	15	28
	Prepayments for property, plant and equipment	643	2,273
		50,289	57,318
13	Investments		
	Investments in group enterprises	30,817	24,450
	Deposits, investments	2,372	2,391
		33,189	26,841
	Total fixed assets	85,825	86,506
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	8,072	5,662
	Work in progress	808	1,681
	Finished goods and goods for resale	33,362	33,039
		42,242	40,382
	Receivables		
	Trade receivables	115,588	80,278
14	Construction contracts	26,581	44,262
	Receivables from group enterprises	25,184	60,340
	Corporation tax receivable	4,780	0
	Other receivables	81,979	54,174
15	Prepayments	9,482	10,022
		263,594	249,076
	Cash	23,235	16,511
	Total non-fixed assets	329,071	305,969
	TOTAL ASSETS	414,896	392,475

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2021	2020
	EQUITY AND LIABILITIES		
	Equity		
16	Share capital	5,000	5,000
	Retained earnings	-25,972	21,810
	Total equity	-20,972	26,810
	Provisions		
17	Other provisions	28,644	89,262
13	Provision, investments in group enterprises	42,356	46,866
18	Total provisions	71,000	136,128
	Liabilities other than provisions		
19	Non-current liabilities other than provisions		
	Other payables	19,573	0
		19,573	0
	Current liabilities other than provisions		
19	Short-term part of long-term liabilities other than provisions	100	0
14	Prepayments on work in progress	54,925	54,616
	Trade payables	104,341	59,496
	Payables to group enterprises	121,468	8,352
	Corporation tax payable	0	40
	Other payables	64,461	107,033
		345,295	229,537
	Total liabilities other than provisions	364,868	229,537
	TOTAL EQUITY AND LIABILITIES	414,896	392,475

1 Accounting policies
2 Going concern uncertainties
3 Recognition and measurement uncertainties
4 Events after the balance sheet date
20 Contractual obligations and contingencies, etc.
21 Contingent assets
22 Collateral
23 Related parties
24 Fee to the auditors appointed by the Company in general meeting
25 Appropriation of profit/loss

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Retained earnings	Total
	Equity at 1 January 2020	20,000	-4,198,842	-4,178,842
	Capital increase	687,411	0	687,411
	Capital reduction	-702,411	0	-702,411
25	Transfer, see "Appropriation of profit/loss"	0	-166,026	-166,026
	Exchange rate adjustments	0	747	747
	Other entries on equity	0	4,385,931	4,385,931
	Equity at 1 January 2021	5,000	21,810	26,810
25	Transfer, see "Appropriation of profit/loss"	0	-48,057	-48,057
	Exchange rate adjustments	0	275	275
	Equity at 31 December 2021	5,000	-25,972	-20,972

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Babcock & Wilcox A/S for 2021 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

In accordance with section 112(2) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

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 Babcock & Wilcox Enterprises, Inc.

Basis of recognition and measurement

All revenues are recognized in the income statement as earned based on the following criteria:

- delivery has been made or services performed before year end.

- a binding sales agreement has been made.

- the sales price has been determined.

- payment has been received at the time of the sale or is with reasonable certainty expected to be received.

Based on the above income is recognised in the Income Statement as it is earned, including value adjustments of financial assets and liabilities that are measured at fair value or amortised cost. Moreover, all expenses incurred to achieve the earnings for the year are recognized in the Income Statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognized in the Income Statement.

Assets are recognized in the Balance Sheet when it is probable that future economic benefits attributable to the asset will accrue to the Company, and the value of the asset can be measured reliably.

Liabilities are recognized in the Balance Sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

At initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each financial statement item below.

In connection with recognition and measurement, consideration is given to predictable losses and risks occurring prior to the presentation of the Annual Report, i.e. losses and risks which prove or disprove matters which exist at the balance sheet date.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables, and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories, and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Goodwill is considered belonging to the independent foreign entity and is translated using the exchange rate at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates and out of the translation of income statements from average rates to the exchange rates at the balance sheet date are classified directly as equity.

Exchange adjustments of outstanding accounts with independent foreign subsidiaries, which are considered part of the total investment in the subsidiary in question, are classified directly as equity.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognised asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Income statement

Revenue

Net revenues equal the selling price of the work completed for the year (percentage-of-completion method) as contract work in progress is recognized at the rate of completion. This method is applied when total revenues and expenses in respect of the construction contract and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Group.

When it is determined that an uncompleted contract will not be completed on-time and the contract has liquidated damages provisions, the estimated liquidated damages that will be incurred are recorded as a reduction of revenue in the period the change in estimate occurs.

Parts orders, certain aftermarket service activities, license, and rental income, etc. are included in the net revenues with the amounts related to the period, as goods are delivered, and work is performed. Net revenues are recognized as net of VAT, duties, and sales discounts.

Segment information is presented in respect of business segments and geographical segments based on the Group's risks and returns and its internal financial reporting system.

Production costs

Production costs comprise costs incurred in generating the revenue for the year. Such costs include direct and indirect costs of raw materials, consumables and production staff, rent and leases, as well as depreciation on production plant.

Production costs also comprise research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Also, provision for losses on construction contracts is recognised.

Distribution costs

Distribution costs comprise costs related to the distribution of goods sold in the year and to sales campaigns, etc. carried out in the year, including costs related to sales staff, advertising, exhibitions and amortisation/depreciation. Sales and marketing costs are recognised in the income statement when the Company obtains control of the sales or marketing product.

Administrative expenses

Administrative expenses include expenses incurred in the year for company management and administration, including expenses relating to administrative staff, Management, office premises and expenses as well as amortisation/depreciation of assets used for administrative purposes.

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.

Depreciation

The item comprises depreciation of property, plant and equipment.

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:

Buildings	10-25 years
Plant and machinery	3-12 years
Fixtures and fittings, other plant and equipment	3-10 years
IT (hardware & software)	3-5 years
Leasehold improvements	Length of lease

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 acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

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

Land is not depreciated.

Profit/loss from investments in subsidiaries

A proportionate share of the underlying entities' profit/loss after tax is recognised in the income statement according to the equity method. Shares of profit/loss after tax in subsidiaries are presented as separate line items in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries.

Financial income and expenses

Other financial income is recognized in the Income Statement with the amounts that concern the financial year. Other financial income includes dividends etc. received on other investments, interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Other financial expenses are recognized in the Income Statement with the amounts that concern the financial year. Other financial expenses include interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The Company and its Danish group entities are jointly taxed. The total Danish income tax charge is allocated between profit/loss-making Danish entities in proportion to their taxable income (full absorption).

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.

Balance sheet

Intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment losses based on management’s experience with the individual business areas. In certain cases, the amortization period is up to 10 years for strategically acquired enterprises with strong market position and a long-term earnings profile if the longer amortization period is considered to give a better reflection of the benefit from the relevant resources.

Development projects comprise salaries, amortization, and other expenses directly or indirectly attributable to the Company’s development activities less grants received.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the Group can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognized as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover the production costs, sales and administrative expenses involved as well as the development costs.

Development projects that do not meet the criteria for recognition in the balance sheet are recognized as expenses in the income statement as incurred.

Completed development projects are measured at cost less accumulated amortization and impairment losses or at a lower recoverable amount.

Acquired intangible assets, such as patents and trademarks, are measured at cost less accumulated amortization and impairment losses or at a lower recoverable amount.

Property, plant and equipment

Items of property, plant and equipment and leasehold improvements are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Investments in subsidiaries

Equity investments in subsidiaries are measured according to the equity method.

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding business combinations.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deduced from the carrying amount.

Equity investments in subsidiaries measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

Deposits are measured at amortised cost.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (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 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 FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

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

Indirect production overheads include the indirect cost of material and labour as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management. Borrowing costs are not recognised in the sales 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 tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's 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 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.

Construction contracts

Contract work in progress is measured at the selling price of the work performed based on the stage of completion.

The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognized as an expense in the income statement. Furthermore, when it is determined that an uncompleted contract will not be completed on-time and the contract has liquidated damages provisions, the estimated liquidated damages that will incur are recorded as a reduction of revenue in the period the change in estimate occurs.

Prepayments are set of against contract work in progress. Payments received on account more than the contract work performed to date are stated separately for each contract and recognized as prepayments received from customers in short-term debt.

Expenses relating to sales work and the winning of contracts are recognized in the income statement as incurred.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash and cash equivalents comprises cash in hand and bank deposits.

Provisions

Other provisions include warranty obligations in respect of repair work within the warranty period of 2-5 years. Provisions are measured and recognized based on experience with guarantee work at fair value.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income taxes and deferred taxes

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

Deferred tax is measured according to the 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 and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or 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 is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets 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. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

As management company for all the entities in the joint taxation arrangement, the parent company is liable for payment of the subsidiaries' income taxes vis à vis the tax authorities as the subsidiaries pay their joint taxation contributions. Joint taxation contributions payable or receivable are recognised in the balance sheet as income tax receivables or payables.

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.

Financial ratios

The financial ratios stated under "Financial highlights" have been calculated as follows:

Gross margin	$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$
Equity ratio	$\frac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$
Net margin (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Revenue}}$

Financial statements 1 January - 31 December

Notes to the financial statements

2 Going concern uncertainties

The financial position at 31 December 2021 of the Company and the results of the activities of the Company for the financial year for 2021 have resulted in loss of the share capital. It is the management’s expectations that the equity will be reestablished based on the Company's operation.

B&W PGG Luxembourg Finance has issued a letter of comfort inter alia stating that it is in the interest of the parent company to ensure that the company meets its financial obligations at all times and that it is the policy of the parent company to provide the company with such support and assistance as may be required to ensure that it maintains capital and liquidity levels to enable it at all times to meet its obligations in conformity with standards of prudence generally accepted for its field of business. This letter of comfort is valid until date of the general meeting in the company where the annual report for the year ending 31 December 2022 is approved, however, in no event later than 30 June 2023. Based on this, it is the Management's assessment that the Company can continue as going concern.

3 Recognition and measurement uncertainties

We are engaged in a highly competitive industry, and we have priced several our contracts on a fixed-price basis. Our actual costs could exceed our projections, as was the case in recent years with several large contracts in Denmark and the United Kingdom. We attempt to cover the increased costs of anticipated changes in labor, material, and service costs of long-term contracts, either through estimates of cost increases, which are reflected in the original contract price, or through price escalation clauses. Despite these attempts, however, the cost and gross profit we realize on a fixed-price contract could vary materially from the estimated amounts because of supplier, contractor and subcontractor performance, changes in job conditions, variations in labor and equipment productivity and increases in the cost of labor and raw materials, particularly steel, over the term of the contract. These variations and the risks generally inherent in our industry may result in actual revenues or costs being different from those we originally estimated and may result in reduced profitability or losses on contracts. Some of these risks include:

- difficulties encountered on our large-scale contracts related to the procurement of materials or due to schedule disruptions, equipment performance failures, engineering and design complexity, unforeseen site conditions, rejection clauses in customer contracts or other factors that may result in additional costs to us, reductions in revenue, claims or disputes;
- our inability to obtain compensation for additional work we perform or expenses we incur because of our customers or subcontractors providing deficient design or engineering information or equipment or materials;
- requirements to pay liquidated damages upon our failure to meet schedule or performance requirements of our contracts; and
- difficulties in engaging third-party subcontractors, equipment manufacturers or materials suppliers or failures by third-party subcontractors, equipment manufacturers or materials suppliers to perform could result in contract delays and cause us to incur additional costs.

We conduct significant portions of our business by engaging in long-term contracts related to highly complex, customized equipment or facilities for electrical generation, industrial processes, and/or environmental compliance. The complexity of these contracts generally necessitates the participation of others, including subcontractors, equipment or part manufacturers, partner companies, other companies with whom we do not have contractual relationships, customers, financing organizations, regulators, and others. While we endeavor to limit our liability to matters within our control, not all scenarios can be foreseen, and we may become subject to the risk of others’ performance that may or may not be within our control or influence. Delays, changes, or failures of others, including subcontractors, could subject us to additional costs, delays, technical specification changes, contractual penalties, or other matters for which we may be unable to obtain compensation, or compensation may not be sufficient. In extreme cases, the direct or indirect effects of such matters may cause us to be unable to fulfill our contractual requirements.

Financial statements 1 January - 31 December

Notes to the financial statements

We conduct our business by obtaining orders that generate cash flows in the form of advances, contract progress payments and final balances in accordance with the underlying contractual terms. We are thus exposed to potential losses resulting from contractual counterparties' failure to meet their obligations. As a result, the failure by customers to meet their payment obligations, or a mere delay in making those payments, could reduce our liquidity and increase the need to resort to other sources of financing, with possible adverse effects on our business, financial condition, results of operations and cash flows. In some cases, we have joint and several liability with consortium partners in our projects, as with our previous EPC projects in the United Kingdom, and we may be subject to additional losses if our partners are unable to meet their contractual obligations.

In addition, the deterioration of economic conditions or negative trends in the credit markets could have a negative impact on relationships with customers and our ability to collect on trade receivables, with possible adverse effects on our business, financial condition, results of operations and cash flows.

We generally recognize revenues and profits under our long-term contracts on a percentage-of-completion basis. Accordingly, we review contract price and cost estimates regularly as the work progresses and reflect adjustments proportionate to the percentage of completion in income in the period when we revise those estimates. To the extent these adjustments result in a reduction or an elimination of previously reported profits with respect to a contract, we would recognize a charge against current earnings, which could be material. Our current estimates of our contract costs and the profitability of our long-term contracts, although reasonably reliable when made, could change because of the uncertainties associated with these types of contracts, and if adjustments to overall contract costs are significant, the reductions or reversals of previously recorded revenue and profits could be material in future periods.

We can perform contracts jointly with third parties. For example, we enter contracting consortia and other contractual arrangements to bid for and perform jointly on large contracts. Success on these joint contracts depends in part on whether our co-venturers fulfill their contractual obligations satisfactorily. If any one or more of these third parties fail to perform their contractual obligations satisfactorily, we may be required to make additional investments and provide added services to compensate for that failure. If we are unable to adequately address any such performance issues, then our customer may exercise its right to terminate a joint contract, exposing us to legal liability, loss of reputation and reduced profit.

Our collaborative arrangements also involve risks that participating parties may disagree on business decisions and strategies. These disagreements could result in delays, additional costs, and risks of litigation. Our inability to successfully maintain existing collaborative relationships or enter new collaborative arrangements could have a material adverse effect on our results of operations.

4 Events after the balance sheet date

On November 30, 2021, the parent company B&W acquired 100% ownership of VODA A/S (“VODA”) through their wholly-owned subsidiary, B&W PGG Luxembourg Finance SARL. In 2022, B&W plan to form B&W Renewable Services to integrate VODA and Babcock & Wilcox A/S’ waste-to-energy and biomass aftermarket services businesses. As of 1 January 2022, the Service Business segment will thus no longer be part of Babcock & Wilcox A/S.

No other events have occurred after the balance sheet date, which could influence this Annual Report.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2021	2020
5 Segment information		
Breakdown of revenue by business segment:		
New Energy Plants	24,148	18,802
Service Business	320,602	417,483
Licensing	43,156	0
Other	356	347
	388,262	436,632
Breakdown of revenue by geographical segment:		
Denmark	92,096	156,347
United Kingdom	127,966	130,723
Sweden	50,908	50,678
China	42,096	0
Other countries	75,196	98,884
	388,262	436,632

	2021	2020
6 Staff costs and incentive programmes		
Wages/salaries	154,028	183,330
Pensions	4,769	5,336
Other social security costs	929	1,196
	159,726	189,862
Average number of full-time employees	222	271

Total remuneration to Management: DKK 5,318 Thousand, hereof is DKK 384 thousand pension.

Incentive programmes

The amount related to remuneration of management includes grants awarded in the parent company in 2021 of DKK 1,157 thousand (2020: DKK 97 thousand) of which DKK 1,157 (2020: DKK 34 thousand) is vested.

	2021	2020
7 Depreciation of property, plant and equipment		
Depreciation of property, plant and equipment	5,889	5,766
	5,889	5,766

	2021	2020
8 Financial income		
Other interest income	1	0
Exchange gain	4,495	6,828
Other interest income	0	93
	4,496	6,921

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK'000	2021	2020
9	Financial expenses		
	Interest expenses, group entities	4,798	189,238
	Other interest expenses	16,931	12,035
	Other financial expenses	225	183
		21,954	201,456
10	Tax for the year		
	Estimated tax charge for the year	-1,280	1,928
		-1,280	1,928

11 Intangible assets

DKK'000	Development projects in progress and prepayments for intangible assets
Cost at 1 January 2021	2,347
Cost at 31 December 2021	2,347
Carrying amount at 31 December 2021	2,347

Development projects relates to a new and simplified air-cooling design standard for the DynaGrate® as well as introduction of larger width of waste ram feeders for improved servicing, respectively, form the basis for inclusion and measuring of development projects. Both projects are part of our core business going forward. The project has been closed in end of 2021 and capitalized in start of 2022.

Financial statements 1 January - 31 December

Notes to the financial statements

12 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, other plant and equipment	Leasehold improvements	Prepayments for property, plant and equipment	Total
Cost at 1 January 2021	69,747	56,357	34,815	1,134	2,273	164,326
Additions	225	3,446	0	0	7,771	11,442
Disposals	0	0	0	0	-9,401	-9,401
Transferred	-2,191	0	-990	0	0	-3,181
Cost at 31 December 2021	67,781	59,803	33,825	1,134	643	163,186
Impairment losses and depreciation at 1 January 2021	36,192	39,588	30,122	1,106	0	107,008
Depreciation	2,292	2,454	1,130	13	0	5,889
Impairment losses and depreciation at 31 December 2021	38,484	42,042	31,252	1,119	0	112,897
Carrying amount at 31 December 2021	29,297	17,761	2,573	15	643	50,289

13 Investments

DKK'000	Investments in group enterprises	Deposits, investments	Total
Cost at 1 January 2021	45,562	2,391	47,953
Disposals	-36	-19	-55
Cost at 31 December 2021	45,526	2,372	47,898
Value adjustments at 1 January 2021	-21,112	0	-21,112
Foreign exchange adjustments	-3,060	0	-3,060
Profit/loss for the year	1,824	0	1,824
Currency adjustment, profit for the year	-149	0	-149
Depreciation goodwill / reversal of provisions	-1,152	0	-1,152
Reversal of prior year impairment losses	9,926	0	9,926
Transferred to provisions	-986	0	-986
Value adjustments at 31 December 2021	-14,709	0	-14,709
Carrying amount at 31 December 2021	30,817	2,372	33,189

Name	Legal form	Domicile	Interest	Equity DKK'000	Profit/loss DKK'000
Subsidiaries					
Babcock & Wilcox Vølund	AB	Gothenburg, Sweden	100.00%	25,853	7,214
Babcock & Wilcox Vølund	Ltd.	London, UK	100.00%	-42,356	-5,539

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DKK'000	2021	2020
14 Construction contracts		
Selling price of work performed	26,581	44,262
Progress billings	-54,925	-54,616
	-28,344	-10,354

15 Prepayments

Prepayments include advance payments regarding rent, IT-subscriptions, insurance etc.

16 Share capital

Analysis of the share capital:

	2021	2020
1,000 A shares of DKK 1,000.00 nominal value each	1,000	1,000
1,000 B shares of DKK 4,000.00 nominal value each	4,000	4,000
	5,000	5,000

Each A share carries five voting rights and each B share carries one voting right.

Analysis of changes in the share capital over the past 5 years:

DKK'000	2021	2020	2019	2018	2017
Opening balance	5,000	20,000	20,000	20,000	20,000
Capital increase	0	687,411	0	0	0
Capital reduction	0	-702,411	0	0	0
	5,000	5,000	20,000	20,000	20,000

17 Other provisions

Other provisions comprise of Warranty Provisions TDKK 27,863 (2020: TDKK 89,262) and Provisions for onerous contracts TDKK 781 (2020: TDKK 0)

18 Provisions

Provisions for investments in group enterprises comprise of subsidiaries with a negative equity and where the parent company has issued a letter of support.

19 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2021	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Other payables	19,673	100	19,573	17,274
	19,673	100	19,573	17,274

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20 Contractual obligations and contingencies, etc.

Contingent liabilities

DKK'000	2021	2020
Recourse and non-recourse guarantee commitments	0	299,928
	0	299,928

There are no contingent liabilities in end of 2021. The consortium has been dissolved

Other financial obligations

Rent liabilities vis-à-vis the parent company and its other subsidiaries:

Rent liabilities	1,284	1,364

Rent and lease liabilities include rent liabilities vis-à-vis the parent companywith a remaining contract period of 6 months.

Other lease liabilities:

Lease liabilities	782	2,191

The Company has liabilities under operating leases for cars, totalling DKK 782, with remaining contract terms of 1 month to 25 months.

21 Contingent assets

Based on the loss in 2021, management has evaluated that it is not possible to produce convincing evidence for utilizing the deferred tax within the next 3-5 years. Management expects to execute the remaining backlog in a profitable manner and to be able to secure new project opportunities in the market to restore positive income for the Company. However, this evidence does not substantiate the position required to maintain the deferred tax asset from an accounting perspective. Consequently, management has made a valuation allowance for deferred tax assets at year-end 2021.

22 Collateral

As security for the Company's debt to mortgage credit institutions the Company has provided security for a total amount of DKK 16,000 thousand. The total carrying amount of these assets is DKK 28,307 thousand. Breakdown of the security/collateral and the carrying amount:

Land and buildings at a carrying amount of DKK 28,307 thousand at 31 December 2021 have been put up as security for debt to mortgage credit institutions, totalling DKK 0.

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23 Related parties

Babcock & Wilcox A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
B&W PGG Luxembourg Finance SARL	Luxembourg, Luxembourg	100% Ownership.
Babcock & Wilcox Enterprises, Inc.	Akron, Ohio, USA	Ultimate parent

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Babcock & Wilcox Enterprises, Inc.	Akron, Ohio, USA	1200 E Market Street, Suite 650, Akron OH 44305, USA

Related party transactions

Only related party transactions not conducted on an arm’s length basis are disclosed in the annual report. No such transactions have been conducted in the financial year.

	DKK'000	2021	2020
24	Fee to the auditors appointed by the Company in general meeting		
	Statutory audit	727	697
	Other assurance engagements	1,161	1,463
	Other assistance	2	27
		1,890	2,187
25	Appropriation of profit/loss		
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-48,057	-166,026
		-48,057	-166,026