# BABCOCK & WILCOX VØLUND A/S

Falkevej 2
6705 Esbjerg Ø
CVR No. 25053664

## Annual report 2020

The Annual General Meeting adopted the annual report on 27.04.2021

**Martin Oehlenschlæger**
Chairman of the General Meeting

# Contents

# Entity details

## Entity

BABCOCK & WILCOX VØLUND A/S

Falkevej 2

6705 Esbjerg Ø

CVR No.: 25053664

Date of foundation: 22.01.1999

Registered office: Esbjerg

Financial year: 01.01.2020 - 31.12.2020

Phone number: 76 14 34 00

URL: www.volund.dk

E-mail: bwv@volund.dk

## Board of Directors

Rodney Ernest Carlson, Chairman
Jimmy Brian Morgan
Jacqueline Marie Opal
Kasper Bjarnø Sinning
Helge Steenstrup
Rasmus Peter Sejerup Rasmussen

## Executive Board

Kasper Lundtorp, Managing Director
Martin Oehlenschlæger, Finance Director

## Bank

Danske Bank A/S - Finanscenter Sydjylland
Strandbygade 2
6700 Esbjerg

## Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
2300 Copenhagen S

# Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of BABCOCK & WILCOX VØLUND A/S for the financial year 01.01.2020 - 31.12.2020.

The annual report is presented 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 31.12.2020 and of the results of its operations for the financial year 01.01.2020 - 31.12.2020.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Esbjerg, 27.04.2021

## Executive Board

**Kasper Lundtorp**
Managing Director

**Martin Oehlenschlæger**
Finance Director

## Board of Directors

**Rodney Ernest Carlson**
Chairman

**Jimmy Brian Morgan**

**Jacqueline Marie Opal**

**Kasper Bjarnø Sinning**

**Helge Steenstrup**

**Rasmus Peter Sejerup Rasmussen**

# Independent auditor's report

**To the shareholder of BABCOCK & WILCOX VØLUND A/S**

## Opinion

We have audited the financial statements of BABCOCK & WILCOX VØLUND A/S for the financial year 01.01.2020 - 31.12.2020, 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 31.12.2020 and of the results of its operations for the financial year 01.01.2020 - 31.12.2020 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 Entity in accordance with the International Ethics Standards Board of 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 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 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.
- 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.

Copenhagen, 27.04.2021

**Deloitte**
Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

**Kåre Kansonen Valtersdorf**
State Authorised Public Accountant
Identification No (MNE) mne34490

# Management commentary

## Financial highlights

| | 2020<br>DKK'000 | 2019<br>DKK'000 | 2018<br>DKK'000 | 2017<br>DKK'000 | 2016<br>DKK'000 |
|---|---|---|---|---|---|
| **Key figures** | | | | | |
| Revenue | 436,632 | 660,562 | 646,906 | 1,604,025 | 1,657,023 |
| Gross profit/loss | 192,349 | 27,777 | (1,497,194) | (1,135,830) | 225,028 |
| Operating profit/loss | 37,114 | (169,575) | (1,665,898) | (1,294,685) | 104,079 |
| Net financials | (194,535) | (258,268) | (104,960) | (16,675) | 21,962 |
| Profit/loss for the year | (166,026) | (443,452) | (1,797,212) | (1,321,270) | 102,403 |
| Total assets | 392,475 | 310,001 | 461,534 | 589,122 | 1,162,207 |
| Investments in property, plant and equipment | 7,102 | 4,003 | 3,451 | 7,065 | 5,589 |
| Equity | 26,810 | (4,178,842) | (3,726,134) | (1,927,269) | 217,682 |
| Average number of employees | 271 | 325 | 382 | 552 | 504 |
| **Ratios** | | | | | |
| Gross margin (%) | 44.05 | 4.21 | (231.44) | (70.81) | 13.58 |
| Net margin (%) | (38.02) | (67.13) | (277.82) | (82.37) | 6.18 |
| Equity ratio (%) | 6.83 | (1,348.01) | (807.34) | (327.14) | 18.73 |

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

**Gross margin (%):**
<u>Gross profit/loss * 100</u>
Revenue

**Net margin (%):**
<u>Profit/loss for the year * 100</u>
Revenue

**Equity ratio (%):**
<u>Equity * 100</u>
Total assets

## Primary activities

Babcock & Wilcox Vølund 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, 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.

## Development in activities and finances

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 2020, 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, 2020, only punch list or agreed remediation items remain, some of which are expected to be performed during the customers' scheduled maintenance outages in 2021.

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.

At the end of 2020, our equity was reestablished through a debt-to-equity conversion as well as an additional capital contribution, which improved our balance sheet by 4.37 billion DKK and thus the future financial results by removing significant financial cost going forward.

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 2022 (see note 1).

On February 16, 2021, B&W published a press release announcing the closure of USD 297.5 million of Common Stock and Senior Notes Offerings.  This strengthened B&W's financial position significantly, de-levering its balance sheet, providing significant access to letters of credit, and ensuring strong cash flow to fund its operations and drive business growth and fund key investments to expand its clean energy technologies portfolio. More details can be found at investors.babcock.com.

## Profit/loss for the year in relation to expected developments

Our full-year 2020 net revenues were DKK 437 million, which is a decrease of DKK 224 million or 33.9% compared to the prior year due to a reduction in large project activities. Operating profit improved from a loss of DKK 170 million to a profit of DKK 37 million. 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 166 million including DKK 189 million of financial expenses from group enterprices, as the debt to equity conversion and capital contribution only took place at the end of the year.

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 2020 and we continue to pursue several 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.

In 2020, B&W started expanding its sales, service and business development teams in key international markets to capitalize on the increasing demand for renewable and environmental projects worldwide.

Throughout 2020, 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

Except for some punch list items or defined and agreed remediation items, we now have the European EPC loss contracts behind us, and the 2-year main warranty phases for these contracts will expire in 2021.

Based on the continued stable performance in our aftermarket parts and services activities, the new structure for bidding and executing new-build projects, and the initiated cost-savings, management expects improved results going forward. In general, 2021 is expected to be a new start.

Through a debt-to-equity conversion and an additional capital contribution, B&W fully reestablished our equity at the end of 2020, which improved our balance sheet and thus the future financial results by removing significant financial costs.

## Outlook

We expect results to significantly improve in 2021 compared to 2020. The level of improvement is difficult to quantify due to timing of new projects,  extraordinary legal costs to pursue claims and insurance recoveries and the upside from any such recoveries.

### Capital and cash resources

The loss for the year combined with exchange rate adjustments , debt to equity conversion and capital contribution have improved our equity from negative DKK 4,199 million to positive DKK 27 million. Additionally, 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 2022.

## Particular risks

### Particular risks operations

The key operating risks relate to the time as well as the cost realization of project completions. This is mitigated by means of structured management of all projects. The management team is taking actions including investing in enhanced engineering and project management capabilities and infrastructure with the expectation to complete projects within project estimates and schedules including our warranty obligations.

### Market risks

The key market risks relate to a continued development of technological expertise to enable us to meet market requirements in our core areas. This is ensured through dialogue with customers and universities as well as continued improvement and development in relevant technological areas, including through the work of our research and development department.

### 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 do not currently engage in new currency hedging activities to limit the risks of currency fluctuations. Consequently, 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, 2020, 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 remaining Last Out Term Loans and Senior Notes both have fixed interest rates.)

### 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 2019. The amount is equal to 5.3% of the net revenues. Furthermore, there is project related development paid by customers.

## Group relations

**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.

## 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, is included as a fully owned subsidiary.

## Statutory report on corporate social responsibility

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

For a description of our business model, 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 risk 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.

An HSE business plan was established at the beginning of 2020. The business plan included various initiatives, all of which were launched to make our company an even safer, healthier and greener workplace. The main focus of the initiatives was 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 large number of precautionary initiatives for our construction workers.

We set ambitious targets for our safety performance and take corrective actions as needed. In 2020, we did not meet our DART target (Days Away Restricted Transfer Rate), while we reached our TRIR (Total Recordable Incident Rate) goal and saw a significant improvement for the first time in years. The culture for reporting and registering near misses and accidents has improved, 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.

**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, senior contracts, retirement, etc. To develop our employees, we conduct a number of training activities throughout the year. In 2020, a total of 656 training days (826 in 2019) were held, which corresponds to approx. 2.36 training days per employee (2.5 in 2019).

In 2020, HR focused on aligning the Danish organization with the global B&W organization and on overcoming the HR challenges connected with the COVID-19 pandemic.

**Climate/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-t-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. 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, it could have 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, and the next audit will be performed in 2021.

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

**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 in 2020 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 enforced through mandatory trainings. In 2020, we have not identified any violations of our employees' human rights and we will diligently work to ensure this for the future as well.

## Statutory report on the underrepresented gender

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.

In 2020, 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 2020 as the general assembly elected members were 1 woman and 3 men.

At the end of 2020, the gender composition in our executive group and department management group was 15.38 % female managers (14.29% in 2019) and 84.62 % male managers (85.71 % in 2019). 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. As an example of an 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

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

# Income statement for 2020

| | Notes | 2020<br>DKK'000 | 2019<br>DKK '000 |
|---|---|---|---|
| Revenue | 2 | 436,632 | 660,562 |
| Production costs | | (244,283) | (632,785) |
| **Gross profit/loss** | | **192,349** | **27,777** |
| | | | |
| Distribution costs | | (51,654) | (44,554) |
| Administrative expenses | 3 | (103,581) | (152,798) |
| **Operating profit/loss** | | **37,114** | **(169,575)** |
| | | | |
| Income from investments in group enterprises | | (6,677) | (14,333) |
| Other financial income | 6 | 6,921 | 38 |
| Other financial expenses | 7 | (201,456) | (258,306) |
| **Profit/loss before tax** | | **(164,098)** | **(442,176)** |
| | | | |
| Tax on profit/loss for the year | 8 | (1,928) | (1,276) |
| **Profit/loss for the year** | 9 | **(166,026)** | **(443,452)** |

# Balance sheet at 31.12.2020

## Assets

| | Notes | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|---|
| Development projects in progress | 11 | 2,347 | 2,347 |
| **Intangible assets** | 10 | **2,347** | **2,347** |
| | | | |
| Land and buildings | | 33,555 | 33,665 |
| Plant and machinery | | 16,769 | 8,947 |
| Other fixtures and fittings, tools and equipment | | 4,693 | 3,738 |
| Leasehold improvements | | 28 | 43 |
| Prepayments for property, plant and equipment | | 2,273 | 9,589 |
| **Property, plant and equipment** | 12 | **57,318** | **55,982** |
| | | | |
| Investments in group enterprises | | 24,450 | 19,063 |
| Deposits | | 2,391 | 4,922 |
| **Financial assets** | 13 | **26,841** | **23,985** |
| | | | |
| **Fixed assets** | | **86,506** | **82,314** |
| | | | |
| Raw materials and consumables | | 5,662 | 5,827 |
| Work in progress | | 1,681 | 1,382 |
| Manufactured goods and goods for resale | | 33,039 | 34,979 |
| **Inventories** | | **40,382** | **42,188** |
| | | | |
| Trade receivables | | 80,278 | 90,762 |
| Contract work in progress | 14 | 44,262 | 47,569 |
| Receivables from group enterprises | | 60,340 | 0 |
| Other receivables | | 54,174 | 19,718 |
| Prepayments | 15 | 10,022 | 4,800 |
| **Receivables** | | **249,076** | **162,849** |
| | | | |
| **Cash** | | **16,511** | **22,650** |
| | | | |
| **Current assets** | | **305,969** | **227,687** |
| | | | |
| **Assets** | | **392,475** | **310,001** |

## Equity and liabilities

| | Notes | 2020 DKK'000 | 2019 DKK'000 |
|---|---|---|---|
| Contributed capital | | 5,000 | 20,000 |
| Retained earnings | | 21,810 | (4,198,842) |
| **Equity** | | **26,810** | **(4,178,842)** |
| Other provisions | 16 | 89,262 | 146,221 |
| Provisions for investments in group enterprises | 17 | 46,866 | 33,505 |
| **Provisions** | | **136,128** | **179,726** |
| Contract work in progress | 14 | 54,616 | 4,457 |
| Trade payables | | 59,496 | 162,935 |
| Payables to group enterprises | | 8,352 | 3,979,034 |
| Tax payable | | 40 | 8,820 |
| Other payables | | 107,033 | 153,871 |
| **Current liabilities other than provisions** | | **229,537** | **4,309,117** |
| **Liabilities other than provisions** | | **229,537** | **4,309,117** |
| **Equity and liabilities** | | **392,475** | **310,001** |
| Uncertainty relating to recognition and measurement | 1 | | |
| Staff costs | 4 | | |
| Amortisation, depreciation and impairment losses | 5 | | |
| Unrecognised rental and lease commitments | 18 | | |
| Contingent assets | 19 | | |
| Contingent liabilities | 20 | | |
| Related parties with controlling interest | 21 | | |
| Transactions with related parties | 22 | | |
| Group relations | 23 | | |

# Statement of changes in equity for 2020

| | Contributed capital DKK'000 | Retained earnings DKK'000 | Total DKK'000 |
|---|---|---|---|
| Equity beginning of year | 20,000 | (4,198,842) | (4,178,842) |
| Increase of capital | 687,411 | 0 | 687,411 |
| Decrease of capital | (702,411) | 0 | (702,411) |
| Exchange rate adjustments | 0 | 747 | 747 |
| Other entries on equity | 0 | 4,385,931 | 4,385,931 |
| Profit/loss for the year | 0 | (166,026) | (166,026) |
| **Equity end of year** | **5,000** | **21,810** | **26,810** |

# Notes

## 1 Uncertainty relating to recognition and measurement

We are engaged in a highly competitive industry, and we have priced a number of 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 as a result 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 ef-fects of such matters may cause us to be unable to fulfill our contractual requirements.

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, such as the renewable energy plants 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 as a result 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 often perform contracts jointly with third parties. For example, we enter into 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 in order 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 deci-sions and strategies. These disagreements could result in delays, additional costs and risks of litigation. Our inability to successfully maintain existing collaborative relationships or enter into new collaborative arrangements could have a material adverse effect on our results of operations.

In line with industry practice, we are often required to post standby letters of credit and surety bonds to support contractual obligations to customers as well as other obligations. These letters of credit and bonds generally indemnify customers should we fail to perform our obligations under the applicable contracts. If a letter of credit or bond is required for a particular contract and we are unable to obtain it due to insufficient liquidity or other reasons, we will not be able to pursue that contract. We utilize bonding facilities, but, as is typically the case, the issuance of bonds under each of those facilities is at the surety's sole discretion. Moreover, due to events that affect the insurance and bonding and credit markets generally, bonding and letters of credit may be more difficult to obtain in the future or may only be available at significant additional cost. There can be no assurance that letters of credit or bonds from sources outside of our contractually committed Credit Agreement will continue to be available to us on reasonable terms. The inclusion of a "going concern" explanatory paragraph in the auditor's report covering B&W’s audited consolidated financial statements contained herein may prevent us from obtaining bonding and letters of credit from sources outside of B&W’s contractually committed Credit Agreement on reasonable terms, or at all. Our inability to obtain adequate letters of credit and bonding and, as a result, to bid on new work could have a material adverse effect on our business, financial condition and results of operations.

## 2 Revenue

| | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|
| Denmark | 156,347 | 169,354 |
| United Kingdom | 130,723 | 261,193 |
| Sweden | 50,678 | 83,329 |
| Other countries | 98,884 | 146,686 |
| **Total revenue by geographical market** | **436,632** | **660,562** |
| New Energy Plants | 18,802 | 340,848 |
| Service Business | 417,483 | 319,548 |
| Other | 347 | 166 |
| **Total revenue by activity** | **436,632** | **660,562** |

## 3 Fees to the auditor appointed by the Annual General Meeting

| | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|
| Statutory audit services | 697 | 731 |
| Other assurance engagements | 1,463 | 1,429 |
| Other services | 27 | 26 |
| | **2,187** | **2,186** |

## 4 Staff costs

| | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|
| Wages and salaries | 183,330 | 213,283 |
| Pension costs | 5,336 | 5,915 |
| Other social security costs | 1,196 | 1,456 |
| | **189,862** | **220,654** |

| | | |
|---|---|---|
| Average number of full-time employees | **271** | **325** |

| | Remuneration of management 2020<br>DKK'000 | Remuneration of management 2019<br>DKK'000 |
|---|---|---|
| Executive Board | 6,061 | 4,506 |
| | **6,061** | **4,506** |

**Special incentive programmes**

The amount related to remuneration of management includes grants awarded in the parent company in 2020 of USD 97k of which USD 34k is vested.

## 5 Depreciation, amortisation and impairment losses

| | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|
| Depreciation of property, plant and equipment | 5,766 | 5,496 |
| | **5,766** | **5,496** |

## 6 Other financial income

| | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|
| Other interest income | 93 | 38 |
| Exchange rate adjustments | 6,828 | 0 |
| | **6,921** | **38** |

## 7 Other financial expenses

| | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|
| Financial expenses from group enterprises | 189,238 | 174,392 |
| Other interest expenses | 12,218 | 48,672 |
| Exchange rate adjustments | 0 | 35,242 |
| | **201,456** | **258,306** |

## 8 Tax on profit/loss for the year

| | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|
| Current tax | 1,928 | 1,276 |
| | **1,928** | **1,276** |

## 9 Proposed distribution of profit and loss

| | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|
| Retained earnings | (166,026) | (443,452) |
| | **(166,026)** | **(443,452)** |

## 10 Intangible assets

| | Development projects in progress<br>DKK'000 |
|---|---|
| Cost beginning of year | 2,347 |
| **Cost end of year** | **2,347** |
| **Carrying amount end of year** | **2,347** |

## 11 Development projects

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.

## 12 Property, plant and equipment

| | Land and buildings DKK'000 | Plant and machinery DKK'000 | Other fixtures and fittings, tools and equipment DKK'000 | Leasehold improvements DKK'000 | Prepayments for property, plant and equipment DKK'000 |
|---|---|---|---|---|---|
| Cost beginning of year | 67,556 | 46,537 | 32,408 | 1,134 | 9,589 |
| Transfers | 0 | 9,401 | 0 | 0 | (9,401) |
| Additions | 2,191 | 419 | 2,407 | 0 | 2,085 |
| **Cost end of year** | **69,747** | **56,357** | **34,815** | **1,134** | **2,273** |
| Depreciation and impairment losses beginning of year | (33,891) | (37,590) | (28,670) | (1,091) | 0 |
| Depreciation for the year | (2,301) | (1,998) | (1,452) | (15) | 0 |
| **Depreciation and impairment losses end of year** | **(36,192)** | **(39,588)** | **(30,122)** | **(1,106)** | **0** |
| **Carrying amount end of year** | **33,555** | **16,769** | **4,693** | **28** | **2,273** |

## 13 Financial assets

| | Investments in group enterprises DKK'000 | Deposits DKK'000 |
|---|---|---|
| Cost beginning of year | 45,562 | 4,922 |
| Disposals | 0 | (2,531) |
| **Cost end of year** | **45,562** | **2,391** |
| Impairment losses beginning of year | (26,499) | 0 |
| Exchange rate adjustments | 2,995 | 0 |
| Amortisation of goodwill | (1,153) | 0 |
| Share of profit/loss for the year | (7,532) | 0 |
| Dividend | (560) | 0 |
| Investments with negative equity value transferred to provisions | 11,637 | 0 |
| **Impairment losses end of year** | **(21,112)** | **0** |
| **Carrying amount end of year** | **24,450** | **2,391** |

| Investments in subsidiaries | Registered in | Corporate form | Equity interest % |
|---|---|---|---|
| Babcock & Wilcox Vølund AB (Share capital 500 SEK '000) | Gothenburg, Sweden | AB | 100 |
| Babcock & Wilcox Slovakia s.r.o (Share capital 5 EUR '000) | Trenchin, Slovakia | s.r.o | 100 |
| Babcock & Wilcox Vølund Ltd. (Share capital 0 GBP '000 | London, UK | Ltd. | 100 |

## 14 Contract work in progress

Sales value of contract work in progress amounts to 4,870,135 DKK’000 (2019: 4,984,844 DKK’000).
On account invoices amount to 4,880,490 DKK’000 (2019: 4,941,772 DKK’000).

The net value of work in progress amount to (10,355) DKK’000 (2019: 43,112 DKK’000) which is recognized in the balance sheets as follows:
- Assets 44,261 DKK’000 (2019: 47,569 DKK’000)
- Liabilities 54,615 DKK’000 (2019: 4,457 DKK’000)

## 15 Prepayments

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

## 16 Other provisions

Other provisions comprise of expenses for warranty provisions.

## 17 Provisions for investments in group enterprises

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

## 18 Unrecognised rental and lease commitments

| | 2020 DKK'000 | 2019 DKK'000 |
|---|---|---|
| Liabilities under rental or lease agreements with associates until maturity | 3,628 | 6,010 |

## 19 Contingent assets

Based on the loss in 2020, 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 2020.

## 20 Contingent liabilities

| | 2020<br>DKK'000 | 2019<br>DKK'000 |
|---|---|---|
| Recourse and non-recourse guarantee commitments | 299,928 | 563,954 |
| **Contingent liabilities** | **299,928** | **563,954** |

The Company has entered into consortiums with Interserve Construction Limited in the UK in order to build plants in the UK. The Company has provided work guarantees to the customers amounting to 109,854 DKK'000 (2019: 240,502 DKK'000), which are included in the above work guarantees. In addition, the Company has taken on a joint and several liability for the work guarantees of the consortium partner to the customers. These guarantees amounting to 59,195 DKK'000 (2019: 126,323 DKK'000) are not included in the above work guarantees.

The Company has issued a letter of support to the subsidiary in UK to ensure the subsidiary has sufficient cash to continue as going concern through at minimum 31 December 2022.

The Company has guaranteed unlimited warranty for bank debt related to the subsidiary in Sweden.

As a part of the Company's business nature, it is not unusual to be a part in various claims, litigation and arbitration. Based on the ongoing claims, litigation and arbitration, management expect the total outcome will not have substantial impact on the financial results.

## 21 Related parties with controlling interest

The Company is 100% owned by:
B&W PGG Luxembourg Finance SARL
6, rue Guillaume Schneider
L-2522 Luxembourg
Grand-Duchy of Luxembourg

## 22 Transactions with related parties

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.

## 23 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest and smallest group:
Babcock & Wilcox Enterprises, Inc.
1200 E Market Street – Suite 650
Akron OH 44305
USA
I.R.S. Employer Identification No.: 47-2783641

# Accounting policies

## Reporting class
This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

The accounting policies applied to these financial statements are consistent with those applied last year.

## Consolidated financial statements
Referring to section 112(2) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

## 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.

## 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.

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 is 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 the costs paid to obtain the revenue of the year. Cost includes direct and indirect production costs, including patent costs, depreciation, amortization and salaries.

Production costs also include research and development costs that do not qualify for capitalization as well as amortization of capitalized development costs.

Moreover provision for losses on construction contracts is recognized.

**Distribution costs**
Distribution costs comprise costs for proposal work, sales staff, advertising and exhibition costs, including depreciation.

**Administrative expenses**
Expenses incurred during the year for management and administration are recognized in administration expenses. This includes expenses incurred for the administrative staff, Management, offices as well as office expenses and similar expenses and amortization and impairment of intangible and tangible assets.

**Income from investments in group enterprises**
The proportionate share of the individual subsidiaries' profit/loss after tax is recognized in the parent company's Income Statement after full elimination of intercompany profit/loss.

**Other financial income**
Other financial income are recognized in the Income Statement with the amounts that concern the financial year. Other financial income include 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.

**Other financial expenses**
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 on profit/loss for the year**
Tax for the year which comprises the current corporation tax for the year and any changes in deferred tax, including as a consequence of a change to the tax rate, is recognized by the part attributable to the profit/loss for the year and directly in equity by the part attributable to items directly in equity.

Tax on net profit/loss for the year comprises current tax on expected taxable income of the year and the year's adjustment of deferred tax less the part of the tax of the year that relates to changes in equity. Current and deferred tax regarding changes in equity is recognized directly in equity.

## Balance sheet

### Intellectual property rights etc

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

Tangible assets are measured at cost less accumulated amortization and impairment losses.
Cost comprises the cost of acquisition and expenses directly related to the acquisition until the time when the asset is ready for use. In the case of assets of own construction, cost comprises direct and indirect expenses for labour, materials, components and sub-suppliers. Any borrowing expenses in the period of construction are not recognized. Amortization and impairment of intangible assets has been performed based on a continuing assessment of
the useful life of the assets in the Company. Non-current assets are amortized on a straight line basis, based on cost, on the basis of the following assessment of useful life and residual values:

| | |
|---|---|
| Buildings | 10-25 years |
| Plant and machinery | 3-12 years |
| Other fixtures and fittings, tools and equipment | 3-10 years |
| IT (hardware & software) | 3-5 years |
| Leasehold improvements | Length of lease |

Land is not amortized.

Profit or loss resulting from the sale of intangible or tangible assets is determined as the difference between the selling price less selling costs and the carrying amount at the date of sale, and is recognized in the Income Statement under other operating income or expenses.

**Investments in group enterprises**
Equity investments in subsidiaries are measured by the equity method.

Equity investments in subsidiaries are measured at the proportionate share of the enterprises' equity value determined according to the group's accounting policies with deduction or addition of unrealised intercompany profit or loss and with the addition or deduction of the residual value of positive or negative goodwill determined according to the acquisition method.

Equity investments in subsidiaries with a negative equity value are measured at DKK 0, and any receivable from these enterprises are written down in so far as the receivable is non-collectable. In so far as the parent company has a legal or actual obligation to cover a negative balance that exceeds the receivable, the residual amount is recognized in provisions.

Net revaluation of equity investments in subsidiaries is tied up as reserve for net revaluation by the equity method in equity, in so far as the carrying amount exceeds the cost. Dividends from subsidiaries that are expected to be adopted before the annual report for Babcock & Wilcox Vølund A/S is approved are not tied up in the revaluation reserve.

**Inventories**
Raw materials and consumables, work in progress and manufactured goods and goods for resale are measured at the lower of cost under the average method and net realizable value.

The net realizable value of inventories is calculated as the total of future sales revenues expected, at the balance sheet day, to be generated by inventories in the process of normal operations and determined allowing for marketability, obsolescence and development in expected sales sum less the estimated expenses necessary to make the sale.

The cost of raw materials and consumables equal landed costs. The cost of finished goods and work in progress comprises cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Any borrowing expenses in the period of construction are not recognized.

**Receivables**
Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

**Contract work in progress**
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 determine 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 off against contract work in progress. Payments received on account in excess of 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 include expenses incurred in respect of subsequent financial years. Such expenses are typically prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

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

**Other 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.

**Other financial liabilities**
Fixed-rate loans such as mortgage loans and loans from credit institutions are recognized initially at the proceeds received less transaction expenses incurred. In subsequent periods, loans are measured at amortised cost so that the difference between the proceeds and the nominal value is recognized in the Income Statement as an interest expense over the term of the loan.

Other liabilities are measured at amortised cost which usually corresponds to nominal value.

**Tax receivable or payable**
Current tax liabilities and current tax receivables are recognized in the Balance Sheet as calculated tax on the expected taxable income for the year, adjusted for tax on taxable income for previous years as well as for tax prepaid.

## Cash flow statement
Referring to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared.