Deloitte
Statsautoriseret
Revisionspartnerselskab
CVR-nr. 33963556
Weidekampsgade 6
Postboks 1600
0900 København C

Phone 36 10 20 30
Fax 36 10 20 40
www.deloitte.dk

Babcock & Wilcox Vølund A/S

Falkevej 2
6705 Esbjerg Ø
Business Registration No
25053664

Annual report 2017

The Annual Report was presented and adopted at the Annual General Meeting of the company on 31.05.2018

Chairman of the General Meeting

Name: Koen Willy Bogers

Contents

Entity details

Entity

Babcock & Wilcox Vølund A/S
Falkevej 2
6705 Esbjerg Ø

Central Business Registration No (CVR): 25053664
Founded: 22.11.1999
Registered in: Esbjerg
Financial year: 01.01.2017 - 31.12.2017
Reporting period, number:18

Phone: 76 14 34 00
Website: www.volund.dk
E-mail: bwv@volund.dk

Board of Directors

Jimmy Brian Morgan, Chairman
Jacqueline Marie Opal
Rodney Ernest Carlson
Rasmus Peter Sejerup Rasmussen, Employee Representative
Helge Steenstrup, Employee Representative

Executive Board

Koen Willy Bogers, Managing Director

Bank

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

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 København C

Statement by Management on the annual report

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 01.01.2017 - 31.12.2017.

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 assets, liabilities and financial position of the Entity at 31.12.2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017.

In our opinion, the Management's Commentary includes a true and fair account of the matters addressed in the commentary.

We recommend that the annual report be adopted at the Annual General Meeting.

Esbjerg, 31.05.2018

Executive Board

Koen Willy Bogers
Managing Director

Board of Directors

Jimmy Brian Morgan Chairman	Jacqueline Marie Opal	Rodney Ernest Carlson
Rasmus Peter Sejerup Rasmussen Employee Representative	Helge Steenstrup Employee Representative	

Independent auditor's report

To the shareholders of Babcock & Wilcox Vølund A/S

Opinion

We have audited the financial statements of Babcock & Wilcox Vølund A/S for the financial year 01.01.2017 - 31.12.2017, 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 31.12.2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017 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.

Material uncertainty related to going concern

As disclosed in note 1 to the annual report, the Company is dependent on B&W's ability to raise capital. Management has presented the annual report under the assumption of going concern as B&W finds it more likely than not to continue as going concern. As stated in note 1, the remediation plan depends on conditions and matters that may be outside of B&Ws control. Our opinion is not modified in respect of this matter.

Emphasis of matter regarding circumstances in the financial statements

We refer to the the description in note 2 regarding uncertainty relating to recognition and measurement of a number of the Company´s contracts on a fixed-prise basis and the accounting estimates related hereto. Our opinion is not modified in respect to this matter.

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.

Independent auditor's report

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.

Independent auditor's report

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, 31.05.2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Helle Simonsen
State Authorised Public Accountant
Identification No (MNE) mne26845

Management commentary

	2017	2016	2015	2014	2013
	DKK'000	**DKK'000**	**DKK'000**	**DKK'000**	**DKK'000**
Financial highlights					
Key figures					
Revenue	1.604.026	1.670.862	1.657.023	748.277	627.728
Gross profit/loss	(1.135.829)	(662.333)	225.028	147.780	150.345
Operating profit/loss	(1.294.685)	(798.896)	104.079	42.319	49.104
Net financials	(23.160)	4.509	21.962	12.969	(6.124)
Profit/loss for the year	(1.321.270)	(735.164)	102.403	45.047	31.615
Total assets	589.122	740.802	1.162.207	533.992	490.408
Investments in property, plant and equipment	7.065	11.593	5.589	2.342	6.475
Equity	(1.927.269)	(604.153)	217.682	183.526	194.701
Average numbers of employees	552	504	418	385	387
Ratios					
Gross margin (%)	(70,8)	(39,6)	13,6	19,7	24,0
Net margin (%)	(82,4)	(44,0)	6,2	6,0	5,0
Return on equity (%)	-	-	51,0	23,8	16,2
Equity ratio (%)	(327,1)	(81,6)	18,7	34,4	39,7

Key figures and financial ratios are determined based on "Recommendations & Financial Ratios" issued by the Danish Society of Financial Analysts.

Ratios	**Calculation formula**	**Calculation formula reflects**
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities
Babcock & Wilcox Vølund A/S ("BWV") is a fully owned subsidiary in the Babcock & Wilcox Enterprises, Inc. (B&W), a U.S.-based public company listed on the New York Stock Exchange (Ticker: BW). BWV is a leading international supplier of renewable energy plants that use various types of waste and biomass as fuel. The Company designs, manufactures, installs and services components of various dimensions and configurations primarily based on its own stoker/grate firing technology. It also provides operating and maintenances services and aftermarket equipment for renewable energy plants.

Development in activities and finances
The end-market demand for BWV's products is solid. 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 the Company's products and services.

BWV is confident in its leading technology, which is in high demand in all markets, and expects improved results in future years.

BWV's parent company, B&W, has provided considerable support through a challenging year as BWV works toward completion of six projects that have negatively impacted its financial results. We expect that these projects - two of which are in Denmark and four in the U.K. - will be construction complete by the end of 2018.

- The first project, a waste-to-energy plant in Denmark, was approximately 97% complete as of March 31, 2018. Construction is complete and turnover is expected to be complete in mid-2018.

- The second project, a biomass plant in the United Kingdom, was approximately 87% complete as of March 31, 2018. Commissioning activities began on the project in first quarter 2018 and turnover is expected to occur in mid-2018.

- The third project, a biomass plant in Denmark, was approximately 98% complete as of March 31. 2018. Construction activities are complete and partial takeover by the customer was achieved in March 2018, with the remainder of work expected to be complete during the plant's planned outage later in 2018.

- The fourth project, a biomass plant in the United Kingdom, was approximately 87% complete as of March 31, 2018. Commissioning began in first quarter 2018, and turnover is expected to occur in mid-2018.

- The fifth project, a biomass plant in the United Kingdom, was approximately 61% complete as of March 31, 2018. Construction activities are ongoing and are expected to be complete in late 2018 with turnover to customer in early 2019.

- The sixth project, a waste-to-energy plant in the United Kingdom, was approximately 83% complete as of March 31, 2018. Construction activities are ongoing and turnover is expected to occur in second half 2018.

Management commentary

The shareholders support letter provided in 2017 in which B&W committed to fund BWV with the cash required to meet its obligations and allow the business to continue as a going concern has been extended through at minimum March 2019 (see note 1).

At Year End 2017, B&W was out of compliance with certain financial covenants in its lending arrangements and its auditors included an explanatory paragraph in their audit opinion regarding the Parent Company’s ability to continue as a “going concern.” The company’s new financing arrangements had not been finalized at the time the results were filed and the auditors were required to qualify their opinion at that time. However, B&W has since initiated steps to remedy this uncertainty, which includes a successful stock rights offering that generated $248.5 million in aggregate gross proceeds, a substantial portion of which was used to repay in full a second-lien term loan. Elimination of this high-cost debt significantly strengthened the company’s balance sheet and provided additional funds for working capital. More details on this transaction and the company’s financial results are available on the B&W website at investors.babcock.com, including in the company’s first quarter 2018 financial results and its annual report for 2017.

Profit/loss for the year in relation to expected developments
BWV’s full-year 2017 net revenues were DKK 1.604 million, which is a decrease of DKK 67 million, or 4% compared to the prior year.

While 2017 was a challenging year for BWV, with an operating loss of DKK 1.295 million, the company remained focused on serving its customers, making important decisions to better position its businesses for the future and drive improved financial performance. The year-end results reflected a loss of DKK 1.321 million, primarily from charges arising from unexpected cost and schedule issues from the two new-build projects in Denmark as well as four new-build projects the U.K.

The losses in 2017 were primarily a result of scheduling delays, shortcomings in subcontractors' estimated productivity and the cost of repairing a structural steel beam on one of the U.K. projects, which were partially offset by contractual bonus opportunities and reduced liquidated damages on certain projects.

In September 2017, we identified the failure of a structural steel beam on one of our renewable energy contracts in the U.K., which stopped work in the boiler building and other areas pending corrective actions to stabilize the structure. The engineering, design and manufacturing of the steel structure were the responsibility of our subcontractors. A similar design was also used on two of the other renewable energy contracts in the U.K., and although no structural failure occurred on these two other projects, work was also stopped in certain restricted areas while we added reinforcement to the structures. The project where we identified the structural steel beam is now back to work and construction at the site is expected to be complete later in 2018. Additionally, reinforcements of the structural beams at the other two projects are now complete. The total costs related to the structural steel issues on these three projects, including project delays, are estimated to be approximately DKK 263 million, which is included in the December 31, 2017 estimated losses at completion for these three projects.

Also during the third quarter of 2017, we adjusted the design of three of our U.K. projects to increase the guaranteed power output, which will allow us to achieve contractual bonus opportunities for the higher output. In the fourth quarter of 2017, we obtained agreement from certain customers to increase the value of these bonus opportunities and to provide partial relief on liquidated damages. The bonus opportunities and

Management commentary

reduced liquidated damages increased the estimated selling price of the three contracts by approximately DKK 119 million in total, which was recognized in the estimated revenues and costs to complete in 2017 because each were loss contracts.

In 2017, BWV made substantial management and process changes in response to the loss contracts, including changes in top management and strengthening of project management controls and procedures. Although we believe the provisions we made for our six loss projects are adequate, given that among other things these loss positions are based on estimates of future activities, revenues and costs, there can be no assurance that unanticipated schedule delays in the future will not result in additional contract losses or liquidated damages.

During 2018, we expect construction will be completed and the units will be operational on each of the six challenged projects in Denmark and United Kingdom. We expect our customers will take over five of the facilities in 2018, and the sixth in early 2019. The aftermarket parts and services and environmental projects and services portion of our business remain strong, and other new-build projects in Sweden and China have been executed according to management's expectations for 2017 with positive profit margins.

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, that 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 at 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 that the estimates are made 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.

B&W introduced a Project Management Office (PMO)-based model in 2017 to standardize and improve the management and execution of its projects across the company. Under this model, the company established global processes and procedures for all of its operations, which ensure higher predictability and more stable project execution.

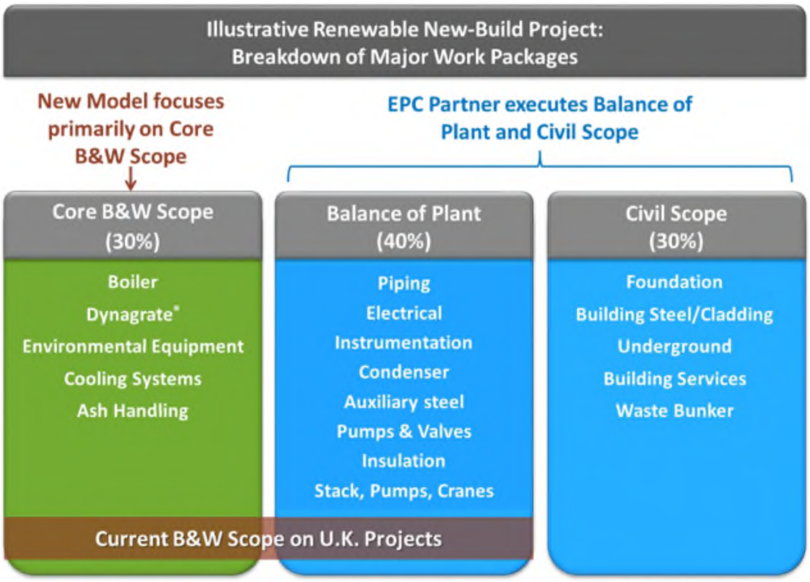
Insurance recovery

During the third quarter of 2016, we determined it was probable that we would receive a DKK 100 million insurance recovery for a portion of the losses on a Danish new-build project. BWV received unsatisfactory communication in late May 2018 from its insurer, which disputed its DKK 100 million insurance claim for recovery of a portion of the losses on the first project. BWV believes that the dispute from its insurer is without merit and continues to believe it is entitled to the full value of the claim. BWV intends to aggressively pursue full recovery under the policy in any legal paths available. However, based on these developments, the receivable no longer meets the accounting standard of virtually certain, and the receivable was reversed in the 2017 financial statements.

Management commentary

New-build bidding and execution model

BWV believes there is a solid market opportunity for our core boiler, grate and environmental equipment technologies in the global renewable energy market. To allow it to better capitalize on this market, BWV has redefined its approach for bidding and executing new-build contracts. Under our new model, we are focusing on engineering and supplying our core waste-to-energy and renewable energy technologies – steam generation, combustion grate, environmental equipment, material handling, and cooling condensers – while partnering up with firms to execute the balance of plant and civil construction scope on contracts we pursue. We believe the new market approach is better aligned with our core competencies and risk-profile as a supplier of engineered equipment and technologies and aftermarket services, lowers our risk profile and positions us for better profitability.



The percentages are approximate and for illustrative purposes

BWV will resume bidding on additional new-build contracts in 2018 as additional resources become available as the challenged contracts are completed.

Restructuring activities

In the second half of 2017 BWV has identified and is implementing multiple actions to proactively improve its cost structure. Key actions include:

- Workforce reduction of approximately 30%, which better-aligns our workforce to operate under the new execution model
- Closing the Slovakian Office
- Other Selling, General and Administrative cost reductions

These actions are focused on productivity and efficiency gains to enhance profitability and cash flow going forward.

Management commentary

Conclusion

BWV continues to progress toward completion of its challenged projects and expects improved results going forward. Although management's expectations of improving the Company's results in 2017 were not met due to the losses associated with the increased estimates to complete those projects, the Company is committed to completing the projects within its revised timeline and budgets. Management believes that the new procedures and internal controls are fully sufficient to provide reliable project estimates.

Based on the continued strong performance in its aftermarket parts and services activities, continued progress on the challenged projects, new-build bidding and the cost-savings initiatives that have been implemented, management expects improved results going forward. In general, 2018 is expected to be "a year in transition" as it completes its new-build projects and expects to achieve improved results in 2019.

Outlook

Revenue is expected to reach the same level as in 2017. The results before taxes are expected to significantly improve from a loss in 2017 of DKK 1.295 million to a loss in the range of DKK 300 and 400 million in 2018.

Capital and cash resources

The loss for the year and adjustment of hedged contracts to the fair value have generated a decrease of the Company's equity from negative DKK 604 million to negative DKK 1.927 million. Additionally, as noted previously in this report, BWV's parent company has issued a letter of support that commits to provide the cash required to meet BWV's obligations through at minimum March 2019. BWV's parent company also has supported BWV with an increase in the intercompany loan from DKK 21 million in 2016 to DKK 1.194 million through 2017.

Events after the balance sheet date

In the first quarter of 2018, approximately DKK 325 million of additional estimated costs to complete the projects were identified. The largest portion of the additional estimated costs are related to the project with the steel beam failure following a joint venture partner entering into administration in the United Kingdom and subsequent delays in receiving regulatory releases (received in April 2018) to conduct repairs on the failed beam. The remainder of the increased costs was related to schedule delays, claim settlements and other costs associated with the other loss projects. The additional costs do not take into account any potential recoveries to mitigate these losses.

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 the backlog projects within the revised project estimates and schedules. In addition, the management team is limiting near term new bidding opportunities so as not to overburden resources as they focus on executing the current backlog projects.

Market risks

The key market risks relate to a continued development of technological expertise to enable the Company to meet market requirements in its core areas. This is ensured through dialogue with customers and universities

Management commentary

as well as continued improvement and development in relevant technological areas, including through the work of the Company's research and development department.

Currency exposure

As the Company sells projects and makes a number of purchases for foreign exchange, these involve a foreign exchange risk. Transactions are made in e.g. EUR, GBP, USD, and SEK. 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 the net floating-rate interest-bearing debt is primarily provided through the parent company's credit facility, the Company does not enter into transactions to hedge against interest rate exposure.

Credit risks

According to the Group's policy for assuming credit risks, major customers and business partners are credit rated regularly.

Research and development activities

The Company carries out research and development activities with a view to developing and optimizing production processes and the product portfolio. These activities are partly carried out in cooperation with public authorities. Costs expensed for research and development of the Company amount to DKK 12,5 million net of contributions received, which is an increase of DKK 0,9 million to 2016. The amount is equal to 0.77 % of the net revenues. Furthermore, there is project related development paid by customers.

Transactions with related parties

The Company has routine transactions involving contract work and administrative items with various related enterprises, which are subsidiaries of Babcock & Wilcox Enterprises, Inc.

Group relations

Foreign subsidiaries

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

Babcock & Wilcox UK 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

Health, Safety and Environment (HSE)

At B&W Vølund we value the health and safety of each employee and are committed to ensuring we have a workplace that is free of accidents and injuries.

Target Zero is a program that reflects the Company’s commitment to the overall safety of each employee. We are dedicated to preventing accidents and their associated costs by averting, eliminating or mitigating unsafe acts and conditions, and by responding properly to natural disasters and emergency situations.

Management commentary

Rather than just reacting to incidents and correcting contributing factors, our objective is to be proactive and prevent accidents from occurring. Aggressive safety management techniques such as improved hazard recognition, hazard correction, and employee involvement help reduce occupational injuries and illnesses as well as the probability of negative safety impacts. We promote Target Zero as a corporate-wide process that helps us ensure a safe work environment for each B&W employee.

Employees are responsible for working safely, following policies and procedures, stopping at-risk behavior and notifying management of unsafe work areas and work processes. This applies not only to the activities of the worker themselves but to their co-workers, as well.

Management is responsible and accountable for protecting its employees, the public and the environment. Management will provide effective leadership to ensure risk-management strategies are integrated into our business and work processes. Line management is responsible for the safety of their individual operations.

Training is provided to ensure managers, supervisors, employees and visitors know and understand the policies, requirements, procedures and responsibilities established to minimize risk and prevent exposure to hazards.

B&W Vølund complies with applicable regulations, codes, and standards and develops and enforces procedures that provide guidance to employees, subcontractors and visitors regarding their procedural compliance responsibilities.

B&W Vølund pursues 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.

All new employees in B&W Vølund participate in a mandatory HSE training program with an introduction to:

- HSE in B&W Vølund
- Management systems
- Safety organization
- Target Zero
- Safety rules
- Employee expectations

Safety moments are on the agenda for different meetings like all-staff meetings, department meetings etc. All HSE meetings are also led off with a safety moment.

A HSE business plan was established at the beginning of the year. The plan included 19 specific tasks, which all have been completed. In 2017, the focus on safety and health was on various initiatives, all of which have been launched to make B&W Vølund an even safer, healthier, and greener workplace:

- We have implemented Visitor Orientation for all visitors to our permanent locations. The orientation includes a safety video and a leaflet about evacuation etc.

Management commentary

- We have held workshops for leaders about the managerial responsibility related to our safety culture (Leading Target Zero training). The percentage of completion is 90 %.

- We have launched the Safety Commitment initiative. All managers were requested to summon all direct reports, explain about the safety commitment initiative, and plan how to improve safety. The percentage of completion is 86 %.

The target goal for "Days Away Restricted Transfer Rate" was reached in 2017. However, the target for "Total Recordable Case Rate" was not realized. The culture for reporting and registering near-misses and accidents has improved, and a strong incident investigation proves involving top management was implemented.

In November 2017 B&W Vølund initiated a workplace assessment, which is done every three years. All employees are asked about their working environment. The results of the assessment are reviewed and actions are taken as needed. In Denmark and in the entire EU it is mandatory to involve the employees in the assessment of their own working environment.

B&W Vølund's working environment organization is the originator of the workplace assessment in co-operation with HR. The working environment groups have contributed to the questionnaires, and the process and the questions have been approved by the Working Environment Committee. B&W Vølund's workplace assessment covers Production, Warehouse, Construction, Service, the offices in Esbjerg, Glostrup, Aalborg, and Gothenburg as well as the O&M organization in the United Kingdom. The results can be displayed in an overall report or individually for each department.

The general trends from the assessment will be handled by the Working Environment Committee. The results concerning the physical environment will be handled by the working environment groups and the managers relevant for the specific field, while the results from the psychological environment will be handled by our HR Business Partners.

In the spring of 2018, HR will meet with each individual department to discuss the various aspects of the psychological assessment results. At the end, the process will lead to improvement initiatives and action plans to ensure an even better working environment and an even better job satisfaction.

Recruiting, training and retaining
Management would like to thank the employees for their dedication and ability to continuously adapt and improve. As we are setting higher performance standards, we are also expecting more of our human resources. We will continue to invest in our employees in order to ensure that we can develop our business. It is important for us to have the best employees and, as part of this we are always aiming at attracting talented employees – they are one of the main keys to our future success.

The Company's mission is, to a great extent, based on the sale and servicing of technically complex plants; As such, there is a continuous requirement for recruiting and retaining qualified staff. This is ensured through policies and procedures for recruiting, performance appraisal interviews, senior employees, retirement, etc. Furthermore, a number of training activities are carried out. In 2017, a total of 1.088 training days were held, which corresponds to 1,8 training days per employee.

Management commentary

B&W Vølund had three employees selected as participants in the 2017 B&W Emerging Leader Program (ELP). Established in 2016, the ELP is a four-month program that helps future company leaders develop the collaborative skills and leadership characteristics crucial to executing our business strategy. Participants take part in workshops, small- and large-group learning sessions, individual coaching sessions and activities that help emphasize B&W's culture, strategy and mission, and gain information about various topics related to the company's business and leadership in general. Participants also are assigned to work in teams to address actual B&W projects or issues. As a capstone to the program, the teams then present project recommendations and action plans to the B&W senior leadership team.

To further emphasize the B&W's policies and expectations for a harassment-free workplace, all white-collar and blue-collar employees are required to attend a training course on this topic in early 2018. The sessions will include information on B&W's Code of Conduct and Harassment Policy, prevention strategies, various scenarios and discussion on how to maintain a workplace free of harassment and bullying.

Climate/environment
The Company's Environmental Policy sets the overall frame for the environmental work in B&W Vølund. The Company's vision for environmental sustainability is to act according to the Company's environmental management system and endeavor the least environmental impact possible in relation to the environmental development and the technical and economical means at our disposal.

B&W Vølund is taking on responsibility for the environment. The Company prioritizes preventions and continuously strives to reduce environmental impacts. The Company is committed to work systematically towards sustainability through development of best available technology and project management.

The Company's mission for environmental sustainability is based on the following:

- The Company complies with current legal requirements concerning environmental protection and complies with environmental requirements from B&W

- The Company works 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, accomplished, and reviewed on a regular basis.

- The Company continuously strives to have environmental impact prevention 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 have knowledge about the environmental management system, and they follow the requirements and the intentions of the system.

- B&W Vølund cooperate with our subcontractors about environmental protection, requiring that they follow the same approach and course of actions about environment as we do.

Management commentary

The Environmental Policy is communicated to all employees and subcontractors, and it is available to interested parties on B&W Vølund's homepage.

In terms of environmental impact of the Company's office locations and production facilities, an energy audit was carried out in 2015. Based on this audit as well as an external energy consultant evaluation in 2016, B&W Vølund have made investments and savings in 2016 for several areas in the workshop, such as connecting the process ventilation with the heat recovery system whereby the electricity consumption has been reduced by approx. 300,000 kWh per year.

Going forward, the Company has set the following activities for 2025 broken down into goals:

- 2020: exchange lighting in all production halls, expected annual saving 87.500 kWh.
- 2023: insulation of production hall facades, expected annual saving 120.000 kWh.
- 2025: new energy control system. expected annual saving 89.000 kWh.

Ethics and Compliance
A reputation for honesty and integrity is an important asset. The ethical conduct of our business and compliance with both the letter and the spirit of the laws and regulations that govern our operations build trust and respect with customers, suppliers, employees, shareholders and the communities where we operate. When we set high standards and live by what we preach, we improve the way we manage our own affairs, develop a reputation for integrity, and create an atmosphere of confidence between ourselves and those we do business with. This is essential for our success. B&W has developed standards of business conduct, which are described in our corporate policies and procedures:

- Code of Business Conduct
- the B&W Anti-Corruption / Anti-Bribery Compliance Manual
- Supplier Code of Conduct
- Modern Slavery Transparency Statement
- Tax Strategy Statement

The elements of the B&W Standards are important. Our Corporate policies govern our operations and provide guidelines for the everyday conduct of business. Our Code of Business Conduct describes in detail the ethical standards that govern all of our business operations.

Our compliance program provides a system to prevent and detect violations of the Code, our policies, and the laws and regulations that govern our business.

In today's world, the line between the right choice and the wrong choice is not always clearly drawn. That is why we believe it is valuable to set and maintain high ethical standards outlined by our Code of Business Conduct and Corporate policies.

The Company's business conduct is governed by its ethics and compliance rules "Code of Business Conduct". The rules are applying to and known by all employees, and training is carried out continuously so that it can be properly observed. A system to report any non-compliance with the rules is implemented, and the reports are being registered and treated seriously. A recurrent theme in the Company's Code of Business Conduct is

Management commentary

the obligation to respect human rights in all matters. At least once per year, all employees receive mandatory training in the Company’s Ethical and Compliance policies “Code of Conduct”.

The always valid and detailed ethics documents are available on www.babcock.com/en/about/ethics. Here you will also find the communication channels to contact Ethics & Compliance if you feel the standards not have been met or if you have questions.

Statutory report on the underrepresented gender

Our policy toward the underrepresented sex is laid out in the Code of Conduct. The diversity amongst the Company’s employees is a key asset. The Company is committed to providing a professional atmosphere for all employees that promotes productivity and encourages creativity and innovation. The Company will work to maintain a diverse workforce where employees are hired, retained, compensated, disciplined and promoted based on their contribution to the Company and their performance.

Cooperation is important to be sure that all the Company’s employees are treated fairly and with respect, regardless of race, color, religion, creed, national origin, ancestry, disability, sex, age, or other protected characteristics.

The Company’s Board of Directors is composed of three members. As a company, the Company desires to have both sexes represented on the Board of Directors. As a minimum, the Company’s goal is to have the underrepresented sex making up 30% of the members of the Board of Directors corresponding to one member being of the underrepresented sex. On February 8, 2018, Ms. Jacqueline Marie Opal replaced Ms. Kimberly Lewis Clark as member of the Board of Directors, thereby continuing to meet the goal that at least one out of the three board members elected by the general meeting should be the underrepresented sex.

In the executive group and the department management group, the composition is 16.67% female and 83.33 % male managers. The recruiting of managers is solely based on the skills and competences needed for the position. However, the Company has a goal to increase the female representation to 20% over the next two years, with due consideration of the Company's Fair Employment Practices policy.

Income statement for 2017

	Notes	2017 DKK'000	2016 DKK'000
Revenue	3	1.604.026	1.670.862
Production costs	5, 6	(2.739.855)	(2.333.195)
Gross profit/loss		**(1.135.829)**	**(662.333)**
Distribution costs	5	(76.014)	(87.913)
Administrative expenses	4, 5, 6	(82.842)	(48.650)
Operating profit/loss		**(1.294.685)**	**(798.896)**
Income from investments in group enterprises		(6.485)	14.605
Other financial income	7	235	347
Other financial expenses	8	(16.910)	(10.443)
Profit/loss before tax		**(1.317.845)**	**(794.387)**
Tax on profit/loss for the year	9	(3.425)	59.223
Profit/loss for the year	10	**(1.321.270)**	**(735.164)**

Balance sheet at 31.12.2017

	Notes	2017 DKK'000	2016 DKK'000
Completed development projects		89	302
Development projects in progress		2.297	1.503
Intangible assets	11	**2.386**	**1.805**
Land and buildings		38.212	40.479
Plant and machinery		13.291	12.055
Other fixtures and fittings, tools and equipment		2.753	4.305
Leasehold improvements		75	91
Prepayments for property, plant and equipment		7.547	4.060
Property, plant and equipment	12	**61.878**	**60.990**
Investments in group enterprises		32.860	42.858
Deposits		3.303	3.068
Other receivables		5.852	4.546
Fixed asset investments	13	**42.015**	**50.472**
Fixed assets		**106.279**	**113.267**
Raw materials and consumables		9.823	11.932
Work in progress		3.435	4.325
Manufactured goods and goods for resale		30.868	32.535
Inventories		**44.126**	**48.792**
Trade receivables	14	165.754	133.516
Contract work in progress	15	108.661	103.314
Receivables from group enterprises		1.905	9.902
Other receivables	16	101.336	142.714
Prepayments	17	3.608	4.309
Receivables		**381.264**	**393.755**
Cash		**57.453**	**184.988**
Current assets		**482.843**	**627.535**
Assets		**589.122**	**740.802**

Balance sheet at 31.12.2017

	Notes	2017 DKK'000	2016 DKK'000
Contributed capital		20.000	20.000
Reserve for development expenditure		794	0
Retained earnings		(1.948.063)	(624.153)
Equity		**(1.927.269)**	**(604.153)**
Other provisions	18	113.093	72.319
Provisions for investments in group enterprises	19	4.477	0
Provisions		**117.570**	**72.319**
Contract work in progress	15	814.198	814.873
Trade payables		319.056	293.044
Payables to group enterprises		1.193.751	21.311
Payables to associates		0	10.915
Income tax payable		1.103	1.150
Other payables		70.713	131.343
Current liabilities other than provisions		**2.398.821**	**1.272.636**
Liabilities other than provisions		**2.398.821**	**1.272.636**
Equity and liabilities		**589.122**	**740.802**

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Statement of changes in equity for 2017

	Contributed capital DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	20.000	0	(624.153)	(604.153)
Exchange rate adjustments	0	0	(835)	(835)
Other entries on equity	0	0	(1.011)	(1.011)
Profit/loss for the year	0	794	(1.322.064)	(1.321.270)
Equity end of year	**20.000**	**794**	**(1.948.063)**	**(1.927.269)**

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1. Going concern

The Babcock & Wilcox Company (”B&W”), the parent company of B&W Vølund A/S, has extended the letter of support through at minimum March 2019. The shareholders support letter commits to fund B&W Vølund with the cash required to meet its obligations and allow the business to continue as a going concern.

We have experienced losses from operations in each of the past two years, have negative operating cash flows and are dependent on B&W's ability to raise capital. At Year End 2017, B&W was out of compliance with certain financial covenants in its lending arrangements and its auditors included an explanatory paragraph in their audit opinion regarding the Parent Company's ability to continue as a "going concern". B&W's new financing agreements had not been finalized at the time the results were filed and the auditors were required to qualify their opinion at that time.

B&W is implementing a remediation plan to improve the liquidity position and to remedy the going concern uncertainty. B&W believe that the remediation plan is more likely than not to address the substantial doubt on the ability to continue as a going concern. However, the remediation plan depends on conditions and matters that may be outside of B&W's control.

More details on the remediation plan are available on the B&W website at investors.babcock.com in the company's annual report for 2017 (10-K/A filing on March 5, 2018) and first quarter 2018 (10-Q filing on May 8, 2018).

In this context, the management has presented the annual report under the assumption of going concern.

2. 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 recently 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;

Notes

- 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 on this contract, 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.

For example, we have contracts to construct several energy plants in the United Kingdom. These contracts have suffered delays, additional cost and contractual penalties. The complexity of these contracts required us to subcontract matters, such as structural engineering, to other companies that have the appropriate technical expertise. In September 2017, a structural steel issue was discovered at one of these plants, which management believes is the result of an engineering error by a subcontractor. The failure resulted in work being stopped at the plant with the failure and at two other plants under construction where failure had not occurred, but had used a similar design by the same subcontractor. In each case, additional engineering analysis and remediation was required, resulting in additional costs, schedule delays and contractual penalties, all of which were significantly greater at the plant where failure occurred. Through December 31, 2017, DKK 262 million of additional costs had been recorded related to the effects of this engineering error across the three plants. In each case, the engineering assessment, remediation and safety plans required approval of the subcontractor, customer, our contract partner and the respective analysis independent technical experts from each. In the case of the plant where structural failure occurred, this process to agree on the appropriate structural remediation and plan to implement the remediation was lengthy and resulted in a more significant delay. These contracts include rejection clauses that give the customers the option to reject the deliverable, recover all monies paid to us and our partner, and require us to restore the property to its original state if contractual milestones are not met by a certain date. While we expect to be able to accelerate our progress and take other remedial actions if necessary to avoid giving a customer the option to exercise its rejection clause, failure to do so could have a material adverse effect on our liquidity and our ability to satisfy obligations under other contracts or comply with our debt covenants. Any insurance coverage may be insufficient, or the timing of any insurance proceeds may not meet our liquidity 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

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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 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 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

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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.

	2017 DKK'000	2016 DKK'000
3. Revenue		
Revenue by geographical market		
Denmark	451.295	405.588
Other European countries	982.216	1.233.937
Other countries	170.515	31.337
	1.604.026	**1.670.862**
Revenue by activity		
New Energy Plants	1.248.553	1.409.146
Service Business	355.136	261.391
Other	337	325
	1.604.026	**1.670.862**

	2017 DKK'000	2016 DKK'000
4. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	731	731
Other assurance engagements	1.767	1.356
Tax services	58	14
Other services	25	30
	2.581	**2.131**

	2017 DKK'000	2016 DKK'000
5. Staff costs		
Wages and salaries	371.750	328.161
Pension costs	10.685	9.950
Other social security costs	1.836	939
	384.271	**339.050**
Average number of employees	**552**	**504**

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	Remuneration of management 2017 DKK'000	Remuneration of management 2016 DKK'000
Executive Board	6.181	6.770
	6.181	**6.770**

	2017 DKK'000	2016 DKK'000
6. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	213	504
Depreciation on property, plant and equipment	6.177	6.620
	6.390	**7.124**

	2017 DKK'000	2016 DKK'000
7. Other financial income		
Financial income arising from group enterprises	17	57
Other interest income	218	290
	235	**347**

	2017 DKK'000	2016 DKK'000
8. Other financial expenses		
Financial expenses from group enterprises	11.346	450
Other interest expenses	1.049	1.564
Exchange rate adjustments	4.515	8.429
	16.910	**10.443**

	2017 DKK'000	2016 DKK'000
9. Tax on profit/loss for the year		
Current tax	3.425	5.831
Change in deferred tax	0	(65.063)
Adjustment concerning previous years	0	9
	3.425	**(59.223)**

Notes

	2017 DKK'000	2016 DKK'000
10. Proposed distribution of profit/loss		
Transferred to reserve for net revaluation according to the equity method	0	(5.793)
Extraordinary distributions made in the financial year	0	85.000
Retained earnings	(1.321.270)	(814.371)
	(1.321.270)	**(735.164)**

	Completed develop-ment projects DKK'000	Develop-ment projects in progress DKK'000
11. Intangible assets		
Cost beginning of year	3.759	1.503
Additions	0	794
Cost end of year	**3.759**	**2.297**
Amortisation and impairment losses beginning of year	(3.457)	0
Amortisation for the year	(213)	0
Amortisation and impairment losses end of year	**(3.670)**	**0**
Carrying amount end of year	**89**	**2.297**

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.

Notes

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improve-ments DKK'000
12. Property, plant and equipment				
Cost beginning of year	67.356	43.394	29.536	1.133
Transfers	105	2.401	0	0
Additions	0	1.072	0	0
Disposals	0	(437)	(263)	0
Cost end of year	**67.461**	**46.430**	**29.273**	**1.133**
Depreciation and impairment losses beginning of year	(26.877)	(31.339)	(25.231)	(1.042)
Depreciation for the year	(2.372)	(2.237)	(1.552)	(16)
Reversal regarding disposals	0	437	263	0
Depreciation and impairment losses end of year	**(29.249)**	**(33.139)**	**(26.520)**	**(1.058)**
Carrying amount end of year	**38.212**	**13.291**	**2.753**	**75**

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	Prepay-ments for property, plant and equipment DKK'000
12. Property, plant and equipment	
Cost beginning of year	4.060
Transfers	(2.506)
Additions	5.993
Disposals	0
Cost end of year	**7.547**
Depreciation and impairment losses beginning of year	0
Depreciation for the year	0
Depreciation and impairment losses end of year	0
Depreciation and impairment losses end of year	**0**
Carrying amount end of year	**7.547**

	Invest-ments in group enterprises DKK'000	Deposits DKK'000	Other receivables DKK'000
13. Fixed asset investments			
Cost beginning of year	45.563	3.068	4.546
Additions	0	235	1.306
Cost end of year	**45.563**	**3.303**	**5.852**
Impairment losses beginning of year	(2.705)	0	0
Exchange rate adjustments	(765)	0	0
Amortisation of goodwill	(6.998)	0	0
Share of profit/loss for the year	1.146	0	0
Dividend	(7.858)	0	0
Investments with negative equity value transferred to provisions	4.477	0	0
Impairment losses end of year	**(12.703)**	**0**	**0**
Carrying amount end of year	**32.860**	**3.303**	**5.852**

Notes

	Registered in	Corpo-rate form	Equity inte-rest %
Investments in group enterprises comprise:			
Babcock & Wilcox Vølund AB (Share capital 500 SEK '000)	Gothenburg, Sweden	AB	100,0
Babcock & Wilcox Slovakia s.r.o. (Share capital 5 EUR '000)	Trencin, Slovakia	s.r.o.	100,0
Babcock & Wilcox Vølund Ltd. (Share capital 0 GBP '000)	London, UK	Ltd.	100,0

14. Trade receivables
Trade receivables include 1.215 DKK'000 (2016: 3.600 DKK'000) due more than 1 year after year end.

15. Contract work in progress
Sales value of contract work in progress amounts to 4.009.057 DKK'000 (2016: 3.797.892 DKK'000).
On account invoices amount to 4.714.594 DKK'000 (2016: 4.509.451 DKK'000).

The net value of work in progress amount to (705.537) DKK'000 (2016: (711.559) DKK'000) which is recognized in the balance sheets as follows:

- Assets 108.661 DKK'000 (2016: 103.314 DKK'000)
- Liabilities 814.198 DKK'000 (2016: 814.873 DKK'000)

16. Other receivables
Other short-term receivable 2016 includes 100.000 DKK'000 for probable insurance recovery.

BWV received unsatisfactory communication in late May 2018 from its insurer, which disputed its DKK 100 million insurance claim for recovery of a portion of the losses on the first project. BWV believes that the dispute from its insurer is without merit and continues to believe it is entitled to the full value of the claim. BWV intends to aggressively pursue full recovery under the policy in any legal paths available. However, based on these developments, the receivable no longer meets the accounting standard of virtually certain, and the receivable was reversed in the 2017 financial statements.

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

18. Other provisions
Other provisions comprise of expenses for warranty provisions.

19. 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.

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20. Financial instruments

	2017	2016
Contractual value:	**DKK'000**	**DKK'000**
Sale, GBP	0	129.709
Sale, USD 2-23 months	100.726	250.640
Sale, SEK 4-17 months	105.109	204.638
	205.835	**584.987**
Unrealized gain/(loss):		
Sale, GBP	0	23.424
Sale, USD 2-23 months	9.656	(3.607)
Sale, SEK 4-17 months	956	5.320
	10.612	**25.137**

	2017	2016
	DKK'000	**DKK'000**
21. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	**8.341**	**10.502**

22. Contingent assets

Based on the loss in 2017, 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 yearend 2017.

Under the assumption of full utilization with the current tax legislation in Denmark, the deferred tax asset not recognized amounts to 408.036 DKK’000 (DKK 118.303 DKK’000) and relates primarily to tax losses.

	2017	2016
	DKK'000	**DKK'000**
23. Contingent liabilities		
Recourse and non-recourse guarantee commitments	1.289.961	1.462.685
Contingent liabilities in total	**1.289.961**	**1.462.685**

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 246.697 DKK’000 (2016: 260.519 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

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customers. These guarantees amounting to 122.296 DKK’000 (2016: 129.006 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 30. June 2018.

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.

24. 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

25. 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.

26. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:

Babcock & Wilcox Enterprises, Inc.

13024 Ballantyne Corporate Place, Suite 700

Charlotte, NC 28277

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 remain unchanged from last year with the following exceptions:

Local management has decided not to present a consolidated group report and cash flow statement for 2017 for the Babcock & Wilcox Vølund A/S group. The information is included in the consolidated annual group report for the ultimate Parent Company Babcock & Wilcox Enterprises, Inc.

Reporting currency

The Annual Report is presented in Danish kroner.

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.

Accounting policies

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.

Derivative financial instruments
Derivative financial instruments are measured at cost and subsequently at fair value at initial recognition in the Balance Sheet. Positive and negative fair values of derivative financial instruments are included in other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments classified as and fulfilling the criteria for hedging the fair value of a recognized asset or liability are recognized in the Income Statement together with any changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments classified as and fulfilling the conditions for hedging future assets and liabilities are recognized in other receivables or other payables and in equity. In the event that the future transaction results in the recognition of assets or liabilities, any amounts previously recognized in equity will be transferred to the cost of the asset or the liability, respectively. In the event that the future transaction results in income or expenses, any amounts previously recognized in equity will be transferred to the Income Statement in the period in which the hedged item affects the Income Statement.

For derivative financial instruments that do not fulfil the conditions for treatment as hedging instruments, changes in the fair value will continuingly be recognized in the Income Statement.

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.

Accounting policies

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 costs
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 both 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.

Accounting policies

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.

Accounting policies

Amortization and impairment of tangible and intangible assets
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:

Properties	10-25 years
Plant and machinery	3-12 years
IT (hardware & software)	3-5 years
Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	over the lease period

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.

Impairment of fixed assets
The carrying amounts of both intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortization and depreciation. If so, the asset is written down to its lower recoverable amount. The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the need for impairment is assessed in the smallest group of assets for which a reliable recoverable amount can be determined.

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 uncollectible. 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.

Accounting policies

The acquisition method is used to purchase enterprises, cf. the above description under determination of goodwill.

Investments in jointly controlled operations
Investments in consortiums are treated in compliance with the rules about jointly controlled operations. This means that the Company recognizes in its financial statements:

- The assets that it controls
- The liabilities that it incures
- The expenses that it incurs
- That it recognizes income concurrently with the progress of its production activities

Receivables
Receivables are measured at amortised cost which usually corresponds to the nominal value. The value is reduced by write-downs for expected bad debts.

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.

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.

Accounting policies

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 comprise cash at bank and in hand.

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.

Operating leases
Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

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.

Income 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.