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Babcock & Wilcox Vølund A/S
Falkevej 2
6705 Esbjerg Ø
Business Registration No 25053664

Annual report 2018

The Annual Report was presented and adopted at the Annual General Meeting of the company on 04.06.2019

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: 01.01.2018 - 31.12.2018
Reporting period, number:19

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
Martin Oehlenschlæger

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 01.01.2018 - 31.12.2018.

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 31.12.2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018.

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, 04.06.2019

Executive Board

Koen Willy Bogers Managing Director	Martin Oehlenschlæger

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 01.01.2018 - 31.12.2018, 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 31.12.2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 Babcock & Wilcox Enterprises Inc. ability to fund the Company with the cash required to meet its obligations and allow the Company to continue as a going concern. Management has presented the annual report under the assumption of going concern based on the letter of support from the parent company Babcock & Wilcox Enterprises Inc. 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-price basis and the accounting estimates related hereto. Our opinion is not modified in respect of 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, 04.06.2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

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

Management commentary

	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000	2014 DKK'000
Financial highlights					
Key figures					
Revenue	646.906	1.604.025	1.670.862	1.657.023	748.277
Gross profit/loss	(1.497.194)	(1.135.830)	(662.333)	225.028	147.780
Operating profit/loss	(1.665.898)	(1.294.685)	(798.896)	104.079	42.319
Net financials	(125.106)	(23.160)	4.509	21.962	12.969
Profit/loss for the year	(1.797.212)	(1.321.270)	(735.164)	102.403	45.047
Total assets	461.534	589.122	740.802	1.162.207	533.992
Investments in property, plant and equipment	3.451	7.065	11.593	5.589	2.342
Equity	(3.726.134)	(1.927.269)	(604.153)	217.682	183.526
Average numbers of employees	382	552	504	418	385
Ratios					
Gross margin (%)	(231,4)	(70,8)	(39,6)	13,6	19,7
Net margin (%)	(277,8)	(82,4)	(44,0)	6,2	6,0
Return on equity (%)	-	-	-	51,0	23,8
Equity ratio (%)	(807,3)	(327,1)	(81,6)	18,7	34,4

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 (%)	$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity x 100}}{\text{Total assets}}$	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. 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 BWV's 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, and we expect improved results in future years. In 2017, we paused our sales efforts to focus on the execution of six European EPC loss contracts (see below). We restarted our sales efforts in 2018 focusing on our core business cf. our new business model for renewable new-build projects as illustrated below. The pause in our sales efforts combined with the settlement agreements for the loss projects (described below) affected our results in 2018, however, based on the strong demand for our core products, we expect sales to increase again as we pursue our new business model.

BWV's parent company, B&W, has provided considerable support through a challenging period as we work toward completion of six projects that have negatively impacted our financial results. As of March 2019, four of our six European EPC loss contracts had been turned over to the customers, with only punch list or agreed remediation items remaining, some of which are expected to be performed during the customers' scheduled maintenance outages. On March 29, 2019, we reached settlements with the customers for the remaining two European EPC projects, which significantly limited our remaining obligations related to these projects. We also reached an agreement to terminate our obligations on an additional European waste-to-energy EPC contract, which had not yet reached the project phase. The settlements became binding on April 5, 2019 upon payment of settlement amounts. A more detailed project status summary is contained in our parent Company's 10-Q to be found at investors.babcock.com.

The shareholder's 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 December 2020 (see note 1).

In the B&W Annual Report published April 2, 2019, the auditors included an explanatory paragraph in their audit opinion regarding the Parent Company's ability to continue as a going concern.

Subsequently, on April 5, 2019, B&W published an amendment to the Credit Agreement. The Amendment provides (i) $150.0 million in additional commitments from B. Riley FBR, Inc. (together with its affiliates, "B. Riley"), under Tranche A-3 of last out term loans and (ii) an incremental uncommitted facility of up to $15.0 million, to be provided by B. Riley or an assignee. The proceeds from the Tranche A-3 last out term loans will be used to pay the amounts due under the Company's previously announced settlement agreements covering certain European EPC loss contracts and for working capital and general corporate purposes. More

Management commentary

details on this transaction and B&W's financial results are available on the B&W website at investors.babcock.com, including B&W's first quarter 2019 financial results and its annual report for 2018.

Profit/loss for the year in relation to expected developments
BWV's full-year 2018 net revenues were DKK 647 million, which is a decrease of DKK 957 million or 59,7% compared to the prior year.

While 2018 was a challenging year for BWV, with an operating loss of DKK 1.666 million, we remained focused on serving our customers, making important decisions to better position our businesses for the future and drive improved financial performance. The year-end results reflected a loss of DKK 1.798 million resulting from changes in the estimated revenues and costs to complete the six European EPC loss contracts. As described above, the 2018 revenue reflects the effect of the settlement of the two European EPC loss contracts. The settlement was recorded in the fourth quarter of 2018 as a reduction in revenue of DKK 404 million and a DKK 532 million negative impact to the loss for the year. Beyond the effect of the settlement, the lower level of losses in the BWV gross profit was more than offset, primarily by increased warranty accruals, lower volume in its profitable portfolio of equipment-only contracts, and aftermarket lines of business as well as higher costs under its operations and maintenance contracts and increased levels of support costs as we progress the loss contracts to completion.

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.

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, B&W established global processes and procedures for all of its operations to ensure higher predictability and more stable project execution. BWV implemented this model and continued to adapt and fine-tune its implementation in 2018.

The aftermarket parts and services and environmental projects, licensing and services portion of our business remain stable, and other new-build projects in Sweden and China have been executed according to management's expectations for 2018 with positive profit margins.

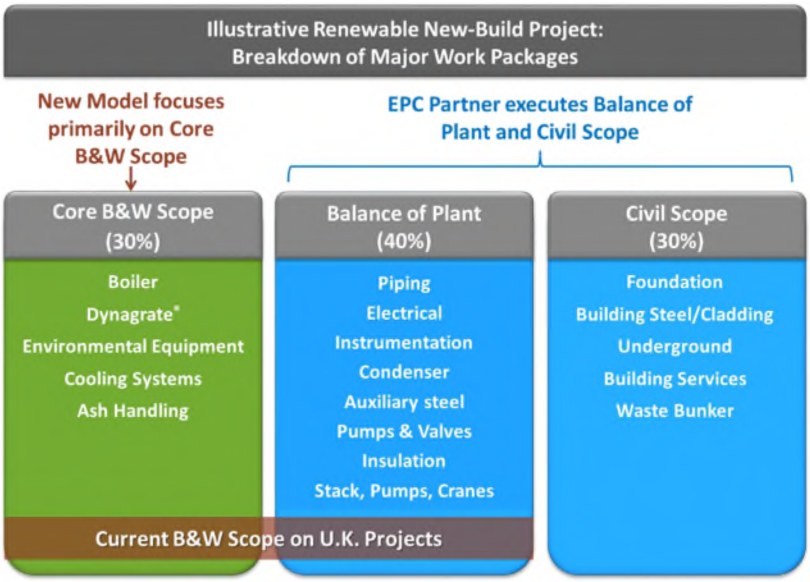
Management commentary

Insurance recoveries and sub-contractor claims

BWV continues to pursue several insurance recoveries and sub-contractor claims related to the loss-making projects.

New-build bidding and execution model

We believe there is a strong market opportunity for our core boiler, grate and environmental equipment technologies in the global renewable energy market. To allow us to better capitalize on this market, we have redefined our 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 that the new market approach is better aligned with our core competencies as a supplier of engineered equipment and technologies and aftermarket services, and it lowers our risk profile and positions us for better profitability.



The percentages are approximate and for illustrative purposes only.

BWV have resumed bidding on additional new-build contracts in 2018 as additional resources became available as the challenged contracts moved closer to completion.

Restructuring activities

In 2018, BWV have identified and are implementing multiple actions to proactively improve its cost structure. Key actions include workforce reductions to align with the new execution model and activity levels as well as other Selling, General and Administrative cost reductions.

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

Conclusion

BWV has turned over 4 of the 6 European loss contracts with only punch list items or defined and agreed remediation items remaining. We continue to progress toward completion of the remaining 2 European EPC

Management commentary

loss contracts covered by settlement agreements and expect improved results going forward. Although management's expectations of improving the results in 2018 were not met due to the losses associated with the increased estimates to complete those projects, we are committed to finalize the projects within our revised timeline and budgets. Management believes that the new procedures and internal controls are adequate to provide more reliable project estimates.

Based on the continued stable performance in our aftermarket parts and services activities, continued progress on the European loss contracts, new-build bidding, and the cost-savings initiatives that have been implemented, management expects improved results going forward. In general, 2019 is expected to be "a year of transition" as the new-build projects are completed, and in 2020, positive results are expected.

Outlook
2019 as mentioned above is expected to be "a year of transition" and revenue is expected to reach the same level as in 2018. The results before taxes are expected to significantly improve from a loss in 2018 of DKK 1.797 million to a loss in the range of DKK 300 – 400 million in 2019 including financial expenses from group enterprises, settlement cost and extraordinary legal cost to pursue claims and insurance recoveries.

Capital and cash resources
The loss for the year and adjustment of hedged contracts to the fair value have generated a decrease of BWV's equity from negative DKK 1.927 million to negative DKK 3.726 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 BWV's obligations through at minimum December 2020. BWV's parent company has also supported BWV with an increase in the intercompany loan from DKK 1.194 million in 2017 to DKK 2.651 million through 2018.

Events after the balance sheet date
In March 2019, we entered into a settlement in connection with an additional European waste-to-energy EPC contract, for which notice to proceed was not given and the contract was not started. The settlement eliminates our obligations and associated risk related to acting as the prime EPC should the project move forward, but impact the first quarter of 2019 with cost of 43.4 million DKK.

Given the additional costs and the cost to support finalizing the European loss contracts, BWV expect to close the year of 2019 with a loss.

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.

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

Management commentary

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

Currency exposure
As BWV sells projects and make a number of purchases in foreign currencies, 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 our parent company's credit facility, we do not enter into transactions to hedge against interest rate exposure.

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

Research and development activities
BWV's research and development activities are aimed at developing and optimizing production processes and its product portfolio. These activities are partly carried out in cooperation with public authorities. Costs expensed for research and development amount to DKK 8.2 million net of contributions received, which is an decrease of DKK 4.3 million to 2017. The amount is equal to 1.3 % of the net revenues. Furthermore, there is project related development paid by customers.

Transactions with related parties
BWV 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
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".

Management commentary

Health, Safety and Environment (HSE)
At BWV 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. We consider accidents and injuries to present our biggest HSE risk, as it negatively affects our people, our reputation and our ability to attract and retain talent.

Target Zero is a 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 for each B&W employee.

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.

A HSE business plan was established at the beginning of the year. In 2018, the HSE focus was on various initiatives, all of which were launched to make BWV an even safer, healthier, and greener workplace. The main focus for the initiatives was Human Performance Improvement, and it involved campaigns, training as well as focus on daily safety planning ZIP (Zero Incident Planning).

The 2018 target goal for our "Days Away Restricted Transfer Rate" was observed, whereas we did not manage to realize the target for our "Total Recordable Case Rate". 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 understand and share the lessons learned.

In 2018, we worked continuously with the agreed actions originating from last year's workplace assessment. The employee-based assessment is performed every three years when all employees are asked about their working environment. In Denmark and in the entire EU, it is mandatory to involve the employees in the assessment of their own working environment.

Our working environment organization was revitalized in 2018. The top management meets with elected employees in the Main Safety Committee taking care of strategic health and safety initiatives and the HSE Business Plan. Elected safety representatives from offices, production, warehouse, commissioning and construction sites meet with local managers in Safety Groups taking care of improvement initiatives and incidents.

Recruiting, training, and retaining
Our mission is largely based on the sale, execution, servicing, and operation of technically complex plants and 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 2018, a total of 1,852 training days (1,088 in 2017) were held, which corresponds to approx. 5 training days per employee (1.8 in 2017).

In 2018, the main HR focus was on restructuring the organization and adapting it to our new business model and on retaining and attracting employees for key functions.

Management commentary

Climate/environment
Our core business contributes significantly to several UN Sustainable Development Goals like Sustainable Cities, Clean Energy, Climate Action, and Waste Management. We strive towards a world without landfills. Apart from the impact of our core business on society, we also pursue executing these works in an environmentally sound way.

Our environmental policy sets the overall frame for the environmental work in BWV. 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.

BWV is taking on responsibility for the environment. We prioritize preventions and continuously strive to reduce environmental impacts. We are committed to work systematically towards 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, accomplished, and reviewed on a regular basis. We consider these to be risks associated with our operations, and failure to manage them could have a negative impact on the environment, the climate, the surrounding communities, and on our reputation.

- We continuously strive 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.

- 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 on BWV's website.

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 2020. In 2018, we upgraded a 30-year old exhaust system in the canteen kitchen in Esbjerg and thus improved indoor environment and energy efficiency.

Management commentary

Going forward, we have planned the following activities 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, Compliance and Human Rights

We consider corruption and other unethical behaviour to represent a risk to our business, because they can damage our relations, our contracts and our reputation. BWV's business conduct is governed by our ethics and compliance rules "Code of Business Conduct" and a number of other policies on E&C issues like Anti-Bribery, Anti-Corruption, Gift and Entertainment etc. These rules apply to all employees and also to sub-suppliers. Ethics & Compliance training is carried out continuously in order to ensure proper observance. As part of the E&C training, a culture has been developed which 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 2018 these activities have contributed to maintaining a 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 a work-life balance. Our employee handbook and the above mentioned E&C policies as well as HR and GDPR policies sets out our policies 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. We have not in 2018 identified any violations of our employees' human rights.

Statutory report on the underrepresented gender

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

BWV's policy about diversity is laid out in the Code of Conduct. The diversity of the 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.

Our Board of Directors is composed of 5 members of which 3 are elected by the general assembly. We target to have both sexes represented in the Board of Directors amongst the general assembly elected members. This was the case in 2018 where the board was composed of 1 woman and 2 men elected by the general assembly and 2 men elected by the employees.

At the end of 2018, the gender composition in our executive group and department management group was 12.12 % female managers (16.67 % in 2017) and 87.88 % male managers (83.33 % in 2017). The recruiting of executives and managers is solely based on the skills and competences needed for the position, cf. our Fair Employment Practices policy, however, we also focus on diversity and have a goal to increase the female representation at management level to 15% over the next two years. As an example of an action to promote

Management commentary

gender diversity we give specific instructions to recruitment agencies to always present at least one candidate of either gender for vacant leadership roles. In 2018, two female employees were promoted to department manager positions.

Income statement for 2018

	Notes	2018 DKK'000	2017 DKK'000
Revenue	3	646.906	1.604.025
Production costs	5, 6	(2.144.100)	(2.739.855)
Gross profit/loss		**(1.497.194)**	**(1.135.830)**
Distribution costs	5	(46.244)	(76.013)
Administrative expenses	4, 5, 6	(122.460)	(82.842)
Operating profit/loss		**(1.665.898)**	**(1.294.685)**
Income from investments in group enterprises		(20.146)	(6.485)
Other financial income	7	79	235
Other financial expenses	8	(105.039)	(16.910)
Profit/loss before tax		**(1.791.004)**	**(1.317.845)**
Tax on profit/loss for the year	9	(6.208)	(3.425)
Profit/loss for the year	10	**(1.797.212)**	**(1.321.270)**

Balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Completed development projects		0	89
Development projects in progress		2.318	2.297
Intangible assets	11	**2.318**	**2.386**
Land and buildings		35.871	38.212
Plant and machinery		11.083	13.291
Other fixtures and fittings, tools and equipment		2.554	2.753
Leasehold improvements		59	75
Prepayments for property, plant and equipment		9.960	7.547
Property, plant and equipment	12	**59.527**	**61.878**
Investments in group enterprises		15.199	32.860
Deposits		5.022	3.303
Other receivables		0	5.852
Fixed asset investments	13	**20.221**	**42.015**
Fixed assets		**82.066**	**106.279**
Raw materials and consumables		6.263	9.823
Work in progress		733	3.435
Manufactured goods and goods for resale		33.840	30.868
Inventories		**40.836**	**44.126**
Trade receivables	14	124.962	165.754
Contract work in progress	15	76.216	108.661
Receivables from group enterprises		6	1.905
Other receivables	16	117.704	101.336
Prepayments	17	15.915	3.608
Receivables		**334.803**	**381.264**
Cash		**3.829**	**57.453**
Current assets		**379.468**	**482.843**
Assets		**461.534**	**589.122**

Balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Contributed capital		20.000	20.000
Reserve for development expenditure		815	794
Retained earnings		(3.746.949)	(1.948.063)
Equity		**(3.726.134)**	**(1.927.269)**
Other provisions	18	220.374	113.093
Provisions for investments in group enterprises	19	14.538	4.477
Provisions		**234.912**	**117.570**
Contract work in progress	15	760.937	814.198
Trade payables		455.227	319.056
Payables to group enterprises		2.651.375	1.193.751
Income tax payable		6.418	1.103
Other payables		78.799	70.713
Current liabilities other than provisions		**3.952.756**	**2.398.821**
Liabilities other than provisions		**3.952.756**	**2.398.821**
Equity and liabilities		**461.534**	**589.122**

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Statement of changes in equity for 2018

	Contributed capital DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	20.000	794	(1.948.063)	(1.927.269)
Exchange rate adjustments	0	0	(55)	(55)
Other entries on equity	0	0	(1.598)	(1.598)
Profit/loss for the year	0	21	(1.797.233)	(1.797.212)
Equity end of year	**20.000**	**815**	**(3.746.949)**	**(3.726.134)**

Notes

1. Going concern

The Babcock & Wilcox Enterprises Inc. (”B&W”), the parent company of B&W Vølund A/S, has extended the letter of support through at minimum December 2020. 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 three years, have negative operating cash flows and are dependent on B&W’s ability to provide capital. In the B&W Annual Report published April 2, 2019, the auditors included an explanatory paragraph in their audit opinion regarding the Parent Company’s ability to continue as a going concern.

Subsequently, on April 5, 2019, B&W published an amendment to the Credit Agreement. The Amendment provides (i) $150.0 million in additional commitments from B. Riley FBR, Inc. (together with its affiliates, “B. Riley”), under Tranche A-3 of last out term loans and (ii) an incremental uncommitted facility of up to $15.0 million, to be provided by B. Riley or an assignee. The proceeds from the Tranche A-3 last out term loans will be used to pay the amounts due under the Company’s previously announced settlement agreements covering certain European Vølund loss projects and for working capital and general corporate purposes. More details on this transaction and B&W’s financial results are available on the B&W website at investors.babcock.com, including B&W’s first quarter 2019 financial results and its annual report for 2018.

In this context, 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 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;

Notes

- requirements to pay liquidated damages upon our failure to meet schedule or performance requirements of our contracts; and
- difficulties in engaging third-party subcontractors, equipment manufacturers or materials suppliers or failures by third-party subcontractors, equipment manufacturers or materials suppliers to perform could result in contract delays and cause us to incur additional costs.

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

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

Notes

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 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.

	2018	**2017**
	DKK'000	**DKK'000**
3. Revenue		
Revenue by geographical market		
Denmark	94.429	451.294
UK	297.261	775.865
Sweden	147.815	179.133
Other countries	107.401	197.733
	646.906	**1.604.025**
Revenue by activity		
New Energy Plants	413.986	1.248.553
Service Business	232.567	355.136
Other	353	336
	646.906	**1.604.025**

Notes

	2018 DKK'000	2017 DKK'000
4. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	731	731
Other assurance engagements	1.499	1.767
Tax services	34	58
Other services	35	25
	2.299	**2.581**

	2018 DKK'000	2017 DKK'000
5. Staff costs		
Wages and salaries	257.742	371.750
Pension costs	6.999	10.685
Other social security costs	1.636	1.836
	266.377	**384.271**
Average number of employees	**382**	**552**

	Remuneration of management 2018 DKK'000	Remuneration of management 2017 DKK'000
Executive Board	4.506	6.181
	4.506	**6.181**

Special incentive programmes

The amount related to remuneration of management includes grants awarded in the parent company in 2018 of USD 42k of which USD 19k is vested.

	2018 DKK'000	2017 DKK'000
6. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	89	213
Depreciation on property, plant and equipment	5.802	6.177
	5.891	**6.390**

Notes

	2018 DKK'000	2017 DKK'000
7. Other financial income		
Financial income arising from group enterprises	0	17
Other interest income	79	218
	79	**235**

	2018 DKK'000	2017 DKK'000
8. Other financial expenses		
Financial expenses from group enterprises	85.371	11.346
Other interest expenses	9.574	1.049
Exchange rate adjustments	10.094	4.515
	105.039	**16.910**

	2018 DKK'000	2017 DKK'000
9. Tax on profit/loss for the year		
Current tax	8.960	3.425
Adjustment concerning previous years	(2.752)	0
	6.208	**3.425**

	2018 DKK'000	2017 DKK'000
10. Proposed distribution of profit/loss		
Retained earnings	(1.797.212)	(1.321.270)
	(1.797.212)	**(1.321.270)**

Notes

	Completed develop-ment projects DKK'000	Develop-ment projects in progress DKK'000
11. Intangible assets		
Cost beginning of year	3.759	2.297
Additions	0	21
Cost end of year	**3.759**	**2.318**
Amortisation and impairment losses beginning of year	(3.670)	0
Amortisation for the year	(89)	0
Amortisation and impairment losses end of year	**(3.759)**	**0**
Carrying amount end of year	**0**	**2.318**

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.

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	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	67.461	46.430	29.273	1.133
Additions	0	128	910	0
Cost end of year	**67.461**	**46.558**	**30.183**	**1.133**
Depreciation and impairment losses beginning of year	(29.249)	(33.139)	(26.520)	(1.058)
Depreciation for the year	(2.341)	(2.336)	(1.109)	(16)
Depreciation and impairment losses end of year	**(31.590)**	**(35.475)**	**(27.629)**	**(1.074)**
Carrying amount end of year	**35.871**	**11.083**	**2.554**	**59**

	Prepay-ments for property, plant and equipment DKK'000
12. Property, plant and equipment	
Cost beginning of year	7.547
Additions	2.413
Cost end of year	**9.960**
Depreciation and impairment losses beginning of year	0
Depreciation for the year	0
Depreciation and impairment losses end of year	**0**
Carrying amount end of year	**9.960**

Notes

	Invest-ments in group enterprises DKK'000	Deposits DKK'000	Other receivables DKK'000
13. Fixed asset investments			
Cost beginning of year	45.563	3.303	5.852
Additions	0	1.719	(5.852)
Cost end of year	**45.563**	**5.022**	**0**
Impairment losses beginning of year	(12.703)	0	0
Exchange rate adjustments	(55)	0	0
Amortisation of goodwill	(2.532)	0	0
Share of profit/loss for the year	(17.614)	0	0
Dividend	(7.521)	0	0
Investments with negative equity value transferred to provisions	10.061	0	0
Impairment losses end of year	**(30.364)**	**0**	**0**
Carrying amount end of year	**15.199**	**5.022**	**0**

	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 0 DKK’000 (2017: 1.215 DKK’000) due more than 1 year after year end.

15. Contract work in progress

Sales value of contract work in progress amounts to 4.233.112 DKK’000 (2017: 4.009.057 DKK’000).
On account invoices amount to 4.917.833 DKK’000 (2017: 4.714.594 DKK’000).

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The net value of work in progress amount to (684.721) DKK’000 (2017: (705.537) DKK’000) which is recognized in the balance sheets as follows:

- Assets 76.216 DKK’000 (2017: 108.661 DKK’000)
- Liabilities 760.937 DKK’000 (2017: 814.198 DKK’000)

16. Other receivables
Other short-term receivable primarily relates to VAT receivable.

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.

20. Financial instruments

	2018	2017
Contractual value:	**DKK'000**	**DKK'000**
Sale, USD 9-11 months	60.855	100.726
Sale, SEK 1-5 months	44.458	105.109
	105.313	**205.835**
Unrealized gain/(loss):		
Sale, USD 9-11 months	1.640	9.656
Sale, SEK 1-5 months	1.889	956
	3.529	**10.612**

	2018	2017
	DKK'000	**DKK'000**
21. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	**6.788**	**8.341**

22. Contingent assets
Based on the loss in 2018, 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

Notes

deferred tax asset from an accounting perspective. Consequently, management has made a valuation allowance for deferred tax assets at year-end 2018.

Under the assumption of full utilization with the current tax legislation in Denmark, the deferred tax asset not recognized amounts to 654.340 DKK’000 (DKK 408.036 DKK’000) and relates primarily to tax losses.

	2018 DKK'000	2017 DKK'000
23. Contingent liabilities		
Recourse and non-recourse guarantee commitments	932.204	1.289.961
Contingent liabilities in total	**932.204**	**1.289.961**

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 235.411 DKK’000 (2017: 246.697 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 121.726 DKK’000 (2017: 122.296 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 2020.

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.

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.

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26. Group relations

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

Babcock & Wilcox Enterprises, Inc.

20 South Van Buren Avenue

Barberton, OH 44203

USA

I.R.S. Employer Identification No.: 47-2783641

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

Babcock & Wilcox Enterprises, Inc.

20 South Van Buren Avenue

Barberton, OH 44203

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.

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.

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

Accounting policies

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.

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.

Accounting policies

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 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.