ANNUAL REPORT 2018

THE TECHNOLOGY INNOVATOR.

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BOARD OF MANAGEMENT
D.A.A.J.A.G. Vander Heyde, CEO
A. Vergunst, CFO
G.W.J. Antvelink, CTO

DIRECTORS
A.L. Merlino de Freitas
U. Nienhuis
D.W.A. van Rijn
J.A. Schelling

CORPORATE PROFILE

ROYAL IHC: INNOVATIVE SOLUTIONS FOR MARITIME SERVICE PROVIDERS

In an ever-changing political and economic landscape, Royal IHC enables its customers to execute complex projects from sea level to ocean floor in the most challenging of maritime environments. We are a reliable supplier of innovative and efficient equipment, vessels and services for the offshore, dredging and wet mining markets.

With a history steeped in Dutch shipbuilding since the mid-17th Century, we have in-depth knowledge and expertise of engineering and manufacturing high-performance integrated vessels and equipment, and providing sustainable services. From our head office in The Netherlands and with around 3,300 employees working from sites and offices on a global basis, we are able to ensure a local presence and support on every continent.

Dredging operators, oil and gas corporations, offshore contractors, mining houses and government authorities all over the world benefit from IHC's high-quality solutions and services. With our commitment to technological innovation, in which sustainability and safety are key, we strive to continuously meet the specific needs of each customer in a rapidly evolving world.

All shares of IHC Merwede Holding B.V. are held by IHC B.V. Shareholdership of IHC B.V. is divided as follows: Parkland N.V. 59.5%, Stichting Administratiekantoor Management en Personeel IHC 17.1%, Rabo Capital II B.V. 10.9%, Noordland N.V. 8.3% and Stichting Management Participatie IHC 4.2%. Shareholders are long-term committed to IHC.

KEY FIGURES 2014-2018

AMOUNTS IN MILLIONS OF EUROS, UNLESS STATED OTHERWISE	2018	2017	2016	2015	2014
New orders	**594.4**	1,636.7*	695.5	826.7	582.9
Revenue	**941.7**	800.2	764.1	1,161.3	1,214.7
Order portfolio as at 31 December	**1,184.5**	1,573.1*	745.0	834.7	1,165.5
Profit or loss for the period	**-79.4**	-21.8	-21.6	27.9	124.0
Profit or loss for the period attributable to owners of the company	**-80.6**	-21.8	-20.8	29.1	123.0
EBITDA	**-40.8**	18.6	15.1	84.8	191.9
Equity	**187.8**	274.5	280.2	305.4	295.7
Total assets	**1,044.7**	911.8	886.1	1,100.2	1,189.3
Equity/total assets	**18%**	30%	32%	28%	25%
Equity/capital employed	**37%**	62%	60%	64%	60%
Average number of employees (head count)	**3,314**	3,010	3,255	3,434	3,263

* *The new orders and order portfolio 2017 include two contracts and one letter of intent signed in 2017 that became effective in 2018 for a total amount of €565 million*

REPORT OF THE SUPERVISORY BOARD

INTRODUCTION

2018 was one of the most difficult years for Royal IHC in recent history. Although IHC's main markets are slowly recovering, the results of the Group were disappointing mainly due to the execution of some challenging innovative projects which were contracted during the crisis period in the market. Steps were made to futher strengthen management and the organisation in order to execute orders effectively, but although signs of improvement are present, the (financial) effect of staff changes and process interventions will take time to materialise.

The Group stayed on track with the transformation process towards a truly international and life cycle oriented organisation. Opening new footholds in emerging markets and strengthening activities in existing markets resulted in the booking of some interesting new orders. Furthermore, these projects were executed entirely by our local organisations. IHC also kept investing in challenging innovative projects and product development in order to strengthen its technological basis. All this once again confirms IHC's reputation as the leading provider of integrated solutions in the maritime industries, both in Europe and abroad.

In the slipstream of this ongoing internationalisation, compliance and governance were high on the Supervisory Board's agenda. A revised Code of Conduct was agreed upon by the Supervisory Board and it paid special attention to the application of the Global Data Protection Regulation (GDPR) as a reflection of that increasing international nature.

SUPERVISION

The Supervisory Board met seven times during the financial year (six meetings and one conference call). One of the sessions was a two-day gathering off site that was entirely dedicated to in-depth, constructive discussions regarding the strategy of the Group and the organisational and personnel requirements to achieve that strategy.

The remuneration committee met twice during the year, while the audit committee convened two times in 2018 and three times in 2019, of which three meetings were attended by the statutory auditor. Furthermore, all members of the Supervisory Board have attended one of the regular meetings between the Management Board and the Works Council.

The Supervisory Board received from the Board of Management all relevant documents and information pertaining to the subjects discussed. The Supervisory Board is of the opinion that it has been able to inform itself adequately in order to form an independent opinion on all relevant matters.

Noteworthy topics of attention have been financial and operational performance, strengthening of the organisation, long-term succession planning, leadership and management, compliance, and modernisation of remuneration systems. A management participation plan was implemented in the beginning of 2018.

FINANCIAL STATEMENTS

The Supervisory Board of IHC Merwede Holding BV hereby presents the Annual Report 2018. This incorporates the financial statements for the year as prepared by the Board of Management. The financial statements were audited and discussed with KPMG Accountants N.V. (KPMG). The auditor issued an unqualified independent auditor's report on the 2018 financial statements.

The financial statements were approved by the Supervisory Board on 22 July 2019. The result attributable to the shareholders of the Company for 2018 is a loss of €80.6 million, which is €58.8 million larger than the €21.8 million loss in 2017. EBITDA declined from €18.6 million in 2017 to a negative EBITDA of €40.8 million in 2018. The balance sheet totals €1,045 million with equity standing at €188 million.

The Board of Management proposes to pay no dividend over 2018 and to deduct the net loss from the reserves. This has been approved by the Supervisory Board.

2019 EVENTS

The Supervisory Board is very happy with the support that the shareholders and lenders provided to the company to strenghten its liquidity position with €120 million. The Supervisory Board has worked with the Board of Management as well as with the shareholders to realise the lender and shareholder support and is confident that the additional support will allow IHC to execute its strategy and realise its return to profitability.

CONCLUSION

The Supervisory Board is convinced that IHC's general strategy, in which customer centricity as well as operational excellence are key, is the way forward for the coming years. The current financial and operational performance improvements need to be accelerated. To ensure that the transformation increases its pace Mr Gert-Jan Antvelink is appointed as CTO in the Board of Management as of 1 July 2019. Furthermore, returning to profitability as well as internationalisation and bringing revenues and risk more in balance, remain a major part of the agenda. Strengthening the organisation via talent development, retention of skilled employees, and a healthy and productive culture are essential in achieving this. We thank IHC's customers for their ongoing trust in IHC, and we thank all employees for their ongoing efforts to serve IHC's customers to the fullest of their capabilities.

IHC has again been able to book some notable orders in 2018. By achieving this, the Group has reconfirmed its well-established reputation of being an innovative marine equipment supplier. We trust the Group to also get back on track in its delivery organisation.

Kinderdijk, 22 July 2019

J.C. ten Cate, Chairman
C.J. de Bruin
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REPORT OF THE BOARD OF MANAGEMENT

INTRODUCTION

The year 2018 has been a difficult year for IHC. After two downsizings and a large order intake at the tail of the market crisis to maintain its market position and keep up production, the organisation faced challenges in executing orders for some highly innovative vessels and equipment in time and within budget, leading to significant losses. At the same time, investments were made for improving the foundations of IHC.

The global trend toward a more protectionist focus in many countries dominated 2018. Although, overall, economies are still showing signs of growth, tariff barriers and the implementation of new trade regulations slowed down growth in the major economies and is driving slower growth in upcoming markets. However, despite these trends, IHC's core markets continued their recovery that began at the end of 2017.

In 2018 oil prices have been fairly high, with a significant drop to 2017 levels in the final quarter. Together with a steadily developing dredging market and reviving mining markets, this resulted in sales of effective orders of €594 million. For IHC, the positive impact of these recent sales on the delivery organisation will be noticeable from 2019 onwards as these new orders are closed with healthier margins and contract conditions.

IHC is currently in the middle of a transformation from being a traditional shipbuilder to a one-stop shop for equipment, vessels and services with a large recurring revenue base. In 2018, a rigorous transformation programme began with a focus on operational excellence, which we expect to show its first positive results during 2019. The appointment of a Chief Transformation Officer in July 2019 together with scheduled investments mentioned earlier will support IHC in accelerating this process.

MARKET DEVELOPMENTS

The outlook for all our markets remained positive over 2018, with the global dredging market showing a steady growth rate. Tier-1 contractors focused on replacements in their fleets, while regional contractors and government-owned companies increased their investments, mainly in small- and medium-sized equipment. While in the past decade the focus was on increasing capacity, we now see more focus on efficiency and agility of assets, which is aligned with the innovative and specialised focus at IHC. Also, digitisation, data acquisition, remote control and robotisation are becoming an increasingly integral part of our proposition.

In the offshore oil and gas market, the oil majors are slowly coming back into investment mode. Customers are only willing to invest when higher efficiency, higher uptime and Opex reductions are achieved. In offshore renewables, the focus has been on the execution of large projects and, as some European concessions are now granted with zero subsidies, this also increases the need for higher efficiency.

Alongside increased activity in China, we are noticing the active development of offshore wind projects in Japan, Taiwan, and the USA which provide for some interesting opportunities in our offshore wind division. The mining and tunnelling market is evolving positively due to urbanisation and increasing prices for minerals and metals. Over 2018, this resulted in two strategic partnerships with mining companies in Australia.

COMPANY DEVELOPMENTS

The ongoing dramatic turmoil in traditional shipping and shipbuilding has a direct effect on the market for custom-build projects in which IHC is active. Lack of orders forced the market to turn to specialised custom-build projects. Hence, price pressure remains high and harsh contract conditions are often imposed on us.

The result is well known: projects are not realised as shipyards are forced to cease activities due to lack of liquidity. In these circumstances, it is important for IHC to be selective when it comes to order intake and risk acceptation. Focus on operational excellence and innovation remains key. These trends strengthen IHC in its belief that the strategy of adding more value to our customers' activities (via delivering integrated solutions which outperform the market) is the way forward.

IHC faced several challenges in a small number of major projects that has affected our results negatively. This resulted in significant losses over 2018. The combination of low price levels and challenging levels of innovation proved to be a real test for the delivery organisation. Focus on OSBIT (on specification and budget and in time) delivery was therefore a key priority during most of 2018 and will, together with better balancing between revenues and risks, remain so for 2019.

Simultaneously, IHC reassessed, defined and substantiated its ambitions towards 2023. The vision and strategic direction are unchanged: IHC wants to stay at the forefront of the market and technology, ensuring continuity for all of IHC's stakeholders. With this strategic ambition, the IHC2 transformation programme was initiated, gathering initiatives and ideas from across the organisation to improve all aspects of IHC's operations and reach these goals. Priority in this transformation will be given to process execution and profitability.

IHC continued to align its backbone, speeding up the One IHC programme with a major roll-out in shipbuilding in 2019. The customer journey project, with over 75 interviews conducted among customers, provided valuable insights on customers' expectations of IHC. Our annual employee survey showed similar points for improvement, but also that employees are starting to regain confidence and pride. Across the board, employees are speaking up more which is relevant for a culture of commitment, partnership and innovation.

IHC's investment in innovation remained equal to 2017. A limited number of projects were selected to ensure focus. Next to that, IHC entered the consortium to build the Hardt Hyperloop, applying its knowledge in a relative new market segment: tunnelling. Also, on the digital side, IHC substantially increased its efforts by setting up a digital business team and entering into a partnership with PortXL to connect to (digital) start-ups.

Internationalisation was brought to the next level by building, for the first time, a hopper dredger in Uruguay with a local team. Furthermore, IHC opened a new engineering office in Pula (Croatia), a strong offshore base in Port of Blyth (UK), IHC Robotica in Brazil, and gained 100% ownership of TI Geosciences in the UK. These developments strengthen our position as an international, differentiated and integrated solutions provider. During 2018 IHC also renewed its group financing facility with an extended syndicate of banks until 2022.

Finally, IHC's SHEQ (Safety, Health, Environment and Quality) indicators improved by a clear 20% and these efforts in safety and environmental improvements have been noticed by governmental agencies, assessors and our own customers. This positive trend supports our ambitions towards the future. The internal Code of Conduct has been reviewed and updated, making it more practical for employees to use, and the new European GDPR arrangements have been put in place.

UPDATE 2019

In the first half of 2019 IHC experienced a further significant deterioration of its results on some key legacy projects. This triggered uncertainties related to covenants and liquidity. IHC's liquidity safety margins coming under threat, mainly due to much higher than usual working capital levels as a consequence of IHC pre-financed projects and project losses and in response, management proactively approached its shareholders and lenders for support. This has resulted in the fact that the Company, on 18 July, reached agreement on a refinancing of its outstanding debt and guarantee lines and received additional support from its shareholders and lenders that effectively results in the company acquiring €120 million additional credit facilities for a period of eighteen months, with a semi automatic extension of six months. With this support the Group again operates within its safety margins and the liquidity loss related to its net losses of last year have herewith been compensated. For further information regarding the financial situation of the Group we refer to note 1 of the Financial Statements.

ORGANISATION

On 1 July 2019 the Board of Management has been strengthened with a CTO (Chief Transformation Officer), Gert-Jan Antvelink. Furthermore, the Board of Management will be supported on a temporary basis by Daniel Himmel in the (non-statutory) role of CCO (Chief Change Officer), who will assist the Board to drive the operational changes required to realise IHC's return to profitability and strengthen the foundation of the Group.

OUTLOOK

2019 will be an important year for realising a turnaround in order to return to profitability in 2019 and further improvement in 2020. Derisking the business is an important part of IHC's strategy. Focus will lie on increasing efficiency, decreasing costs and improving the balance between revenues and risks through enforcing stricter contract and project management and further strengthening the order acceptance process. Furthermore going forward IHC will increase focus on further improvements in project execution.

A strategic reassessment of core activities is under consideration and divestment of non-core assets will be on the agenda to streamline the organisation and as a first result, IHC Vremac Cylinders was divested in July 2019.

IHC has reflected the above in an updated forecast, which forecast is sensitised with existing and future risks and is based on management's expectations that the improvements in OSBIT delivery and identified working capital measures will be realised and that additional (factoring) financing solutions as well as divestments of non-core businesses will be effectuated to further bolster IHC's financial position.

The turnaround process as outlined above including the operational turnaround as well as the rebalancing of revenues versus risk is ongoing. The successful completion of this turnaround will be dependent on the proper operational execution of the IHC strategy and (restructuring) plans as well as cooperation of parties and developments not within the control of the Group. Notwithstanding these risks and uncertainties, management is confident that the use of the going concern assumption is appropriate

FINANCIAL

Revenue and result development

Revenue during the year increased by 17.7% to €941.7 million (2017: €800.2 million). External costs increased by 31.7% to €687.6 million (2017: €522.2 million). These expenses amounted to 73.0% of revenue, which is an increase of 7.7% compared to 2017 (65.3%). Although employee expenses increased by €33.1 million compared to last year, due to the increase in revenue the employee expenses as a percentage of revenue decreased from 32.8% to 31.4%.

The average salary cost per employee amounted to €67,603, an increase of 2.6% compared to 2017. Depreciation and impairment of property, plant and equipment increased (from €31.6 million in 2017 to €31.8 million in 2018). Amortisation and impairment of intangible assets increased from €11.2 million in 2017 to €12.0 million in 2018. The result from operating activities, plus the depreciation and impairment of property, plant and equipment, and amortisation and impairment of intangible assets (EBITDA) amounted to -€40.8 million (€18.6 million in 2017).

Order book

The order book as at 31 December 2018 amounted to €1,185 million, which is 24% lower than the order book on 31 December 2017 (€1,573 million) but provides for a higher quality product portfolio. Sales in 2018 amounted to €594 million.

Cash flow

The following represents the cash flow in the past two years:

IN MILLIONS OF EUROS	2018	2017
Net cash flow from:		
Operating activities (excluding changes in working capital)	**-29.3**	-1.5
Changes in working capital	**-103.2**	181.1
Investing activities	**-26.5**	-25.7
Financing activities	**92.5**	-65.5
Net increase/decrease in cash and cash equivalents	**-66.5**	88.4

Working capital

Working capital amounted to -€92.4 million, as at 31 December 2018, which is substantially higher compared to the previous year (-€175.8 million). Fluctuations in working capital are due to the project related characteristics of the company, as the work in progress is financed either on a milestone payment schedule by the customer or by an agreed payment schedule with the bank consortium. Depending on the agreed payment schedule with the customer and the stage of completion of the projects under construction, the amount of contract assets and contract liabilities, or the amount of trade receivables, may differ substantially.

Investments

Investments in property, plant and equipment during 2018 can be specified as follows:

IN MILLIONS OF EUROS	
Docks, slipways, dry docks, business premises, floating equipment	1.7
Plant and machinery	2.1
Rental equipment	10.1
Other assets	3.3
Assets under construction	10.8
	28.0

Investments in property, plant and equipment are directly related to the current business. Investments in rental equipment and the investments under construction are related to the rental fleet of IHC IQIP and other rental assets such as Beavers and specialist deep-sea equipment.

Balance sheet ratios

The condensed balance sheet as at 31 December is:

IN MILLIONS OF EUROS	31 DEC 2018	31 DEC 2017	DIFFERENCE
Non-current assets	452.6	389.5	63.1
Working capital (excluding cash and cash equivalents)	-92.4	-175.8	83.4
Cash and cash equivalents	161.0	226.6	-65.6
Net assets	521.2	440.3	80.9
Non-current liabilities	333.4	165.8	167.6
Group equity	187.8	274.5	-86.7
Financing	521.2	440.3	80.9

Equity decreased by €86.7 million. This decrease is the balance of the loss for the 2018 financial year (€79.4 million negative), negative currency differences (€1.5 million), a decrease in the hedging reserves (€6.6 million), a negative movement due to the sale and acquisition of non-controlling interest (€6.2 million), a positive movement due a common control acquisition (€4.2 million), tax rate adjustment as a result of the declining corporate income tax rate in the upcoming years in the Netherlands of (positive €1.9 million) and revaluation of land (€0.9 million).

The solvency ratio as at 31 December 2018 was 18.0%, a decrease of 12% compared to 31 December 2017. The current ratio at year-end 2018 was 1.1 (year-end 2017 = 1.1).

FINANCING

In 2018, the Group has amended and restated the corporate credit facilities resulting in an increase of committed amounts and an extension of the maturity dates. The facilities per 31 December 2018 are divided as follows:

IN THOUSANDS OF EUROS	AMOUNT	MATURITY DATE	AMORTISATION	TYPE	DRAWN PER 31-12-2018
Bank guarantees	950,000	1 Aug 2022	Not applicable	Committed	697,500
Construction loan	6,000	30 Oct 2019	Delivery vessel	Committed	-
Construction loan	150,000	31 Dec 2020	Delivery vessel	Committed	-
Revolving credit facility	135,000	1 Aug 2022	Bullet	Committed	85,000
Term debt	50,000	30 May 2019	Bullet	Committed	50,000
Accordion facility	279,000	1 Aug 2022	Not applicable	Uncommitted	-
	1,570,000				832,500
Subordinated debt*	60,000	31 Dec 2022	Bullet	Committed	60,000
	1,630,000				892,500

** subordinated in ranking to the above-mentioned facilities*

Usage of the construction loans is limited to funding working capital for certain designated projects and the maturity date is linked to the expected delivery date of the relevant project. Pro rata to the delivery of the relevant project the borrowings are repaid and the facility (partly) cancelled. The cancelled amount will become available again as 'uncommitted accordion facility' and can be re-instated subsequently.

These facilities are provided by a consortium of financial institutions consisting of ABN AMRO, Commerzbank, DBS Bank Ltd, Nationale-Nederlanden, NIBC, Deutsche Bank, ING Bank, Lloyds Bank, DeltaLloyd, Rabobank and NatWest (formerly RBS). In the context of this credit agreement most of the immovable property has been mortgaged and certain inventories, receivables, bank accounts, other movable property and current assets have been pledged to the lenders. The commitments to the financial covenants have been met in full as per 31 December 2018.

In addition to above mentioned credit facilities, the Group has the following other credit facilities as at 31 December 2018:

(i) €95.0 million bilateral construction loan facility with a lender in order to fund the working capital related to two projects. As per July 2019 the facility is lowered to €65.0 million. This facility is not drawn as per 31 December 2018. The commitments are similar to the above-mentioned financial covenants and will be applicable once we drawn under this facility;

(ii) €60.0 million guarantee facility with NV Nationale Borg Maatschappij of which €48.0 million was outstanding at 31 December 2018;

(iii) Term loan provided by a vendor finance provider in the form of a 5-year annuity on a quarterly basis. The outstanding loan amount was €14.5 million at 31 December 2018;

(iv) €32.6 million outstanding under a lease facility provided by a leasing company to finance (part of) the rental assets of the group in the form of a 5-year annuity on a quarterly basis;

(v) €10.0 million revolving credit facility which was fully drawn at 31 December 2018;

(vi) Two ring-fenced subsidiaries of the Group have raised non-recourse project financing of €50.3 million whereby the revenues generated with the assets are used as source for repayment and the assets itself are pledged as collateral to the relevant lender(s). The loans are fully drawn at 31 December 2018; and

(vii) Fully drawn bank guarantees for a specific project of €17.0 million at 31 December 2018.

On 18 July 2019 the above mentioned financing agreement has been amended and an additional €89.3 million revolving credit facility has been provided by a consortium of lenders. The new facility has a maturity of a minimum of eighteen months with an extension option of six months. Next to the additional credit facility a number of other amendments were agreed including additional security and certain financial and non-financial covenants. The sole shareholder (IHC B.V.) also provided structured funding in the form of a €30.7 million subordinated credit facility. Based on the amendments the facilities per 18 July 2019 are divided as follows:

IN THOUSANDS OF EUROS	AMOUNT	MATURITY DATE	AMORTISATION	TYPE
Bank guarantees	950,000	1 Aug 2022	Not applicable	Committed
Construction loan	6,000	30 Oct 2019	Delivery vessel	Committed
Construction loan	150,000	31 Dec 2020	Delivery vessel	Committed
Revolving credit facility	135,000	1 Aug 2022	Bullet	Committed
Stand-by revolving credit facility	89,300	18 July 2021	Bullet	Committed
Accordion facility	279,000	1 Aug 2022	Not applicable	Uncommitted
	1,609,300			
Subordinated debt*	60,000	31 Dec 2022	Bullet	Committed
Shareholder loan**	30,700	31 Jan 2023	Bullet	Committed
	1,700,000			

* *subordinated in ranking to the above-mentioned facilities*
** *subordinated in ranking to the above-mentioned facilities including the €60m subordinated debt*

Research and Development

Innovation, as one of the building blocks of IHC 2020, is crucial to answer tomorrow's market demands and is focused on innovative output that sells. IHC annually spends approximately 3% of its revenue on innovation and has a specialist in-house R&D institute, IHC MTI. Its focus is to deliver the most efficient vessels, equipment and services for the specialist maritime industry.

RISK MANAGEMENT

IHC's risk profile is still influenced by strong market dynamics and fierce competition, resulting in price and margin pressure. IHC seeks to manage this pressure by close cooperation and understanding of our customers' needs during all phases of our projects and by strong contract and project management.

Embedding effective risk management into IHC's strategic and operational processes is critical to achieve a balance between mitigating threats and exploiting opportunities. The intent is not to impose risk management as an extra requirement, but to embed and integrate risk management in a logical, natural and practical way into our business, across all levels of the organisation.

Governance and culture

The Board of Management maintains the corporate policies and in general drives the culture of risk management while setting the 'tone at the top'. Senior management are responsible for the embedding and compliance with the corporate policies and risk management procedures in their business units, as well as fostering a culture where risks can be identified and escalated if necessary.

As an international company, IHC puts great value on maintaining its core values, business ethics and compliance standards throughout its worldwide organisation. The main pillars for this cultural and behavioural framework are the (renewed) Code of Conduct, the Anti-Bribery Policy, Export controls and Know your Customer procedures, the Whistle Blower Regulation, the Corporate Operating and Collaboration Principles, and Agent procedures. They reflect IHC's risk attitude and mitigating response, and give guidance on how to act in situations that potentially conflict with IHC's policies.

IHC provides leadership and onboarding programmes to its management and workforce that continuously draw attention to the core values of the company, its codes and regulations, as well as expected behaviour. In addition, a performance management framework is in place that ensures the translation of IHC's objectives into unit, departmental and personal objectives, which are measured by means of formats, schedules and structured reporting on a continuous basis

Strategy and objective setting

The Board of Management defined the IHC 2023 strategic plan. The targets for the top building blocks of the strategy are cascaded down into the organisation and further definition takes place in the yearly cycle of the business units' operational and financial plans.

Identification of the main threats and opportunities for realisation of the plans, as well as the management's reaction on how to cope with these, are an integral part of this process.

Principal risks and uncertainties facing IHC

In general, the following main types of risks inherent within the company's business are identified and monitored

Market, operational and strategic risks

IHC sells capital goods to a wide group of customers in various markets across the world which are cyclical in nature and may be affected by the state of the economy as well as geopolitical risks. Inherently, the order intake is lumpy which makes IHC exposed to the volatile shipbuilding market. In addition there are risks regarding our supply chain, production, and sales processes and we are dependent on a limited number of production sites across the globe. Changes in market circumstances, the competitive environment and disruption of our production and or supply chain may have a material adverse effect on our business, our results and financial position.

IHC's order intake for high-end integrated products with high capital value, is non-linear and difficult to plan. A flexible, balanced workforce and insourcing and outsourcing capabilities are necessary to optimise capacity with IHC's expected workload. The company's approach is to provide a more Opex-driven portfolio, with equipment, services, consultancy and engineering orders, and by offering flexible financing arrangements to our customers.

Safety, Health and Environment risks

The operation of production facilities and shipyards is the central aspect of our business. These activities lead to safety risks. People that are contracted to work for IHC are instructed to work in a safe and healthy way, and in a safe and healthy environment, to the maximum extent possible. IHC's SHE department provides guidelines and tools for execution, which are executed in a continuous improvement process. Monitoring is done through SHE reporting and on-site inspections.

Contract risks

IHC enters into large, long to medium term contracts with its customers and supply chain which inherently contains significant risks. Contract risk assessments are completed by a cross-functional bid team before binding offers are issued, which are reviewed by the Board of Management, from 2019 onwards strengthened with an industry experts for major projects. The assessments cover technical and execution risks as well as financial, legal and political risks, and the mitigation measures that need to be taken for an acceptable residual risk.

Project risks

If customer demands are not met – in terms of delivery and quality performance – the consequences are severe, both on the short term (fines/ liquidating damages) as on long term (reputation). IHC seeks to mitigate the risks related to customer projects with an in-house project management method. This contains continuous risk and opportunities assessments and risk mitigating sessions via project board meetings. The risk profile for each project is monitored and managed by Project Management, Project Control, and Contract Management. The project risk register is reported in the project reports, which are shared with the Executive Committee.

Materialized operational and financial risk related to unsatisfactory operational and financial control have resulted in significant negative results in 2018. Although currently not expected, materialisation of project risks cannot be ruled out for 2019 and onwards. However tight control on acceptation of projects where risks and margins are more balanced combined with operational excellence should lower the project risks.

Claims and legal cases

IHC is involved in several legal proceedings. Such proceedings are subject to inherent uncertainties.

International compliance risks

International IHC management must be aware of local culture, laws and regulations. Where a foreign activity is too small to organise its own compliance obligations, support is offered from the shared services of the IHC group. Additionally, regular visits are conducted by group management to overseas activity sites.

IT risks
IHC is heavily dependent on the reliability and availability of its software solutions, databases and infrastructure for the proper execution of its business. IHC's IT department has a dedicated team that is responsible for the implementation of IT security measures. To increase the employees' awareness of security risks, the IT department sends out appropriate alerts, provides guidance on how to act and blocks vulnerabilities. Additionally, the security measures are reviewed for effectiveness by a third party and reported to the Board of Management and Audit Committee.

Interest rate and currency risk
All currency risks and interest risks are managed in accordance with the company's strict hedging policy.

Credit risk
The company has strict acceptance procedures and risk policies for credit risks. Credit checks are performed before IHC's standard terms and conditions are offered. If required, credit risks are covered by obtaining payment security, such as bank guarantees, (confirmed) letters of credit, advance payments, parent company guarantees and/or credit risk insurance.

Liquidity risk
In light of the business performance, the competitive environment and given the implementation of the updated strategy, the Company faces certain financing and liquidity risks. Cash forecasting processes are in place in order to mitigate liquidity risks. However, in this business it has proven to be inherently difficult to forecast liquidity over a longer period and moreover liquidity will be dependent on improvements in the company's results and the mitigation of the risks mentioned above. Cash forecasts are prepared on a regular basis with contingencies and sensitivities applied. Based on those forecasts, management believes liquidity to be sufficient.

Tax risks
Tax risks are managed at group level by the Tax department, which assists the business units in day-to-day tax questions, manages foreign tax risks for projects abroad, and ensures overall compliance with tax rules and regulations.

Review and revision
The Board of Management has overall responsibility for the risk management and control framework within the Group. The Chief Financial Officer acts as the formal representative and is advised by staff functions, aided by information from the risk management system. The adequacy and effectiveness of the framework are regularly reviewed, taking into account any changes in external business dynamics, as well as any internal changes within IHC.

HUMAN RESOURCES
From a human resources (HR) perspective, 2018 was the year to further strengthen and develop the organisation. In the top management, new members were appointed in executive committee, in sales and in business management teams. IHC also continued to hire highly qualified staff (eg, over 160 engineers in The Netherlands and over 140 in the United Kingdom) to facilitate the ongoing shift towards a more knowledge intensive multinational organisation. In parallel, continued focus was given to strengthening our skills-based workforce via our Academy and our Technical Training Centre (TTC).

The first results of our talent and succession planning approach showed clear gaps in leadership and management succession. It also led to an extended focus on individual assessments of over 120 senior and top managers to map out their current capacities, points for development and future potential. For 2019, renewed attention on concrete follow-ups of these assessments is prepared. For further strategy deployment the necessity to increase our change capability was identified and readiness assessments were actively introduced to detail the key steps for preparation of the teams for implementation of the One IHC programme and other strategic initiatives. Elections for the new Works Council in The Netherlands took place and its new composition reflects the changes in the workforce of IHC. The Works Council and IHC's management met in a constructive way.

In light of HR's further professionalisation, a new software package called Workday was introduced at the end of the year in The Netherlands, United Kingdom, Croatia and Slovakia. Further global roll-out is foreseen in 2019. Alongside basic data of employees and their remuneration, key change-related approaches around employee and manager self-service were implemented. Also, an enhanced performance management approach was established and will be further deployed in 2019.

IHC has taken note of the law requiring a more balanced representation of men and women on the Board of Management and Supervisory Board. Under this law, at least 30% of the positions must be held by women and 30% must be held by men. Only the Board of Management of the Company is not yet compliant. When making future nominations and appointments, the Board of Management and the Supervisory Board will take into account the statutory requirements for a balanced representation of men and women.

CSR ANNUAL REPORT
IHC is aware of the social and environmental impact of its products and activities throughout their life cycle. Therefore, we invest in a proactive CSR (corporate social responsibility) strategy, involving all relevant aspects of our stakeholders and bringing fit-for-purpose solutions to our customers. The foundation of our CSR strategy is to remain relevant in the markets we serve by acting as a sustainable and reliable partner for our customers and partners. We focus our strategy on three core pillars.

Sustainable entrepreneurship is about maintaining a healthy financial position so that IHC can put its CSR ambitions into practice now and in the future. IHC develops business propositions and design processes that integrate considerations for CSR impact. This is partly shown through the successful efforts in optimisation of production activities to reduce the emissions of dredging and offshore vessels and equipment. But also by launching the world's largest cutter dredger running on LNG, showcasing IHC's commitment to accommodate the much-needed energy transition. IHC's ambition for 2019 is to elaborate on innovative research and development projects in strong collaboration with customers and partners to expand our portfolio of sustainable solutions.

Social responsibility is where IHC strives to be socially engaged, both internally and externally, including with suppliers, subcontractors and society in general. IHC especially showcases its social responsibility when it comes to the safety of our employees. The decrease of the total number of reported lost time injuries (LTIs) seen from 2015-2017 has continued in 2018, resulting in a reduced LTI frequency. This is the result of a proactive safety policy and nourishing an atmosphere in which everyone is invited to discuss safety issues at the workplace.

Environmental accountability is showcased by recognising and minimising environmental impact, which is at the heart of everything IHC does and is particularly present at the design and engineering, supply chain management, production and after-sales activities within IHC. Measuring our carbon footprint has been an important step in fulfilling our accountability and IHC aims to go beyond this and explore the possibilities for taking steps towards the circular economy.

IHC takes an 'outside-in' approach, is aware of the challenges and developments on sustainability in the world and takes these as a basis for research and development activities. The Sustainability Steering Committee ensures that IHC's CSR strategy is executed and also incorporates our value chain, everywhere we operate. The most significant topics are identified, enforced and monitored, and reported on in IHC's annual and externally assured CSR report.

FUTURE
2019 will be a year of working together internally and externally in order to realise the turnaround. With a healthy order book in hand, the full support of our shareholders and lenders we are confident that we can realise the return to profitability. Our focus will be on OSBIT and being in control, cost awareness, healthy financial results and delivering the promises made to our customers and the projects that we are involved with. A clear strategy and a common goal, together with the feedback we received from our customers and the new potential identified within the IHC2 transformation, will set the agenda for 2019. We will strengthen our organisation where needed, as our workforce is an important enabler to realise our goals. The profitability and future outlook depend on the winning of new orders and the OSBIT realisation of ongoing orders.

Furthermore, we continue to invest in innovation as it is key for our customers. Additionally, we will mature our international locations and continue to develop our product portfolio. Next to achieving our performance goals, we are keen to ensure a healthy organisational culture, one set for the future with a DNA of commitment, partnership and innovation. In short, an organisation supporting our customers as a one-stop shop provider of relevant innovative and reliable solutions. Digital developments and integrated robotics as part of our solutions also remains high on the Board's agenda.

Kinderdijk, 22 July 2019

Board of Management
D.A.A.J.A.G Vander Heyde, CEO
A. Vergunst, CFO
G.W.J. Antvelink, CTO

ABBREVIATED FINANCIAL INFORMATION 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

IN THOUSANDS OF EUROS	2018		2017	
Revenue	941,683		800,248	
Other income	1,214		2,371	
Operating income		**942,897**		**802,619**
External costs	687,614		522,249	
Employee expenses	295,534		262,387	
Depreciation and impairment of property, plant and equipment	31,787		31,586	
Amortisation and impairment of intangible assets	12,033		11,227	
Impairment on trade receivables and contract assets	1,608		274	
Other expenses / (income)	-1,013		-922	
Operating expenses		**1,027,563**		**826,801**
Result from operating activities		**-84,666**		**-24,182**
Finance income	2,687		2,297	
Finance expenses	-10,194		-5,722	
Net finance expense		**-7,507**		**-3,425**
Share of result of equity-accounted investees (net of tax)		-4,042		-1,903
Profit / (loss) before income tax		**-96,215**		**-29,510**
Income tax (expense) / income		16,822		7,711
Profit / (loss) for the period		**-79,393**		**-21,799**
Profit / (loss) attributable to:				
Owners of the company		-80,580		-21,840
Non-controlling interests		1,187		41
		-79,393		**-21,799**

** The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated except for separately presenting impairment losses on trade receivables and contract assets*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Before appropriation of result)

IN THOUSANDS OF EUROS	31 DEC 2018		31 DEC 2017	
Assets				
Property, plant and equipment	291,101		265,593	
Investment property	410		5,107	
Intangible assets and goodwill	92,282		89,783	
Investments in equity-accounted investees	16,172		17,811	
Deferred tax assets	14,654		1,137	
Other non-current financial assets	37,948		10,034	
Non-current assets		**452,567**		**389,465**
Contract assets	35,338		31,910	
Inventories	161,509		137,174	
Current tax assets	714		5,630	
Trade and other receivables	220,551		121,003	
Cash and cash equivalents	161,000		226,580	
Assets held for sale	12,988		-	
Current assets		**592,100**		**522,297**
Total assets		**1,044,667**		**911,762**
Equity				
Share capital	250		250	
Share premium	72,307		68,136	
Reserves	193,487		223,054	
Unappropriated result	-80,580		-21,840	
Equity attributable to owners of the company		**185,464**		**269,600**
Non-controlling interests		2,299		4,877
Total equity		**187,763**		**274,477**
Liabilities				
Loans and borrowings	282,300		124,772	
Derivatives	6,395		1,997	
Provisions	26,837		17,598	
Deferred tax liabilities	2,112		14,244	
Other liabilities	15,778		7,158	
Total non-current liabilities		**333,422**		**165,769**
Contract liabilities	180,893		277,078	
Current portion of loans and borrowings	20,461		164,847	
Current tax liabilities	2,707		14,854	
Trade and other payables	309,412		1,863	
Provisions	10,009		12,874	
Total current liabilities		**523,482**		**471,516**
Total liabilities		**856,904**		**637,285**
Total equity and liabilities		**1,044,667**		**911,762**

** The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated.*

CONSOLIDATED STATEMENT OF CASH FLOWS

IN THOUSANDS OF EUROS	2018	2017
Profit / loss for the period	**-79,393**	**-21,799**
Depreciation, amortisation and impairment expenses	43,819	42,813
Revaluation of land through income statement	207	-34
Loss / (gain) on sale of property, plant and equipment	-161	-88
Share of result of equity accounted investees	4,042	1,903
Loss/ (gain) on sale of subsidaries	-492	-
Release of liabilities through income statement	-	-307
Net finance expense	7,507	3,425
Income tax expense	-16,822	-7,711
Changes in provisions	2,796	-29,315
Changes in deferred taxes	9,549	8,028
Subtotal	**-28,948**	**-3,085**
Interest received / (paid)	-4,923	-2,516
Income tax paid	4,602	4,088
Net cash flow from operating activities (excl. changes in working capital)	**-29,269**	**-1,513**
Changes in working capital		
- Acquisition of rental fleet	-10,115	-35,314
- Inventories	-25,845	-14,567
- Contracts assets	-3,428	62,261
- Trade and other receivables	-110,095	53,392
- Contract liabilities	16,046	108,491
- Trade and other payables	30,214	6,878
Changes in working capital	**-103,223**	**181,141**
Net cash flow from operating activities	**-132,492**	**179,628**
Acquisitions of intangible assets and property, plant and equipment	-28,245	-19,540
Proceeds from divestments of property, plant and equipment	5,121	13,306
Acquisition of subsidiaries, net of cash acquired	-1,000	-4,392
Proceeds from disposals of group companies, net of cash disposed	4,275	-
Proceeds from disposals of participations in limited partnerships	-	886
Investments in equity accounted investees	-1,800	-13,809
Dividends received	-	254
Proceeds of loans and receivables	-4,803	-2,454
Net cash flow used in investing activities	**-26,452**	**-25,749**
Additions to loans and borrowings	296,685	34,740
Repayment of loans and borrowings	-201,842	-100,244
Acquisition of non-controlling interests	-2,362	-
Net cash flow used in financing activities	**92,481**	**-65,504**
Net increase / (decrease) in cash and cash equivalents	**-66,463**	**88,375**
Cash and cash equivalents as at 1 January	226,580	138,371
Movements in net cash and cash equivalents	-66,463	88,375
Effect of exchange rate fluctuations on cash held	883	-166
Cash and cash equivalents as at 31 December	**161,000**	**226,580**

* *Some amounts differ from the amounts in the consolidated balance sheet and profit or loss account since only paid and received amounts are accounted for in the consolidated cash flow statement. Due to a different classification the line ''trade and other receivables'' changed compared to 2017, the line ''other working capital'' is no longer included.*

NOTES TO THE ABBREVIATED FINANCIAL INFORMATION

1. GENERAL

The abbreviated financial information is derived from the consolidated financial statements 2018, which are prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of The Netherlands Civil Code. The abbreviated financial information gives the headlines of the financial position of IHC Merwede Holding B.V. and its consolidated subsidiaries (together referred to as the 'Group') for the year ended 31 December 2018 and presents the consolidated statement of profit or loss, the consolidated statement of financial position and the consolidated statement of cash flows for the year ended 31 December 2018.

For a better understanding of the Group's financial position, IHC's emphasises that the abbreviated financial information should be read in conjunction with the unabridged financial statements, from which the abbreviated financial information was derived. An unqualified auditor's report thereon dated 22 July 2019 was issued by KPMG Accountants N.V. The unabridged financial statements 2018 are available from the company or at the Chamber of Commerce in Rotterdam.

Going concern

The ongoing dramatic turmoil in traditional shipping and shipbuilding had led to fierce competition, resulting in price pressure and harsh contract conditions imposed on the Group. Recent years have been difficult years for IHC where significant project losses resulted in loss making years, mainly due to the execution of some challenging innovative projects which were contracted during this crisis period in the market. In 2018 IHC made a loss of €79 million. The losses combined with deterioration of its results early 2019 on some key legacy projects triggered uncertainties related to covenants and liquidity. IHC's liquidity safety margins came under threat mainly due to much higher than usual working capital levels as a consequence of IHC pre-financed projects and project losses and in response, management proactively approached its shareholders and lenders for support.

On 18 July 2019 the main financing agreement with a consortium of banks has been amended and an additional €89.3 million revolving credit facility has been provided by the consortium of lenders. The new facility has a maturity of a minimum of eighteen months with an extension option of six months. Next to the additional credit facility a number of other amendments were agreed including additional security and certain financial and non-financial covenants. The sole shareholder (IHC B.V.) also provided structured funding in the form of an €30.7 million subordinated credit facility. The refinancing as well as the fact that both shareholders and lenders have supported the company with additional funds provides the company with the necessary liquidity to undertake its turnaround and provides clear evidence that the shareholders and the lenders support IHC's route forward.

Furthermore, in order to realize the return to profitability IHC has strengthened its board with an experienced Chief Transformation Officer, and also appointed a change manager with strong credentials in the shipbuilding industry to support the management board in realising the turnaround.

In addition, a strategic reassessment of core activities is under consideration and divestment of non-core assets will be on the agenda to streamline the organisation and as a first result, IHC Vremac Cylinders was divested in July 2019.

2019 is an important year for realising the turnaround in order to return to profitability. De-risking the business will be an important part of IHC's strategy. Focus will lie on increasing efficiency, decreasing costs and improving the balance between revenues and risks through enforcing stricter contract and project management and further strengthening the order acceptance process. Furthermore going forward IHC will increase focus on further improvements in project execution. IHC has reflected this in an updated forecast, which forecast is sensitised with existing and future risks.

The Group faces significant risks and uncertainties – elaborated in the unabridged financial statements - that need to be mitigated to achieve its goals. In the business IHC operates in it has proven to be inherently difficult to forecast liquidity over a longer period and moreover liquidity will be dependent on improvements in the company's results and the mitigation of the risks above.

The Group has sufficient liquidity to run its operations in 2019 and 2020, based on the most recent updated cash flow forecasts as per June 2019. These forecasts have been prepared bottom up and have been subject to scrutiny by management and external advisors. Management believes that the forecasts for 2019 and 2020 are feasible. Management has also applied contingencies to the forecasts and has performed sensitivity analyses, which would leave limited liquidity headroom in certain periods.

Notwithstanding these significant risks and uncertainties regarding going concern, management is confident that the turnaround will be executed within the forecasted period and that IHC will continue to deliver renowned reliable vessels and equipment for the dredging, off shore, and mining markets. Management is therefore confident that the use of the going concern assumption is appropriate. The financial statements of the Company have been prepared on the basis of the going concern assumption.

2. SIGNIFICANT ACCOUNTING POLICIES

An abbreviation of a selection of the most significant accounting policies is included below. For a full overview of the accounting policies refer to the unabridged financial statements 2018.

Basis of preparation

The consolidated financial statements are presented in euros unless indicated otherwise, the euro being the Group's functional currency. The consolidated financial statements are based upon historical cost unless stated otherwise.

Estimates
The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions based on experience and various other factors that can be considered reasonable under the circumstances. Those estimates and assumptions form the basis for judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcome may differ from these estimates. The most important judgements in the financial statements concern the assessment of the result of contract work, assessment on contract modifications, measurement of warranty provisions, the measurement of recoverable amounts of cash-generating units containing goodwill, recoverability of development costs, valuation of inventories and contract assets, acquisition of subsidiaries and valuation of the deferred tax assets for tax losses carry forward.

Basis of consolidation
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been aligned with the policies adopted by the Group.

Foreign currencies
The assets and liabilities of foreign operations that are denominated in foreign currencies, including goodwill and fair value adjustments arising on acquisition, are converted to the euro at exchange rates at the reporting date. The income and expenses of foreign operations are converted to the euro at exchange rates at the date of the transaction. Foreign currency differences are recognised in the currency translation reserve in equity. Exchange rate differences as a result of operational transactions and of the conversion at the end of the reporting period of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss in the reporting period.

Derivatives
The Group holds derivative financial instruments to decrease its exposure to foreign currency risks and interest rate risks. Derivatives are measured at fair value and changes therein are recognised in the consolidated income statement, unless hedge accounting is applied. When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in the hedging reserve in equity. When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in the currency translation reserve in Group equity.

Impairment
The carrying amount of the Group's assets, excluding inventories, construction contracts, deferred tax assets and assets that are classified as held for sale, are reviewed on each balance sheet date to determine whether there is any indication of impairment. If there is any such indication, the assets' recoverable amount is estimated. The recoverable amount of goodwill, assets with an indefinite useful lifetime and intangible assets that are not yet available for use is estimated annually at the same time. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill (if applicable) attributable to cash-generating units and subsequently deducted pro rata to reduce the carrying amounts of the other assets in the unit.

Property, plant and equipment
Land is measured at cost on initial recognition and subsequently at fair value less accumulated impairment losses. The fair value is defined as the estimated amount for which land could be exchanged between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably. Disposal costs are not deducted in determining the fair value. The fair value of land is based on appraisals performed by an independent valuator or for recently acquired land the fair value is based on the cost value. Any surplus arising on revaluation is recognised in the revaluation reserve in equity except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognized in profit or loss, in which case the credit to that extent is recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case the debit to that extent is recognised in the revaluation reserve in equity. The revaluation reserve is transferred to other reserves upon ultimate disposal of the asset. Land is not depreciated. Other classes of property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses.

Intangible assets
Expenditure on development activities, in which research findings are applied to a plan or design for new or improved products or software, is capitalised only if development costs can be measured reliably, the product or software is technically and commercially feasible, future economic benefits are probable, and the Group is intending and able to complete development and to use or sell it. Intangible assets acquired in business combinations (trade name, order backlog, customer relations, technology) are measured at cost, being the fair value at acquisition date less accumulated depreciation and accumulated impairment losses. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is measured at cost less any accumulated impairment losses.

Contract assets and contract liabilities
Construction contracts are measured at cost of the work performed at reporting date, plus a part of the estimated results upon completion of the project in proportion to the progress made and net of progress billings, advances and provisions. Provisions are recognized for expected losses on construction contracts as soon as they are foreseeable; if necessary, any profits already recognised are reversed. Costs include all expenditure, expect borrowing costs, related directly to specific projects plus an allocation of fixed and variable indirect production costs incurred in the Group's contract activities based on normal operating capacity. The progress of a project is determined on the basis of the cost incurred of the work done in relation to the expected total costs of the project. Profits are not recognised unless a reliable estimate can be made of the total result of the project at completion. The balance of the value of contract costs, progress billings and advance payments is determined for each project and presented as contract assets. For projects where the progress billings and advance payments exceed the value of contract costs, the balance is presented as contract liabilities.

Revenue
Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. Revenue on contracts is recognized during the project or once the performance set in the contract is satisfied. As soon as the outcome of a construction contract recognized during the project can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. The stage of completion is generally assessed on the basis of the cost incurred of the work performed in relation to the expected total costs of the project. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, volume rebates and taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at reporting date. The stage of completion is based on the assessment of the ratio of costs incurred to estimated total costs.

Rental income from property, plant and equipment is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

3. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses, net of grants received, amounted to €13.1 million (2017: €12.4 million) and are included in external costs and employee expenses.

4. ORDER BOOK

The order book at year-end 2018 amounted to €1,185 million (year-end 2017: €1,573 million*).

* *The new orders and order portfolio 2017 include two contracts and one letter of intent signed in 2017 that became effective in 2018 for a total amount of €565 million.*

REPORT OF THE INDEPENDENT AUDITOR

To: the Board of Management of IHC Merwede Holding B.V.

OUR OPINION

The abbreviated financial information of IHC Merwede Holding B.V. for 2018 (hereafter 'the abbreviated financial information') are derived from the audited financial statements of IHC Merwede Holding B.V. for 2018.

In our opinion the accompanying abbreviated financial information are consistent, in all material respects, with those financial statements, on the basis described in note 1.

The abbreviated financial information comprise:

1 the consolidated statement of profit or loss for the year ended 31 December 2018;
2 the consolidated statement of financial position as at 31 December 2018;
3 the consolidated statement of cash flows for the year ended 31 December 2018; and
4 the notes to the abbreviated financial information accompanying other explanatory information.

The abbreviated financial information does not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union and Part 9 of Book 2 of the Dutch Civil Code. Reading the abbreviated financial information, therefore, is not a substitute for reading the audited financial statements of IHC Merwede Holding B.V. and our report thereon.

The abbreviated financial information and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements of 22 July 2019.

THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited financial statements of IHC Merwede Holding B.V. for 2018 in our report dated 22 July 2019.

Our auditor's report also includes the following section regarding a material uncertainty related to going concern:

"MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to the going concern paragraph in Note 1 in the notes to the financial statements which indicates that the going concern of the company depends on future positive results development, a successful turnaround of the company and its impact on cash flow and liquidity. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter."

RESPONSIBILITIES OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE ABBREVIATED FINANCIAL INFORMATION

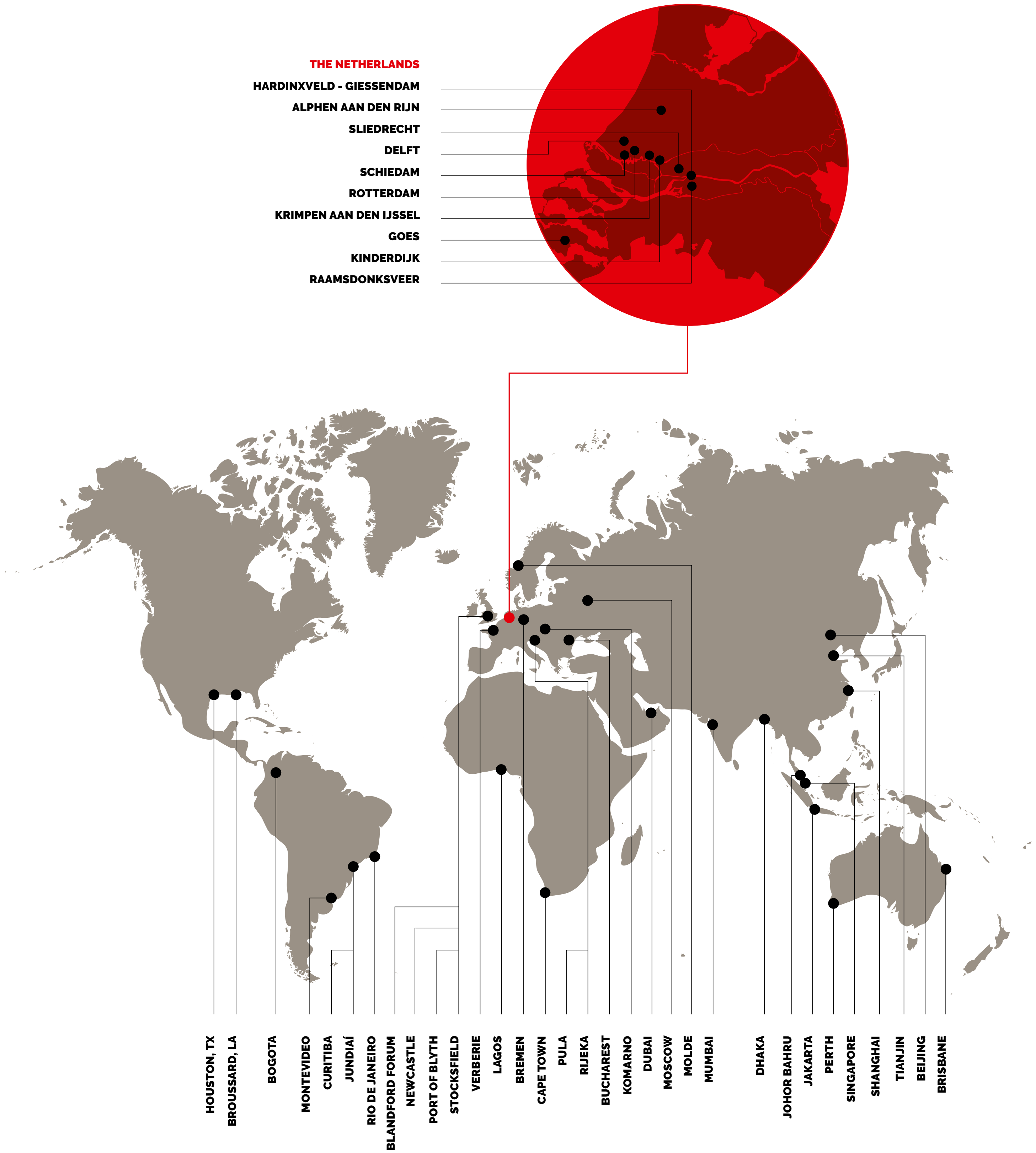
The Board of Management is responsible for the preparation of the abbreviated financial information on the basis described in note 1. The Supervisory Board is responsible for overseeing the financial reporting process of the abbreviated financial information.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE ABBREVIATED FINANCIAL INFORMATION

Our responsibility is to express an opinion on whether the abbreviated financial information are consistent, in all material respect, with the audited financial statements based on our procedures, which we conducted in accordance with Dutch law, including the Dutch Standard 810 'Opdrachten om te rapporteren betreffende samengevatte financiële overzichten' (Engagements to report on summary financial statements).

Rotterdam, 30 July 2019

KPMG Accountants N.V.
W. van der Munnik RA



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