ANNUAL REPORT 2019

THE TECHNOLOGY INNOVATOR.

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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 over 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.

IHC Merwede Holding B.V. is a private limited liability company and has its statutory seat in Sliedrecht (hereafter, the IHC Group or IHC). During 2019, and up to the completion of recapitalisation and refinancing on 3 June 2020, all shares of IHC Merwede Holding B.V. were held by IHC B.V. After recapitalisation and refinancing, all shares of IHC Merwede Holding B.V. are held by Stichting Continuïteit IHC and B.V. Finance Continuïteit IHC.

KEY FIGURES 2015-2019

AMOUNTS IN MILLIONS OF EUROS, UNLESS STATED OTHERWISE	2019	2018	2017	2016	2015
New orders	**587.7**	594.4	1,636.7***	695.5	826.7
Revenue	**1,069.7**	941.7	800.2	764.1	1,161.3
Order portfolio as at 31 December	**689.8**	1,184.5	1,573.1	745.0	834.7
Profit or loss for the period	**-226.8**	-79.4	-21.8	-21.6	27.9
Profit or loss for the period attributable to owners of the company	**-226.5**	-80.6	-21.8	-20.8	29.1
EBITDA*	**-111.5**	-40.8	18.6	15.1	84.8
Equity	**-42.5**	187.8	274.5	280.2	305.4
Total assets	**1,049.2**	1,044.7	911.8	886.1	1,100.2
Equity/total assets	**-4%**	18%	30%	32%	28%
Equity/capital employed**	**-11%**	37%	62%	60%	64%
Average number of employees (head count)	**3,535**	3,314	3,010	3,255	3,434

* *this is the EBITDA before recorded impairment expenses*
** *Capital employed is defined as total assets minus current liabilities*
*** *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

The IHC Group has been confronted by adverse market conditions since 2015. The drop in oil prices has strongly impacted the demand for the specialist vessels IHC produces for oil and gas extraction. Challenging conditions in other market segments put further pressure on profit margins and other commercial conditions for IHC. Price competition in the global vessel construction market allowed customers to pressure IHC to take far more project delivery risks in recent years than it would accept in a normal market. As a result, IHC has failed to deliver a number of major projects on specification, on budget and in time. Many subsequent time and budget overruns were at the risk and expense of IHC.

Substantial efforts were undertaken to improve the operations of the IHC Group. However, since 2015, its financial position has deteriorated significantly. Equity and cash decreased, and as a consequence, put the Group at risk of breaching its (financial) covenants.

Beginning in April 2019, the IHC Group entered into lengthy and intensive negotiations with lenders and shareholders. The lenders were willing to provide additional financing on the conditions: a) a substantial additional investment from the shareholders, and b) a revision of the IHC Group's corporate governance.

After the first financial restructuring in August 2019, the IHC Group experienced further operational setbacks. The group incurred additional costs and delays on a number of major projects, also causing delayed incoming cashflows. The further setbacks – combined with market awareness of the August 2019 restructuring – took the IHC Group to an increasingly worrying position as new orders from customers significantly slowed and eventually stopped coming in. As a result, the IHC Group was in need of additional funding to ensure its continuity.

The IHC Group continued its delivery of innovative equipment, vessels and solutions, and focused on actions to regain profitability and project control. Steps were made to further strengthen its management and the organisation in order to execute orders effectively, but the (financial) effect of staff changes and process interventions will take time to materialise. Furthermore, IHC continued with its international operations in order to remain close to its customers. Despite this difficult period, IHC maintained its innovation and corporate social responsibility (CSR) efforts to preserve its reputation as the leading provider of integrated solutions in the maritime industries, both in Europe and the rest of the world.

Ensuring a sustainable future for the organisation and the search for a new cornerstone investor was high on the Supervisory Board's agenda. This eventually resulted in an agreement in principle on 30 April 2020 with an industry consortium comprising HAL investments, Ackermans & van Haaren, MerweOord and Huisman. This agreement is supported by the IHC Group's existing syndicate of banks, the Dutch ministries of Economic Affairs and Climate Policy and Finance, and credit insurer Atradius Dutch State Business.

SUPERVISION

The Supervisory Board met 25 times during FY2019 (eight meetings and 17 conference calls). 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 IHC Group, and the organisational and personnel requirements to achieve a sustainable future.

The composition of the Supervisory Board changed significantly over the course of 2019 and 2020. In September, Mr De Bruin and Mr De Klerq-Zubli departed, with their positions filled by two new members Mr Wentink and Mr Huijskes. The latter was first appointed as vice-chairman, and as of April 2020, took the position of chairman. In April 2020, after 27 years of participation, Mr Ten Cate stepped down as chairman of the Supervisory Board and Ms De Bruin also left. Following their departure, two new members joined the Supervisory Board – Mr Snel on 3 June 2020 and Mr Verhoeven on 1 July 2020. This brings the total membership to five independent members.

The remuneration committee met four times during the year, while the audit committee convened five times in 2019, of which two meetings were attended by the statutory auditor. An investment committee for the approval of new orders over € 25 million has been established. In addition, the members of the Supervisory Board have attended one of the regular meetings between the Board of Management and the Works Council on a rotational basis.

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; the implementation of the investment committee; strengthening of the organisation; long-term succession planning; leadership and management; compliance; and the long-term future of the organisation.

FINANCIAL STATEMENTS

The Supervisory Board of IHC Merwede Holding B.V. hereby presents the Annual Report 2019. 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. These were approved by the Supervisory Board on 3 July 2020. The auditor issued an unqualified independent auditor's report on the 2019 financial statements. The result attributable to the shareholders of the IHC Group for 2019 is a loss of € 226.8 million. EBITDA declined from a negative € 40.8 million in 2018 to a negative EBITDA of € 111.5 million in 2019. The balance sheet totals € 1,049.2 million with equity standing at € 42.5 million negative.

The Board of Management proposes to pay no dividend over 2019 and deduct the net loss from the reserves. This has been approved by the Supervisory Board.

EVENTS IN 2020

The Supervisory Board is pleased with the agreement that has been reached with the industry consortium and the support that lenders and the Dutch government provided. This agreement enables the IHC Group to strengthen its liquidity position and balance sheet. The Supervisory Board has worked with the Board of Management to achieve this milestone and is confident that the additional support will allow IHC to execute its strategy and realise its return to profitability while maintaining satisfied customers.

BOARD OF MANAGEMENT COMPOSITION

Mr Vergunst resigned as CFO in October 2019 and was succeeded by interim CFO Ms Bolleurs in December 2019 (resigned April 2020). Mr Vander Heyde stepped down as CEO in April 2020 after leading IHC through several challenging years under difficult market conditions. As from July 2019, Mr Antvelink became the temporary CTO, and resigned in June 2020.

To ensure that the tasks ahead are well executed, the Supervisory Board decided to appoint Mr Eggink as new CEO and Mr Van der Harten as CFO (as of 27 April 2020).

CONCLUSION

The Supervisory Board is convinced that IHC has a unique knowledge base, that combined with its craftsmanship, forms the basis for a solid foundation in the realisation of a sustainable future for its customers, employees and stakeholders. IHC's core activities will be reviewed under new management supervision and the current financial and operational performance improvements need to be accelerated to reach profitability, while maintaining satisfied customers and a leading technological position.

The goal of returning to profitability with the core business and bringing revenues and risk more in balance, will remain a major topic on 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 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 2019. By achieving this, the Group has reconfirmed its well-established reputation of being an innovative marine equipment supplier. We trust that the Group will get back on track in terms of its delivery organisation.

Kinderdijk, 3 July 2020

J.G. Huijskes, Chairman
B.C. Wentink
C. Korevaar
M. Snel
F. Verhoeven

REPORT OF THE BOARD OF MANAGEMENT

REPORT OF THE BOARD OF MANAGEMENT

INTRODUCTION

The organisation continued to face challenges in executing orders for some highly innovative vessels and equipment in time and within budget, leading to significant losses in 2019. At the same time, serious efforts were made to improve costs, efficiency and operational control, and thereby the foundations of IHC.

The support of IHC's lenders and former shareholders in July 2019 allowed IHC to maintain its business through 2019, but it was clear to the Board of Management that a new cornerstone investor was needed to secure its long-term future. Over the course of 2019 and early 2020, an M&A process took place that resulted in an agreement in principle for the takeover and refinancing of IHC between an industry consortium and lenders on 30 April 2020.

This agreement consists of a takeover of IHC Merwede Holding and the refinancing of the IHC Group. The recapitalisation and refinancing are supported by IHC's existing syndicate of banks, the Dutch ministries of Economic Affairs and Climate Policy and Finance, and credit insurer Atradius Dutch State Business. The final agreement has been reached on 3 June 2020. The industry consortium consists of industrial partners from the dredging and offshore sectors, namely HAL Investments, Ackermans & van Haaren, MerweOord and Huisman. They set up a continuity foundation with the sole purpose of preserving IHC's 350 years of knowledge and craftsmanship. The shareholder and governance structure provide an environment in which IHC group operates fully independently from the industry consortium.

The global markets were fairly stable in 2019, but the uncertainty regarding IHC's future and the recent COVID-19 pandemic delayed several larger orders. However, the agreement is a major step towards regaining market confidence in IHC. For further information regarding the financial situation of the Group we refer to note 1 of the Financial Statements.

MARKET DEVELOPMENTS

The market developed slowly in 2019, and in general, no major orders have been placed in the offshore and dredging market. The dredging market was primarily focused on small- and medium-sized equipment, efficiency and sustainability. The offshore market showed a recovery in oil prices compared to the decline at the end of 2018, but had a major hit in March 2020 due to the ongoing discussions between oil producing nations, as well as the COVID-19 pandemic. These two major factors are expected to delay new large investments from major oil companies, and therefore impact IHC.

The offshore wind market remained positive and continues to have a confident outlook. In the mining and tunnelling market, IHC continues to see more interest – both on near-term projects as well as long-term opportunities, such as mineral processing equipment and deep-sea mining.

IHC GROUP DEVELOPMENTS

IHC remained under pressure due to a small number of challenging projects, having major financial impact. These projects will continue to run over the course of 2020 but under improved operational control. An important and unpredictable factor is the development of the COVID-19 pandemic. To ensure a coordinated approach across all locations worldwide, IHC installed a trained Corporate Crisis Management Team (CCMT) to oversee all efforts regarding the pandemic with the goal of reducing any negative impact. For the Board of Management and the CCMT, the wellbeing of employees is a first priority, closely followed by the continuation of the business and its operations.

In 2019, significant efforts have been made to implement cost savings. The overall transformation goals have been reset and directed towards realising the business plan for 2020, underpinning three major goals of the organisation:
- de-risking projects and stabilising the organisation
- increasing cash awareness and achieving cost reductions
- building a great place to work, together.

Despite the uncertainty for employees in 2019, it is worth mentioning that they displayed a huge commitment towards realising these goals and maintaining progress on all projects.

As part of a strategic reassessment of core activities IHC Vremac Cylinders was divested in July 2019.

IHC's investment in innovation remained equal to 2018. A limited number of projects were executed to ensure focus in line with the corporate strategy and to remain a supplier of innovative and reliable equipment, vessels and services. Alongside this, IHC entered into a partnership agreement with the Naval Group in the tender for the submarine development of the Royal Dutch Navy.

Although the market conditions remain challenging, 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 to ensure that IHC adds value for its customers by delivering integrated solutions which outperform in the market and satisfy their needs.

SHEQ

IHC's SHEQ (safety, health, environment and quality) performance remains a priority. We have realised that, unfortunately, we still have a major challenge when it comes to improving our overall safety culture, reflected in an increased amount of work-related incidents in 2019. This is not acceptable and we realise that there are big changes necessary in reaching our ambition of zero lost-time injuries (LTIs).

In order to make this happen, a cross-functional team defined an 18-month safety awareness campaign at the end of 2019. With the title 'I-CARE', it was launched in early 2020 and will call upon all employees to make safe behaviour a top priority. Our executive committee members are committed to bringing change to IHC's safety culture and will be closely monitoring the changes.

We've been taking major steps to improve the environmental impact of our production process in 2019, in strong cooperation with the environmental inspection authorities. This is also because some flaws had to be repaired. Moreover, we are continuing to invest in energy transition. Our ambition is for customers to recognise us as a partner in designing and building highly efficient and low-emission solutions for complex working vessels.

We want to involve our customers early-on in emission reduction technologies and efficiency improvements, as we are already doing on some projects. It is a significant, but worthwhile, challenge for us to continue to innovate on alternative fuels but we cannot do this alone. Only when we work together can we truly make a difference.

ORGANISATION

As of 1 July 2019, the Board of Management has been strengthened with a CTO, Mr Antvelink, and – on a temporary basis until March 2020 – by Mr Himmel in the non-statutory role of CCO (Chief Change Officer). In October 2019, and after a period of 12 years, CFO Mr Vergunst decided to continue his career outside of IHC. He was succeeded by Ms Bolleurs as interim CFO, and in April 2020, she handed over duties to Mr Van der Harten. In April 2020, CEO Mr Vander Heyde stepped down and was succeeded by Mr Eggink. Mr Antvelink stepped down in June 2020. The focus of the new board will lie in returning IHC to profitability while maintaining satisfied customers and technological leadership.

FINANCIAL

Revenue and result development

In 2019, revenue increased by 13.6% to € 1,069.7 million (2018: € 941.7 million). The external costs increased by 23.8% to € 851.2 million (2018: € 687.6 million). These expenses amounted to 79.6% of revenue, which is an increase of 6.6% compared to 2018 (73.0%). Employee expenses increased by € 29.1 million compared to last year. Due to the increase in revenue, employee expenses as a percentage of revenue decreased from 31.4% to 30.4%.

The average salary cost per employee amounted to € 70,563 – an increase of 4.4% compared to 2018. Depreciation and impairment of property, plant and equipment increased (from € 31.8 million in 2018 to € 54.8 million in 2019). Amortisation and impairment of intangible assets increased from € 12 million in 2018 to € 45.4 million in 2019. 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 € -111.5 million (€ -40.8 million in 2018).

Order book

The order book on 31 December 2019 amounted to € 690 million, which is 42% lower than the order book on 31 December 2018 (€ 1,185 million). The order book in the previous two years was relatively high due to individual large orders still under construction. Sales in 2019 amounted to € 588 million (2018: € 594 million).

Working capital

Working capital amounted to € -200.0 million as at 31 December 2019, which is substantially lower than the previous year (€ -92.4 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 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 2019 are as follows:

IN MILLIONS OF EUROS	
Docks, slipways, dry docks, business premises, floating equipment	1.3
Plant and machinery	4.5
Rental equipment	8.1
Other assets	1.8
Assets under construction	10.8
	26.5

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

Balance sheet ratios

The condensed balance sheet as at 31 December is as follows:

IN MILLIONS OF EUROS	31 DEC 2019	31 DEC 2018	DIFFERENCE
Non-current assets	453.5	452.6	0.9
Working capital	-200.0	-92.4	-107.6
Cash and cash equivalents	121.8	161.0	-39.2
Net assets	375.3	521.2	-145.9
Non-current liabilities	417.8	333.4	84.4
Equity	-42.5	187.8	-230.3
Financing	375.3	521.2	-145.9
Current ratio (current assets / liabilities)	0.9		
Solvency (total equity / assets)	-4%		

Equity decreased by € 230.3 million. This decrease is the balance of the loss for the 2019 financial year (€ -226.8 million), a decrease in the hedging reserves (€ 7.2 million), a negative devaluation of land (€ 0.8 million), a positive movement due to the sale and acquisition of non-controlling interest (€ 0.6 million), and a positive movement in the currency differences (€ 3.9 million).

As a result of the recapitalisation and refinancing of the IHC Group in 2020, the balance sheet was significantly strengthened. The balance sheet as at 31 December 2019 would have shown as follows if the new capital of € 60 million, the new subordinated loan of € 10 million and € 195 million conversion to equity would have been provided before year-end 2019:

IN MILLIONS OF EUROS	31 DEC 2019	31 DEC 2018	DIFFERENCE
Non-current assets	453.5	452.6	**0.9**
Working capital	-200.0	-92.4	**-107.6**
Cash and cash equivalents	191.8	161.0	**-30.8**
Net assets	445.3	521.2	**-75.9**
Non-current liabilities	231.4	333.4	**-102**
Equity	213.9	187.8	**26.1**
Financing	445.3	521.2	**-75.9**
Current ratio (current assets / liabilities)	1.0		
Solvency (total equity / assets)	19%		

Research and development

Innovation is crucial to answer tomorrow's market demands and is focused on innovative output that sells. IHC annually spends approximately 2% of its revenue on innovation and has a specialist in-house R&D institute, IHC MTI. Its focus is to develop the most efficient vessels, equipment and services for the specialist maritime industry.

FINANCING

In 2019, the Group amended and restated the corporate credit facilities, resulting in an increase of committed amounts and an extension of the maturity dates. The credit facility is outlined below.

IN THOUSANDS OF EUROS	AMOUNT	MATURITY DATE	AMORTISATION	TYPE	DRAWN ON 31-12-2019
Bank guarantees	950,000	1 Aug 2022	Not applicable	Committed	853,344
Construction loan	150,000	31 Dec 2020	Delivery vessel	Committed	105,400
Revolving credit facility	135,000	31 Dec 2022	Bullet	Committed	135,000
Stand-by revolving credit facility	74,300	18 July 2021	Bullet	Committed	60,000
Accordion facility	285,000	1 Aug 2022	Not applicable	Uncommitted	-
	1,594,300				**1,153,744**
Subordinated debt*	60,000	31 Dec 2022	Bullet	Committed	60,000
Subordinated loan**	30,700	31 Jan 2023	Bullet	Committed	30,700
	1,685,000				**1,244,444**

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

Use of the construction loans is limited to funding working capital for certain projects and the maturity date is linked to the expected delivery date of the relevant project. The borrowings are repaid and the facility is (partly) cancelled pro rata to the delivery of the project. The cancelled amount will become available again as an 'uncommitted accordion facility' and can be reinstated 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, Rabobank, Nationale Borg and NatWest. 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.

Furthermore, these facilities contain (financial) covenants. On the testing date of 31 March 2020, the Group was not compliant with certain applicable covenants and the loans became repayable on demand. However, on 3 June 2020, an agreement for the recapitalisation and refinancing of the IHC Group was signed, rendering the consequences of this breach. The recapitalisation and refinancing is supported by the existing syndicate of banks of the IHC Group, an industry consortium, the Dutch ministries of Economic Affairs and Climate Policy and Finance, and credit insurer Atradius Dutch State Business.

In addition to the above-mentioned credit facilities, the Group initiated the following credit facilities on 31 December 2019.

(i) A € 65 million bilateral construction loan facility, of which € 35.3 million was outstanding at 31 December 2019. The commitments are similar to the above-mentioned financial covenants.

(ii) A term loan from a vendor finance provider in the form of a five-year annuity on a quarterly basis. The outstanding loan amount was € 8.3 million at 31 December 2019.

(iii) An amount of € 21.6 million is 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 five-year annuity on a quarterly basis.

(iv) A € 10 million revolving credit facility was fully drawn on 31 December 2019.

(v) Two ring-fenced subsidiaries of the Group have raised non-recourse project financing of € 47.9 million, whereby the revenues generated with the assets are used as a source for repayment and the assets themselves are pledged as collateral to the relevant lender(s). The loans are fully drawn at 31 December 2019.

The recapitalisation and refinancing of the IHC Group in 2020 includes a conversion to capital of the € 135 million revolving general facility and the € 60 million subordinated debt (junior facility). Furthermore, the existing facilities have been amended and new facilities have been provided by the consortium of lenders.

The new facilities have a maturity of five years, except for the convertible notes and construction loans. Alongside the additional credit facility, a number of other amendments were agreed including additional security and certain financial and non-financial covenants. Based on the amendments, the facilities per 3 June 2020 are divided as follows:

IN THOUSANDS OF EUROS	NEW OR EXISTING	AMOUNT	MATURITY DATE	AMORTISATION AND CONVERSION	TYPE
Covered bank guarantee facilities (senior debt)	Existing	300,000	3 June 2025	Not applicable	Committed
Uncovered bank guarantee facilities (senior debt)	Existing	400,000	3 June 2025	Not applicable	Committed
Construction loan (senior debt)	Existing	150,000	31 Dec 2021	Delivery vessel	Committed
Term facility (contingent convertible)	Existing	74,300	31 May 2021	Converted to equity	Committed
Super senior revolving credit facility	New	20,000	3 June 2023	Bullet	Committed
Construction loan (contingent convertible)	New	25,000	31 May 2021	Converted to equity	Committed
Revolving general facility	New	155,000	3 June 2025	Bullet	Committed
Construction loan (contingent convertible)	New	100,000	31 Dec 2021	Converted to equity	Committed
Incremental projects facility	New	50,000	3 June 2025	Bullet	Committed
Accordion facility	Existing	185,000	3 June 2025	Not applicable	Uncommitted
		1,459,300			

RISK MANAGEMENT

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

Embedding effective risk management into IHC's strategic and operational processes is critical in achieving 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, across all levels of the organisation.

Governance and culture

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

As an internationally operating group, 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, anti-bribery policy, export controls and know your customer procedures, the whistleblower regulation, the corporate operating and collaboration principles, and agent procedures. These reflect IHC's risk attitude and response to mitigation, 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 IHC Group, 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 then measured on a continuous basis by means of formats, schedules and structured reporting.

Strategy and objective setting

The Board of Management is responsible for defining a 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 in order to achieve 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 IHC Group'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 and geopolitical risks. Inherently, the order intake is volatile. 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 process and/or supply chain may have an adverse effect on our business, 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 IHC Group's approach is to provide a more OPEX-driven portfolio, with equipment, services, and 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 include 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 governing project execution, which are developed in a continuous improvement process. Monitoring is done through SHE reporting and on-site inspections.

Contract risks

IHC enters into large-scale, medium- to long-term contracts with its customers and supply chain which inherently contain 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 and – from 2019 onwards – strengthened by industry experts on 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 could be severe, both in the short term (additional costs, liquidated damages) and long term (reputation). IHC seeks to mitigate the risks relating to customer projects and is further strengthening its project management process and control framework. This contains continuous risk and opportunities assessments and risk-mitigating sessions via project board meetings. The risk profile for each project is continuously monitored and managed by project managers and controllers, and contract managers. In 2020, the COVID-19 pandemic is included in the risk assessments. The project risk register is reported in the project reports, which are shared with the Executive Committee.

Materialised operational and financial risks have resulted in significant negative results in recent years. Although certain projects are, to a large extent de-risked, materialisation of project risks cannot be ruled out for 2020 and onwards, albeit that these are currently not expected. With the objective of better balancing risks and margins, tight control during the acceptation of projects is now embedded in the processes of the Group, including the role of the Supervisory Board. In combination with operational excellence, this should lower project risks in the future.

Claims and legal cases

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

International compliance risks

International IHC management is 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 activity sites overseas.

IT risks

IHC depends 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 employee 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.

Interest rates and currency risk

The Group concludes forward exchange transactions and interest rate instruments with the aim of covering risks that ensue from normal business activities. The central aim of this policy is to protect IHC against the risk of the ultimate cash flow being affected negatively by exchange rates or interest fluctuations. The Group's policy is for the critical terms of the forward exchange contracts to align with the hedged item.

The Group follows a policy of ensuring that its exposure to changes in interest rates on loans and borrowings is on a fixed-rate basis. This is done by entering into interest rate swaps for almost all loans and borrowings with variable interest rates.

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the euro. At any point in time, the Group covers most foreign currency exposures. It uses forward exchange contracts, insurance contracts and options to cover its currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

The Board of Management has overall responsibility for the establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring its risk management policies. Through its training and management standards and procedures, the Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Supervisory Board oversees how the Board of Management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

The IHC Group 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 and the competitive environment, the IHC Group faces certain financing and liquidity risks. Maintaining up-to-date and accurate accounting records mitigates liquidity risks, as well as managing the cash positions by preparing short- (weekly) and long-term (quarterly) cashflow projections. However, in IHC's core business, it has proven to be inherently difficult to forecast liquidity over a longer period. Moreover, liquidity will be dependent on improvements in the IHC Group's results and the mitigation of the risks mentioned above. Based on the forecasts, IHC's management believes liquidity to be sufficient.

Tax risks

Tax risks are managed at a group level by IHC's 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 CFO acts as the formal representative and is advised by staff, and 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 changes within IHC.

HUMAN RESOURCES

From a human resources (HR) perspective, 2019 was the year in which to further strengthen and support the organisation. A continuous effort has been made to attract and hire new talents at all levels, facilitating an ongoing shift towards a more knowledge-intensive, multinational organisation. In addition, we carefully analysed how we are organised and what is needed to operate in a more efficient and effective way. Subsequent changes in senior leadership were made.

To further support the turnaround of the IHC Group, a 'change accelerator' programme was initiated, based on a cascaded approach and via initial external facilitation. As part of the programme, 12 internal facilitators were selected and trained to further embed the skills in IHC's DNA. Training of top, senior and department management teams was carried out and over 115 leaders have adopted the change accelerator methodology and cascaded it into their own departments.

Alongside the support in skill development, IHC continued to train employees in languages (Dutch and English), and safety and craftsmanship skills, either via the Royal IHC Academy or Technical Education Centre. In 2020, we will continue to develop our employees based on their needs as defined in talent reviews, which were conducted for the first time in an integrated manner throughout the IHC Group.

The wellbeing of our employees is an important topic on the agenda, and as such, several wellbeing and mental health interventions have been organised. In addition, we have been able to reduce the (long-term) absenteeism of our employees based in The Netherlands. The introduction of case management, supported by training of line management contributed significantly to this achievement. A better absenteeism system has also been introduced in order to monitor progress and comply with Dutch law. In the UK, we initiated a mental health programme to help support staff who are dealing with stress.

HR, line management and employees are supported through Workday. Its implementation started in 2018 and continued in 2019 with the global roll-out. Alongside key processes such as performance, talent management and recruitment, advanced compensation and benefits are now included and create a truly global base for IHC. In 2020, further optimisation will take place.

The newly established team of dedicated Change Managers is helping to increase IHC's ability to adapt and be able to proactively respond to changes within the Group. They are involved in the implementation of optimisation activities and many other change initiatives aimed at increasing efficiency, cost savings and the overall effectiveness of employees and the organisation.

IHC is aware 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. IHC 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

IHC has an active SHEQ-CSR policy and we acknowledge that many social and environmental topics remain of high importance to us, with continued technical and legal developments in the maritime industry taken into consideration. The foundation of our CSR strategy is to be a reliable partner to our customers and other stakeholders when it comes to sustainable innovation. This is reflected in our continued ability to provide customers with alternative fuel options (for example, LNG), help them reduce their carbon footprints, and conform to stricter emission regulations.

The CSR domain encompasses a range of environmental and social topics, which make up the three pillars of our CSR strategy: sustainable entrepreneurship; social responsibility; and environmental accountability. 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 CSR Steering Committee ensures that IHC's CSR strategy incorporates our value chain, and is executed efficiently everywhere we operate. The most significant topics are identified, enforced and monitored, and reported on in IHC's annual – and externally assured – CSR report.

Our CSR policy saw continued development in 2019 when it was aligned to the UN Sustainable Development Goals and our materiality topics were updated with the help of a large number of stakeholders. The CSR Steering Committee identified three priorities for the coming year: safety awareness (the I-CARE programme); zero emission vessels; and supply chain responsibility.

UPDATE ON 2020 AND OUTLOOK

Further setbacks in projects, combined with difficult market conditions and low order intake, resulted in an increasingly worrisome position. On 31 March 2020, the Group was in breach of certain applicable covenants and entered into negotiations with the lenders, shareholders and a group of industry partners. An agreement in principle with, amongst others, a liquidity injection and new credit facilities was reached on 30 April 2020 and formally signed on 3 June 2020 between the Group, the lenders and the Industry Consortium, with the support of Atradius Dutch State Business and the Dutch State.

FUTURE

The remainder of 2020 will be dedicated to returning IHC to a profitable organisation and realising the materialisation of our sales funnel – despite the challenging market conditions and COVID-19 pandemic. The Board of Management will realign its strategy with its new stakeholders and define a healthy organisation going forward. The renewed capital position and new and continued facilities, together with the strengthened governance structure, provide a solid basis on which to operate. Throughout the organisation, the focus will remain on increasing efficiency, decreasing costs and improving the balance between revenues and risks, by enforcing stricter contract and project management and the new order acceptance process. IHC will strengthen where necessary, as the workforce is an important enabler to realise our goals, but will also 'right size' the organisation to reduce complexity and improve execution efficiency.

We are convinced that with the support of our (new) stakeholders and proposition that IHC holds the keys to success – specialist domain knowledge, adherence to the highest quality, and the craftsmanship of our workforce. The profitability and future outlook depend on the winning of new orders and the 'on specification', 'on budget' and 'in time' realisation of projects.

The priority for IHC is clear: return to profitability while maintaining satisfied customers and a leading technological position. This will ensure that our customers can outperform in their respective markets. All the elements are present in the organisation to realise this goal, but there is one key prerequisite for success: a safe working environment for all involved. With this in mind, the I-CARE safety awareness programme will be high on the Board's agenda.

Kinderdijk, 3 July 2020

Board of Management
G.M. Eggink, CEO
A.P.M. van der Harten, CFO

ABBREVIATED FINANCIAL INFORMATION 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

IN THOUSANDS OF EUROS	2019		2018*	
Revenue	1,069,675		941,683	
Other income	8,869		1,214	
Operating income		**1,078,544**		**942,897**
External costs	851,182		687,614	
Employee expenses	324,679		295,534	
Depreciation and impairment of property, plant and equipment	54,750		31,787	
Amortisation and impairment of intangible assets	45,437		12,033	
Impairment on trade receivables and contract assets	748		1,608	
Other expenses / (income)	13,481		-1,013	
Operating expenses		**1,290,277**		**1,027,563**
Result from operating activities		**-211,733**		**-84,666**
Finance income	5,045		2,687	
Finance expenses	-27,158		-10,194	
Net finance expense		**-22,113**		**-7,507**
Share of result of equity-accounted investees, net of tax		-438		-4,042
Profit / (loss) before income tax		**-234,284**		**-96,215**
Income tax (expense) / income		7,444		16,822
Profit / (loss) for the period		**-226,840**		**-79,393**
Profit / (loss) attributable to:				
Owners of the Company		-226,474		-80,580
Non-controlling interests		-366		1,187
		-226,840		**-79,393**

** The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(Before appropriation of result)

IN THOUSANDS OF EUROS	31 DEC 2019		31 DEC 2018*	
Assets				
Property, plant and equipment	312,556		291,101	
Investment property	410		410	
Intangible assets and goodwill	53,609		92,282	
Investments in equity-accounted investees	14,041		16,172	
Deferred tax assets	26,231		14,654	
Other non-current financial assets	46,675		37,948	
Non-current assets		**453,522**		**452,567**
Contract assets	168,895		35,338	
Inventories	139,530		161,509	
Current tax assets	290		714	
Trade and other receivables	138,883		220,551	
Cash and cash equivalents	121,752		161,000	
Disposal group and assets held for sale	26,319		12,988	
Current assets		**595,669**		**592,100**
Total assets		**1,049,191**		**1,044,667**
Equity				
Share capital	250		250	
Share premium	72,307		72,307	
Reserves	110,597		193,487	
Unappropriated result	-226,474		-80,580	
Equity attributable to owners of the Company		**-43,320**		**185,464**
Non-controlling interests		774		2,299
Total equity		**-42,546**		**187,763**
Liabilities				
Loans and borrowings	354,219		282,300	
Derivatives	841		6,395	
Provisions	18,083		26,837	
Deferred tax liabilities	214		2,112	
Other liabilities	44,441		15,778	
Non-current liabilities		**417,798**		**333,422**
Contract liabilities	96,013		180,893	
Current portion of loans and borrowings	157,058		20,461	
Current tax liabilities	558		2,707	
Trade and other payables	391,691		309,412	
Liabilities directly related to disposal group held for sale	8,927		-	
Provisions	19,692		10,009	
Total current liabilities		**673,939**		**523,482**
Total liabilities		**1,091,737**		**856,904**
Total equity and liabilities		**1,049,191**		**1,044,667**

** The group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.*

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

IN THOUSANDS OF EUROS	2019	2018*
Profit / loss for the period	**-226,840**	**-79,393**
Adjustments for:		
Depreciation, amortisation and impairment expenses	100,187	43,819
Revaluation of land through income statement	-	207
Loss / (gain) on sale of property, plant and equipment	404	-161
Share of result of equity accounted investees	438	4,042
Loss/ (gain) on sale of subsidaries	-8,285	-492
Net finance expense	22,113	7,507
Income tax expense	-7,444	-16,822
Changes in provisions	2,203	2,796
Changes in deferred taxes	-2,722	9,549
Subtotal	**-119,946**	**-28,948**
Interest (paid) / received	-17,547	-4,923
Income tax (paid) / received	-	4,602
Net cash flow from operating activities (excluding changes in working capital)	**-137,493**	**-29,269**
Changes in working capital		
- Acquisition of rental fleet	-8,123	-10,115
- Inventories	15,896	-25,845
- Contracts assets	-132,969	-3,428
- Trade and other receivables	52,247	-110,095
- Contract liabilities	-84,880	16,046
- Trade and other payables	65,715	30,214
Changes in working capital	**-92,114**	**-103,223**
Net cash flow from operating activities	**-229,607**	**-132,492**
Acquisitions of intangible assets and property, plant and equipment	-26,396	-28,245
Proceeds from divestments of property, plant and equipment	11,063	5,121
Acquisition of subsidiaries, net of cash acquired	-	-1,000
Proceeds from disposals of group companies, net of cash disposed	8,334	4,275
Investments in equity accounted investees	-	-1,800
Proceeds of loans and receivables	-6,960	-4,803
Net cash flow used in investing activities	**-13,959**	**-26,452**
Additions to loans and borrowings	351,394	296,685
Repayment of loans and borrowings	-139,074	-201,842
Acquisition of non-controlling interests	-2,750	-2,362
Payment of lease liabilities	-7,671	-
Net cash flow used in financing activities	**201,899**	**92,481**
Net increase / (decrease) in cash and cash equivalents	**-41,667**	**-66,463**
Cash and cash equivalents as at 1 January	161,000	226,580
Movements in net cash and cash equivalents	-41,667	-66,463
Effect of exchange rate fluctuations on cash held	2,419	883
Cash and cash equivalents as at 31 December	**121,752**	**161,000**

* *The group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. 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.*

NOTES TO THE ABBREVIATED FINANCIAL INFORMATION

1. GENERAL

The abbreviated financial information is derived from the financial statements 2019, 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 2019.

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 3 July 2020 was issued by KPMG Accountants N.V. The unabridged financial statements 2019 are available from the company or at the Chamber of Commerce in Rotterdam.

Going concern

As a result of market conditions over the last years price pressure is high combined with onerous contract conditions. This has resulted over the last four years in difficult years for the Group, whereby significant project losses resulted in loss making years, mainly related to a number of challenging innovative projects which were contracted in the years 2017 and 2018.

In 2019 the Group made a loss of € 227 million. Further setbacks in projects, combined with difficult market conditions and low order intake, resulted in an increasingly worrisome position. These elements put the Group at risk of breaching its covenants under the corporate credit facilities and triggered uncertainties about the liquidity of the Group. On 31 March 2020, the Group was in breach of certain applicable covenants and entered into negotiations with the lenders, shareholders and a group of industry partners. An agreement in principle was reached on 30 April 2020 and formally signed on 3 June 2020 between the Group, the lenders and the Industry Consortium, with the support of Atradius Dutch State Business and the Dutch State. The agreement includes a liquidity injection of € 70 million (€ 60 million equity and € 10 million of subordinated loan), a € 195 million debt-to-equity conversion and a refinancing of the existing credit facilities, including additional funding of € 340 million.

An operational turnaround as well as the rebalancing of revenues versus risks is ongoing. The successful completion of this turnaround will be dependent on the proper operational execution as well as cooperation of other parties and developments not within the control of the Group.

The Group still faces significant risks and uncertainties –elaborated in the unabridged financial statements - that need to be mitigated in order to achieve its goals.Notwithstanding these significant risks and uncertainties regarding going concern, management believes that the agreement for the recapitalisation and refinancing of the Group provides a solid basis to continue the operations. The year 2020 will be a transition year; strategic reassessment of core activities is under consideration and divestment of non-core activities will be on the agenda to streamline the organisation and improve execution of our orders.

Based on the above management is confident that the use of the going concern assumption is appropriate. Therefore 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 2019.

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, valuation of the deferred tax assets for tax losses carry forward, recognition provisions and contingencies and measurement of expected credit loss.

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.

As a lessee, the Group leases many assets including property, production equipment and vehicles. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under the new lease standard, the Group recognises right-of-use assets and lease liabilities for most of these leases.

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 € 14.2 million (2018: € 13.1 million) and are included in external costs and employee expenses.

4. ORDER BOOK

The order book at year-end 2019 amounted to € 690 million (year-end 2018: € 1,185 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 2019 (hereafter 'the abbreviated financial information') is derived from the audited financial statements of IHC Merwede Holding B.V. for 2019.

In our opinion the accompanying abbreviated financial information is 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 2019;
2. the consolidated statement of financial position as at 31 December 2019;
3. the consolidated statement of cash flows for the year ended 31 December 2019; 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 3 July 2020.

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 2019 in our report dated 3 July 2020. That report also includes a Material Uncertainty Related to Going Concern section that draws attention to the going concern paragraph in Note 1 of the audited consolidated financial statements which indicates that the going concern of the company depends on future positive results development and the achievement of the expected order intake in challenging market conditions, taking into account the COVID-19 uncertainties. 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. These matters are addressed in Note 1 of the abbreviated financial information.

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

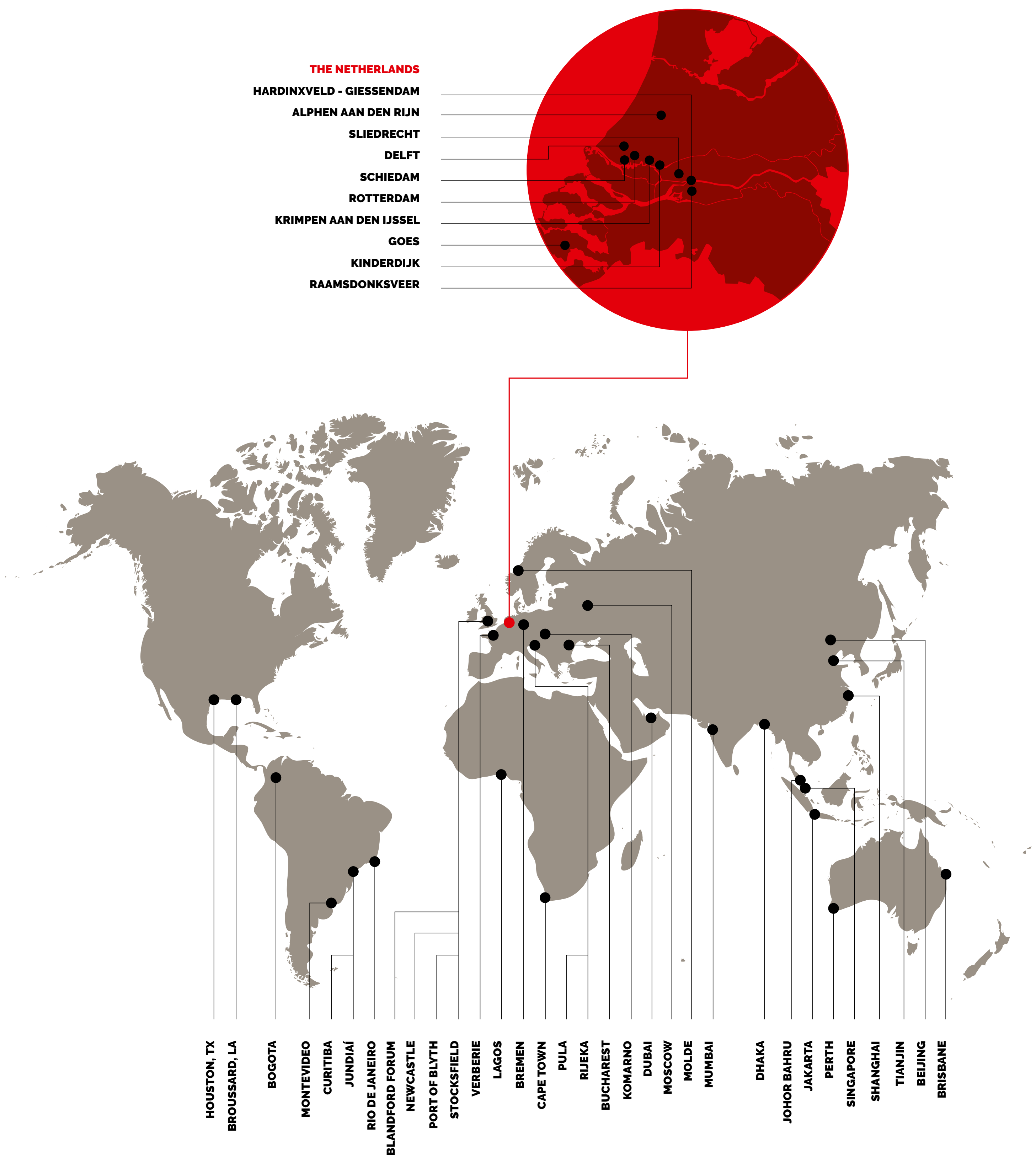
The Board of Management is responsible for the preparation of the abbreviated financial information on the basis described in note 1. The Supervisory Board is responsible for overseeing the financial reporting process of the abbreviated financial information.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE ABBREVIATED FINANCIAL INFORMATION

Our responsibility is to express an opinion on whether the abbreviated financial information is 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, 31 July 2020

KPMG Accountants N.V.
J. van Delden RA



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