Royal IHC

2021

Financial report

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G. van de Rozenberg, Chairman

M. Snel

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Corporate profile

Royal IHC is determined to play a leading role in making the maritime industry more efficient and sustainable.

Anchored in a rich Dutch maritime history, Royal IHC is a leading supplier of maritime technology and expert craftsmanship.

With the right people and skills on board, and driven by innovation, we provide a competitive edge to our worldwide customers in the dredging, offshore, mining and defence industries. However, Royal IHC is much more than equipment, vessels and services. We deliver reliable, integrated solutions that improve operational efficiency and allow for a more sustainable performance.

All over the world, our people are deeply committed to technological innovation, supported by our long-standing experience in our core markets. Our experts work in close collaboration with multiple stakeholders to meet the specific needs of each customer.

As we navigate new waters in an ever-changing world, our aim remains unchanged: to discover the smartest and safest way forward for both our customers and our people.

Together, we create the maritime future.

IHC Merwede Holding B.V. is a private limited liability company and has its statutory seat in Sliedrecht (hereafter, the IHC Group or Royal IHC). All shares of IHC Merwede Holding B.V. are held by Stichting Continuïteit IHC and B.V. Finance Continuïteit IHC.

Key figures

Amounts in millions of euros, unless stated otherwise	2021	2020	2019	2018	2017
New orders	321.8	533.5	587.7	1,594.4	1,071.7
Revenue	532.2	737.7	1,069.7	941.7	800.2
Order portfolio as at 31 December	237.0	450.5	689.8	1,184.5	1,008.1
Profit or loss for the period	-63.4	-300.1	-226.8	-79.4	-21.8
Profit or loss for the period attributable to owners of the Company	-63.3	-300.7	-226.5	-80.6	-21.8
EBITDA	15.7	-199.4	-111.5	-40.8	18.6
Equity	46.4	-92.8	-42.5	187.8	274.5
Total assets	767.6	924.7	1,049.2	1,044.7	911.8
Equity/total assets	6%	-10%	-4%	18%	30%
Equity/capital employed	17%	-40%	-11%	37%	62%
Average number of employees (head count)	2,761	3,319	3,535	3,314	3,010

Report of the supervisory board

Introduction

As was the case in the previous year, 2021 was a year of transition for Royal IHC, in which the changes initiated in 2020 were further effectuated. Some of these changes – to further optimise the organisation – have been completed to embed the matrix structure in the company.

The focus on Royal IHC's core activities resulted in a number of divestments, which were completed in 2021. In February, Royal IHC divested its 75% ownership in Rotterdam Offshore Group. In March, Vuyk Engineering Rotterdam and KCI the Engineers were acquired by Royal Doeksen and Sif respectively, followed by IHC Hytech, sold to a group of private investors in December, together forming Pommec Hytech Holding. Subsequently, due to the adjustment in the size of the organisation, in the first quarter of 2021 Royal IHC had to say farewell to a number of colleagues. This was a consequence of the repositioning initiated by the company in 2020.

Royal IHC now focuses entirely on its activities in the dredging, offshore energy, mining and defence markets. The new business and marketing strategy was rolled out in 2021 and there is an extra focus on operational excellence. Mr Van der Snel started as Chief Operating Officer in February 2021, and was tasked with improving the operational production process of the SPARTACUS and AMAZON. The completion of the cutter suction dredger SPARTACUS received special attention from the Board of Management and the Supervisory Board. The handover of this state-of-the-art vessel to DEME is a true statement of the craftsmanship and dedication of Royal IHC. The work on the AMAZON – another major and challenging project – continued to move forward in 2021, despite some setbacks with the conversion. Due to the determination of the Royal IHC team, the vessel was handed over to McDermott on 31 August 2022.

COVID-19 continued to play a role in business operations throughout 2021. Due to the uncertainty caused by the pandemic, the market remains reluctant to make large investments. At the same time, there has been significant interest in Royal IHC's products.

Moreover, despite the difficult circumstances, the company has continued to commit to innovation, CSR and further improving safety through its I-Care programme.

Developments in 2022 and 2023

Unfavourable geopolitical developments, volatility in the commodity market and COVID-19 negatively affected Royal IHC's intake of larger orders in 2022. Along with losses from legacy projects, its cash position deteriorated.

The Board of Management, overseen by the Supervisory Board, worked to reduce the group's cost base and financially restructure the group. Management, the majority of its lenders and other stakeholders signed a term sheet. The sale of IQIP, for which a conditional sale and purchase agreement has been signed, is the central component of the financial restructuring. The proceeds from the sale of IQIP will be used to repay credit facilities and refinance Royal IHC.

The Supervisory Board is confident that this restructuring will put Royal IHC in a stronger financial position.

The Board of Management initiated a Dutch scheme procedure, supported by the majority of lenders, to bind all creditors to the restructuring plan to implement the term sheet. The Board of Management expects a favourable outcome from this procedure. We refer to the Outlook paragraph of the report of the Board of Management for further information.

Supervision

The Supervisory Board met 25 times during 2021: 12 formal meetings (conference calls), 12 extra calls and one compliance training course. The Audit Committee convened four times in 2021 and two of these meetings were also attended by the statutory auditor. The Technical and Investment Committee convened seven times and the Remuneration Committee convened three times in 2021. In addition, the members of the Supervisory Board have attended the regular meetings between the Board of Management and the Works Council on a rotational basis. Overall, the Supervisory Board has been closely involved during this transitional year.

The Supervisory Board received documents and information pertaining to the subjects discussed from the Board of Management. The Supervisory Board is of the opinion that it can form an independent judgement on all relevant matters.

The noteworthy topics discussed have been (among others): COVID-19; health and safety; the new organisation; financial and operational performance; projects such as the SPARTACUS and AMAZON, leadership and management; compliance; and the long-term future of the organisation.

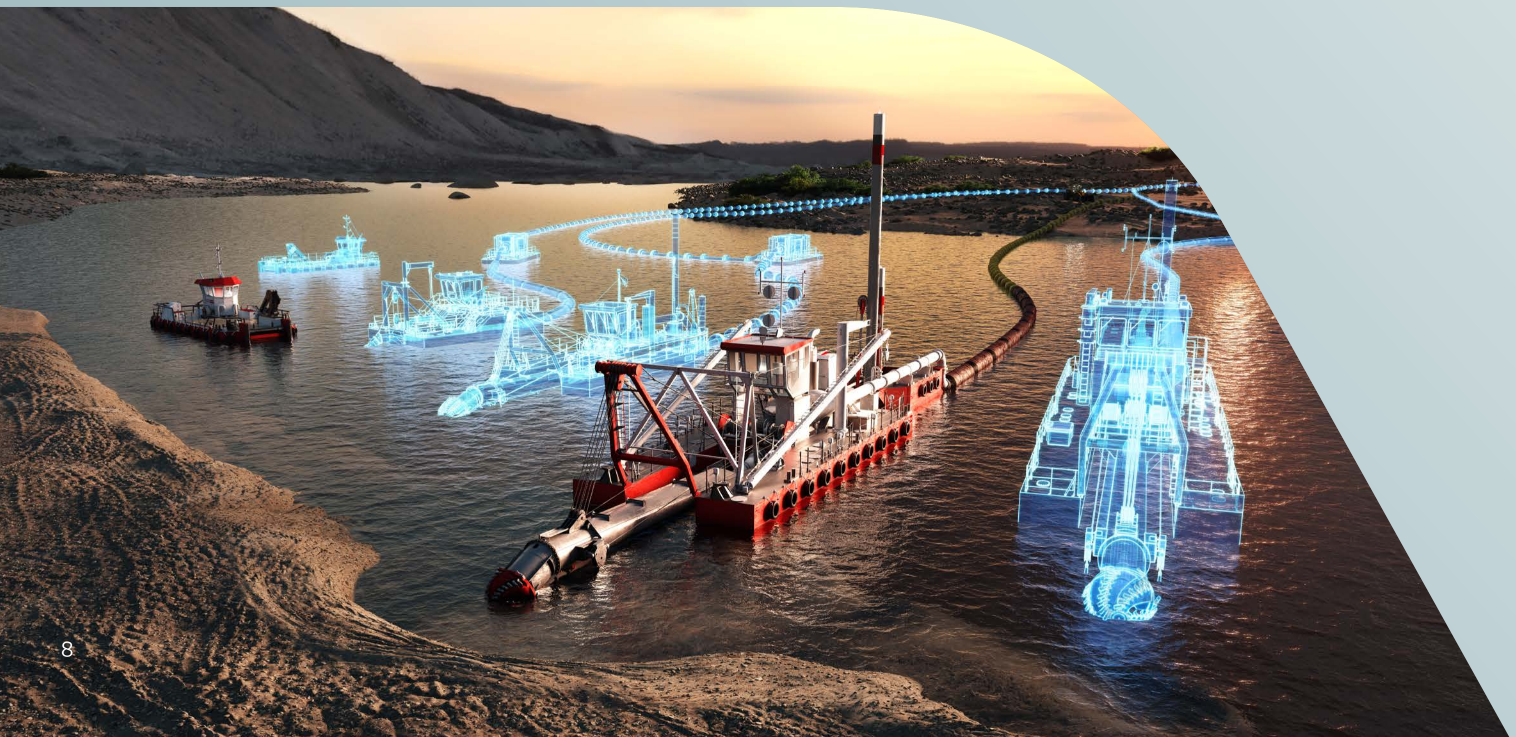
The composition of the Supervisory Board did not change in 2021 and 2022. On 5 January 2023, Mr Van de Rozenberg joined the Supervisory Board and was appointed as chairman.

Financial statements

The Supervisory Board hereby presents the Annual Report 2021. 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 NV. These were approved by the Supervisory Board on 17 January 2023. The auditor issued an unqualified independent auditor's report on the 2021 financial statements. The result of IHC Group for 2021 is minus € 63 million. The EBITDA increased from minus € 199 million in 2020 to a positive of € 16 million in 2021. The balance sheet totals € 768 million with equity standing at € 46 million. Furthermore, € 202 million of loan facilities were converted to equity in 2022. The Board of Management proposes to deduct the net loss from the reserves. This has been approved by the Supervisory Board.

Board of Management composition

In February 2021, Mr Van der Snel was appointed as Director and COO of Royal IHC. In December 2021, the Supervisory Board appointed Mr Klaver as Director and CEO of Royal IHC with effect from 1 January 2022. Mr Eggink, who guided Royal IHC as Interim CEO through most of its reorganisation, has resigned in consultation with the Supervisory Board as of the same date.
Mr Van der Harten continued his role as CFO.



After the completion of the AMAZON, Mr Van der Snel's main assignment as COO – ensuring the delivery of two challenging projects – was completed and he left Royal IHC on 1 October 2022. On 12 September 2022 Mr de Roover was appointed Chief Restructuring Officer.

Conclusion

Royal IHC's mission is to play a leading role in making the maritime industry more efficient and sustainable. The company possesses the right knowledge base and craftsmanship to achieve this goal. With a distinct innovation agenda, set in close contact with its customer base, the company can look towards the future. The management has a clear focus on Royal IHC's core activities, and further improvement of its operational and financial performance. A favourable outcome for the company of the Dutch scheme procedure and subsequent implementation of the term sheet and sale of IQIP is an important next step in the future of the company.

Improvements have been made and there is much interest in Royal IHC's technical capabilities and solutions. However, the company's business is influenced by geopolitical developments, which affects the current order intake of large projects. Rising steel and energy prices, and the general disruption to the supply chain made 2022 a challenging year for the commercial maritime industry. At the same time, the company sees growth in its flow business and opportunities in the defence market.

Royal IHC would like to thank its customers, suppliers and all other stakeholders for their ongoing trust in the company. It is also grateful to its employees and their ongoing efforts to serve Royal IHC's customers to the fullest of their capabilities.

Kinderdijk, 17 January 2023

G. van de Rozenberg, Chairman
M. Snel
B.C. Wentink
C. Korevaar
F.A. Verhoeven

Report of the board of management

In 2021, Royal IHC's focus was on successfully completing the large and complex projects that had been contracted in 2017 and 2018. During the year, the company was confronted with a series of unforeseen setbacks, which affected not only the progress of these projects, but also the results. Nevertheless, we managed to achieve the following:

- on 3 August 2021, Royal IHC transferred the self-propelled cutter suction dredger SPARTACUS to DEME, which it was able to use with full satisfaction on its initial activities in Egypt and Portugal
- and in December 2021, the AMAZON returned from successful sea trials, which marked another milestone in the completion of the vessel's conversion project. On 31 August 2022 the vessel was successfully transferred to McDermott.

Several other new-build contracts were delivered successfully on schedule in 2021. These included two cutter suction dredgers for the Suez Canal Authority. In December 2021, Royal IHC delivered an Easydredge® 2700 trailing suction hopper dredger to SEMAR (Secretaria de Marina) in Mexico. This vessel was built from stock in The Netherlands, which allowed us to comply with a short delivery time.

Royal IHC continued to be severely affected by COVID-19 in 2021. Due to the uncertainty surrounding the course of the pandemic – and also the general economic outlook – many of the sales leads that the company worked on did not lead to concrete orders. As a result, Royal IHC was unable to make up for the strong loss of turnover compared to the pre-COVID-19 period. Therefore, it also had to rely on Dutch government support ("NOW") amounting to € 97.5 million in 2021 (2020: € 16.5 million), which enabled the company to retain its employees while continuing to work towards the period when the uncertainty surrounding the pandemic would subside and the market would once again be willing to invest in new vessels and equipment.

Market developments

Dredging

The dredging market will continue to grow thanks to such global trends as climate change, the urbanisation of coastal areas and increase in seaborne trade. However, COVID-19 has had a strong impact on the dredging companies. For instance, travelling restrictions for crews have resulted in project delays. Companies have postponed investments due to uncertainties caused by the pandemic, but also due to logistical problems at yards, engine manufacturers and a lack of certain parts. In addition, the energy transition – including the goals set by the International Maritime Organisation (IMO) to cut CO_2 emissions recorded in 2008 by 70% before 2050 – has led to extra uncertainty, i.e. what kind of fuel(s) can or should be used in a new vessel?

According to IHS Markit data, 20 dredging vessels entered service worldwide in 2021, of which 14 were trailing suction hopper dredgers (TSHDs), four were cutter suction dredgers (CSDs), and two were water injection dredgers. Royal IHC delivered the world's largest CSD, SPARTACUS, to DEME in August 2021 with a total installed power of 44,180kW. Furthermore, two large CSDs were delivered to the Suez Canal Authority, and one Easydredge (TSHD) to Semar (Mexican navy), as well as several smaller CSDs (Beavers). Regarding Royal IHC's order intake, the demand for standard dredgers was normal in 2021, but weak for large custom-built vessels. The latter was in line with the order intake of dredgers by the global shipbuilding industry.

Offshore energy

Although oil and gas prices recovered strongly in 2021, the industry only slightly raised its upstream capex spending by 1% in 2021 after a 13% drop in 2020. In general, the oil and gas industry was reluctant to raise its spending due to the uncertainties caused by COVID-19. In addition, the focus was on restoring balance sheets and dividend payments. Only the global FPSO market bounced back to pre-COVID-19 levels in 2021.

Despite the ongoing pandemic, the offshore renewable energy market remained buoyant. According to Rystad Energy, more than 17GW of offshore wind capacity was installed in 2021 (2020: 6.3GW), which was a new record. The outlook for offshore wind remains positive, with ambitious targets set by the European Union, UK and also non-European countries such as USA, Taiwan, South Korea, Vietnam and Japan. The floating offshore wind market is developing quickly, as the large oil and gas companies are targeting it to leverage their expertise offshore.

Offshore vessel providers have made aggressive cost cuts and refinanced debt over the past year, but the alarm bells are still ringing. An analysis by Rystad Energy shows that the offshore vessel market needs additional financial restructuring, consolidation and scrapping to operate at a sustainable level in the long term. There is an oversupply of vessels compared to market demand and the downward pressure on utilisation levels continues to be challenging. Saipem and Technip FMC signed an agreement that will provide a pool of complementary enabling vessels and facilities, and a consolidated reel-laying and J-laying technology base. Owners are likely to get some help from the market as demand for offshore vessels is set for a comeback towards 2025.

The total demand for offshore vessels is expected to grow by 7% every year in this period. The two largest and fastest growing classes are wind installation vessels and the (construction) service operation vessels (SOVs). Demand for wind turbine installation vessels is expected to triple from 2021 to 2030. A growing installed base in deeper and more distant water drives up

SOV demand. A smaller vessel market segment includes cable lay vessels, of which a shortage is expected within the coming three years, especially now the USA and Asia are increasingly building offshore wind capacity. Cable lay vessels also play an important role in the growing telecommunications market.

Royal IHC contracted orders for upgrades to Subsea 7's SEVEN VEGA and Sapura's pipelay vessels, as well as extra work for McDermott's AMAZON. After-sales (spares and services) and the rental business have offered a relatively stable stream of orders. In addition, there have been orders for equipment, including a sea station for Subcon, a jet sled for Meindo, an offloading system for Samsung and various small projects, including engineering work.

Mining

Commodity prices unexpectedly recovered well in 2021. At the start of the year, mining companies were cautious with their capex budgets. Booming prices gave ample room to raise spending in the course of 2021 and the outlook for 2022 was positive. In the medium to long-term, the global demand for metals is positive – and particularly those that are needed for the energy transition.

Defence

Rising geopolitical tensions form an important market driver to the global defence market – and for navy vessels in particular. In 2021 the Mediterranean Sea and the Black Sea increasingly became a focal point in the rivalry between Russia and NATO members. Other centres of gravity in global geopolitics are the China South Sea and the Antarctic.

Cyberattacks are expected to become a greater threat. In 2021, the navies of both the UK and USA have warned that they see network sabotage as a real and increasing threat. Submarine warfare presents a particular risk of sabotage to undersea cable infrastructure. In addition, offshore wind farms and their power cables in the North Sea are vulnerable to sabotage.

Over the past few years there has been a continuous and rapid growth in global military spending and naval fleets in the Far East. Many western countries, such as the UK and Netherlands, are upgrading or replacing their aging naval fleets with new-generation vessels. Due to the war in Ukraine, countries are planning to spend billions of dollars to modernise their fleets. Ministries of Defence are looking for autonomy and focus on building up a national defence industry. They are pushing external (commercial) players to enter the defence market with their expertise to make further progress. The Dutch Ministry of Defence is looking for commercial off-the-shelf solutions, operational efficiency, autonomous vessels (one-man bridge) and green vessel solutions.

All told, NATO countries aim to spend at least 2% of their GDPs on defence, but most of them do not reach this target. In contrast, while the USA did spend 3.7% of its GDP on defence in 2020, NATO's European and Canadian partners only spent 1.7%. As an example, using the IMF's GDP forecasts for The Netherlands until 2023, the Dutch government should raise its defence budget by nearly 50% to meet its 2% target in 2023.

In 2021, IHC Defence signed a contract with the Directie Materiele Instandhouding (DMI: Department of Material Maintenance) of the Royal Netherlands Navy for the docking and repair of HNLMS Groningen. The scope of the project includes the coordination and execution of the inspection of the shaft. A second contract signed with DMI concerned the replacement of the propulsion gearbox mountings on the HNLMS De Ruyter. This work is part of a maintenance programme for the Air Defence and Command Frigates (LCF). Royal IHC will replace the mountings on all four of the Royal Netherlands Navy's LCF frigates. The company has also signed a contract with Dutch Defence Material Organisation (DMO) to temporarily place 20 technical staff with the customer's Maritime Systems Department (AMS).

Group developments

After the takeover at the beginning of 2020 by the Dutch maritime cluster and the organisation-wide restructuring, 2021 was dominated by: (1) the completion of the two large and complex projects, (2) further structuring of the matrix organisation with attention to commercial, financial and operational processes and (3) strengthening Royal IHC's position in the maritime sector with a new vision, mission and positioning.

Changes in shareholder structure

Since the refinancing and recapitalisation of Royal IHC in June 2020, the foundation Stichting Continuïteit IHC ultimately owns 100% of the shares of IHC Merwede Holding BV. The recapitalisation was achieved with the support of the existing syndicate of banks of Royal IHC, the Ministries of Economic Affairs and Climate and Finance, and credit insurer Atradius Dutch State Business. The Dutch State was repaid after the delivery of the SPARTACUS.

Organisational adjustments

Internally the second half of 2020 was about restructuring the company according to the matrix organisation. For 2021, this led to a different management structure, and the further adjustment of internal structures and processes, such as logistics, financial flows and IT systems. On 1 February, Royal IHC strengthened the Board of Directors with the appointment of COO Kees van der Snel. Gerben Eggink completed his assignment as interim CEO at the end of 2021, after which he passed the baton to Jan-Pieter Klaver, who started as CEO on 1 January 2022. After the completion and delivery of the AMAZON in 2022, it was decided to move back to a smaller Board of Management and Kees van der Snel left the company. On 12 September 2022 Michael de Roover was appointed Chief Restructuring Officer ('CRO').

Restructuring in the Americas

In the first quarter of 2021, the matrix organisation led to a restructuring of the activities in the Americas to fit within the PMGs, and to stimulate and benefit from synergies.

1. North American entities and activities are separated from those in South America, both legally and managerially. Since the biggest potential for business in South America is related to mining, both IHC do Brasil and Engemovi report to the PMG Mining. IHC America INC is part of the functional discipline of Services & Spare Parts.
2. The PMGs and matrix structure have been introduced in both North and South America, shifting profit and loss responsibility to the PMG directors in The Netherlands.

Core and non-core activities

The core activities have been determined in 2020 and the organisation is set up to supply vessels, equipment and services to four markets: dredging, offshore energy, mining, and defence. The decision was made to sell the non-core activities.

The divestment of a number of non-core activities was completed in 2021:

- February 2021: all shares held in Rotterdam Offshore Group B.V. were sold
- 3 March 2021: Koninklijke Doeksen took over Vuyk Engineering Rotterdam
- 16 March 2021: Sif Holding NV took over KCI the Engineers BV
- 24 December 2021: IHC Hytech BV was sold to a number of private investors, who established Pommec Hytech Holding BV.

Separate position for IQIP

A separate position has been chosen for Royal IHC's subsidiary IQIP to create a distinctive profile in the market, as well as its products and services, logo and marketing activities. IQIP is the global market leader in offshore and onshore foundations and installations. Its core business is to provide expertise, customised solutions and high-quality equipment for foundations and installations in the offshore wind, offshore oil and gas, decommissioning, and coastal and civil markets.

In July 2022, management initiated a process to divest IQIP in order to raise funds. The sale and purchase agreement for IQIP was signed on 16 November 2022. We refer to the Outlook paragraph for further information.

Agent payments

A case was brought to the attention of Royal IHC in September 2020 related to contractual fees that Royal IHC paid its Brazilian agent a decade ago. Part of the arrangements with the agent were a split in payments between Brazil and a bank account in the Cayman Islands, as contractually instructed by the agent. In 2020, Royal IHC has publicly stated that a thorough investigation is done by external experts on this transaction. The procedures performed and information available to the company did not indicate legally culpable wrong-doing on the part of Royal IHC regarding this contract. Royal IHC is still awaiting the decision of the Dutch Public Prosecutions Office as to whether it wants to proceed with its investigation.

SHE-Q

To improve Royal IHC's focus areas of product leadership, customer intimacy and operational excellence, care for safety, health, the environment and quality is of vital importance. The key to improve these is to change the company's safety culture and way of working.

In 2021, Royal IHC was able to continue the engagement in its I-CARE (I Create A Right Environment) programme. This aims to change the way the company approaches safety to ensure everyone returns home safely every day. The culture change is successful when: safety is owned by the business; jobs are prepared to plan for safety and quality; and everyone acts as a safety leader. This should result in zero accidents with adverse consequences and therefore improve operational excellence.

Even though the implementation of I-CARE has had some setbacks due to COVID-19 restrictions, the number of lost time injuries (LTIs) has halved: 17 in 2021 compared to 34 in 2020. This means that 17 people were seriously injured due to their work for Royal IHC. So there is still more work to do, which will start by making sure everyone is familiar with the company's target and commits to the I-CARE values.

With regard to the environment, there have been fewer incidents in 2021 compared to 2020. As compliance has improved at the yards and projects, the relationship with environmental authorities has also improved. This has resulted in the number of penalised orders reduced to one, which is also expected to be withdrawn.

As part of Royal IHC's responsibility to future generations, it has increased its efforts to make more energy-efficient products with lower emissions. In 2021 the company delivered the largest and most powerful cutter suction dredger of the world – and the first to run on LNG, with many more innovations on board. In addition, energy audits have been conducted by the environmental authorities to identify where we can preserve energy on Royal IHC's sites.

To promote a uniform way of working and be more efficient, the company has started the I-Work project to aid the PMGs and FDs in drawing up business processes as part of its management system. This project includes strengthening and combining the SHE-Q procedures to set one standard within Royal IHC, so customers know what to expect.

Financial

Revenue and result development

In 2021, revenue decreased by 28% to € 532 million (2020: € 738 million). The external costs decreased by 38% to € 379 million (2020: € 610 million). These expenses amounted to 71% of revenue, which is a decrease of 12% compared to 2020 (83%). Employee expenses decreased by € 149 million compared to last year, partly as a result of government grants received under the NOW scheme. Employee expenses as a percentage of revenue decreased from 38% to 25%.

The average salary cost per employee amounted to € 74,000 – a decrease of 1% compared to 2020. Depreciation and impairment of property, plant and equipment decreased from € 53 million in 2020 to € 25 million in 2021. Amortisation and impairment of intangible assets increased from € 12 million in 2020 to € 13 million in 2021. 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 € 16 million (minus € 199 million in 2020).

Order book

The order book as of 31 December 2021 amounts to € 237 million, which is 47% lower than the order book on 31 December 2020 (€ 450 million). Sales in 2021 amounted to € 322 million (2020: € 534 million).

Working capital

Working capital amounted to minus € 77 million as of 31 December 2021 (minus € 168 million on 31 December 2020). 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 a consortium of financial institutions. 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 in 2021 were as follows:

In millions of euros	
Docks, slipways, dry docks, business premises, floating equipment	0.2
Plant and machinery	1.7
Rental equipment	4.3
Other assets	0.4
Assets under construction	15.1
	21.7

Investments in property, plant and equipment are directly related to the current business. Investments in rental equipment and equipment under construction are mainly related to IHC IQIP's rental fleet.

Balance sheet ratios

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

In millions of euros	31 Dec 2021	31 Dec 2020	Difference
Non-current assets	294.6	331.9	-37.3
Working capital	-76.8	-168.3	91.5
Cash and cash equivalents	56.5	68.6	-12.1
Net assets	**274.3**	**232.2**	**42.1**
Non-current liabilities	227.9	325.0	-97.1
Equity	46.4	-92.8	139.2
Financing	**274.3**	**232.2**	**42.1**
Current ratio (current assets / liabilities)	0.96	0.86	
Solvency (total equity / assets)	6%	-10%	

As agreed in the refinancing and recapitalisation of Royal IHC in June 2020, € 202 million of debt was transferred to the shareholders during 2021 and subsequently converted to share capital.

Equity increased by € 139 million. This increase is: the balance of conversion of loans to equity (€ 202 million); the loss for the 2021 financial year (minus € 63 million); a decrease in the hedging reserves (minus € 2 million); a movement in currency differences (€ 3 million); and the acquisition of non-controlling interests (minus € 1 million).

Research and development

Innovation is crucial and therefore focused on output that can be sold in the market. Royal IHC annually spends approximately 4% of its revenue on innovation and has a specialist in-house R&D institute, IHC MTI.

Financing

The facilities in place have a maturity date of 3 June 2025, 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 as per 31 December 2021 are as follows:

In thousands of euros	Amount	Maturity date	Amortisation and conversion	Type
Bank guarantee facilities (senior debt)	700,000	3 June 2025	Not applicable	Committed
Bank guarantee facilities	**700,000**			
Construction loan (senior debt)	148,770	31 Mar 2022	Bullet	Committed
Super senior revolving credit facility	20,000	3 June 2023	Bullet	Committed
Revolving general facility	155,000	3 June 2025	Bullet	Committed
Incremental projects facility	50,000	3 June 2025	Bullet	Committed
Accordion facility	185,000	3 June 2025	Not applicable	Uncommitted
Loan facilities	**558,770**			

In 2021 a total amount of € 202.1 million of contingent convertible debt has been converted to equity.

Use of the construction loan is limited to funding working capital for a specific project and the maturity date is linked to the expected delivery date of the relevant project. The borrowings are repayable at the delivery of the project and payment by the customer. The amount will then become available again as an "uncommitted accordion facility" and can be subsequently reinstated. In September 2022, an amount of € 120.7 million of the construction loan was repaid.

The maturity date of the € 28.1 million remainder of the construction loan will change to 3 June 2025 as part of the financial restructuring described in the Outlook paragraph.

These facilities are provided by a consortium of financial institutions consisting of: ABN AMRO, Commerzbank, DBS Bank Ltd, Deutsche Bank, ING Bank, Lloyds Bank, Rabobank, Liberty Mutual Surety Europe and National Westminster Bank. 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 of 31 December 2021.

In addition to the aforementioned credit facilities, the IHC Group initiated the following credit facilities on 31 December 2021.

(i) 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 € 2.1 million as of 31 December 2021 (€ 4.3 million as of 31 December 2020).

(ii) An amount of € 11.0 million is outstanding as of 31 December 2021 (€ 27.9 million as of 31 December 2020) under a 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.

(iii) A € 2.3 million revolving credit facility, which was fully drawn as of 31 December 2021.

(iv) A € 10.0 million revolving credit facility, which was fully drawn as of 31 December 2021 and 31 December 2020.

(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. As of 31 December 2021, the outstanding loan amounted to € 45.1 million (€ 46.4 million as of 31 December 2020).

Risk management

Royal IHC's risk profile is influenced by strong market dynamics and fierce competition, resulting in pressure on price and margin. It seeks to manage this through close cooperation and understanding of its customers' needs, and by strong contract and project management. Embedding effective risk management into Royal IHC's processes is critical to achieving a balance between mitigating threats and exploiting opportunities. The intent is not to impose this as an extra requirement, but to integrate it in a logical, natural and practical way across the organisation.

Governance and culture

The Board of Management maintains the corporate policies and drives the culture of risk management. Senior management is responsible for embedding these procedures into Royal IHC's business units, as well as fostering a culture in which risks can be identified and escalated if necessary.

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.

Royal IHC puts great value on maintaining its core values, business ethics and compliance standards. The main pillars for this are the code of conduct, anti-bribery policy, export controls and "know your customer" procedures, whistleblower regulations, and agent procedures. These reflect Royal IHC's risk attitude and response to mitigation and provide guidance on how to act in situations that could potentially conflict with the company's policies.

Royal IHC provides leadership and onboarding programmes to its management and workforce that continuously draw attention to its core values, codes and regulations, and expected behaviour. In addition, a performance management framework is in place to ensure the translation of Royal IHC's objectives into unit, departmental and personal objectives. These 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 are cascaded down into the organisation and further definition takes place in the annual cycle of the operational and financial plans. The identification of the main opportunities and threats, as well as the management's reaction on how to handle these, are an integral part of this process.

Principal risks and uncertainties

In general, the following main types of risks inherent within the IHC Group's business are identified and monitored. This overview of risks is not exhaustive. There may be other risks which we currently do not consider to be significant but which at a later stage may manifest themselves as such.

Market, operational and strategic risks

Royal IHC sells capital goods to a broad base of customers in various markets, which are cyclical in nature and may be affected by the state of the economy and geopolitical risks. Inherently, the order intake is volatile and there are risks regarding the company's supply chain, production and sales processes, and its dependence on a few production sites worldwide. Changes in the circumstances of the market, the competitive environment and any disruption to production and/or supply chain may have an adverse effect on Royal IHC.

We consider the long-term growth prospects for our markets to be positive, but they can be negatively influenced by factors outside our control, especially for the short and medium term. These factors outside our control include geopolitical developments, such as the political instability in Eastern Europe, trade barriers, volatility in the energy and commodities markets, high inflation and calamities, such as the COVID-19 pandemic.

The company's order intake for high-end integrated products is non-linear and difficult to plan. A flexible, balanced workforce – with insourcing and outsourcing capabilities – is necessary to optimise capacity with the expected workload. The IHC Group's approach is to provide a more opex-driven portfolio, with equipment, services, consultancy and engineering orders, as well as flexible financing arrangements for customers.

Human resources

Knowledgeable, skilled and experienced employees are paramount to our success. Hiring and retaining staff in tensioned labour markets is challenging. An in-house technical education school, performance management system, succession planning, talent and leadership development programs and focussed recruitment are put in place to address the aforementioned risks. We refer to paragraph Human resources (HR) for specific measures to further rhelp mitigate these risks.

Safety, health and environment risks

The operation of production facilities and shipyards includes safety risks. Employees are therefore instructed to work in the safest and healthiest way and environment. Royal IHC's corporate discipline, SHE-Q, provides guidelines and tools governing project execution, which are continuously monitored, developed and improved.

Contract risks

Royal IHC enters into large-scale, medium- to long-term contracts with its customers and supply chain, which contain significant risks. Assessments are completed by a cross-functional bid team before binding offers are issued, and these are reviewed by the Board of Management. They 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, the consequences could be severe, both in the short (additional costs or liquidated damages) and long term (reputation). Royal IHC seeks to mitigate these risks and is further strengthening its project management and control functions. As from 2020, COVID-19 is included in the risk assessments. The risk register is included 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, these currently unexpected risks cannot be ruled out from now on. With the objective of balancing risks and margins in a better way, tight control during the acceptance of projects is now embedded within the IHC Group's processes. In combination with operational excellence, this should lower future project risks.

Claims and legal cases

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

International compliance risks

Royal IHC is active in several countries over the world and therefore deals with various laws and regulations. Some of the activities are managed by Royal IHC's local management, but in some countries we also use intermediaries or local representatives. This imposes a risk that local legislation and regulations may not be fully complied with. To help mitigated these risks, the group has a internal risk management and control system in place, including the Royal IHC Code of Conduct and training. Intermediaries and local representatives are by contract bound to comply with Royal IHC's anti-corruption regulations. Entering into contracts with these intermediaries and representatives is subject to clearly defined procedures, including background checks. Furthermore, Royal IHC has implemented a SpeakUp policy and a confidential independent counselor to whom employees can report any suspected misconduct.

IT risks

Royal IHC depends on the reliability and availability of its software solutions, databases and infrastructure. The company'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. In addition, the security measures are reviewed for effectiveness by a third party and reported to the Board of Management.

Interest rates and currency risk

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

The IHC 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 interest rate swaps for almost all loans and borrowings with variable interest rates.

The IHC Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of its entities, primarily the euro. At any point in time, it covers most foreign currency exposures. It uses forward exchange and 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.

Credit risk

The IHC Group has acceptance procedures and policies for credit risks. Credit checks are performed before Royal 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 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 cash positions by preparing short- and long-term cash flow projections. However, in Royal 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 forecasts and after the sale of IQIP, Royal IHC's management believes the liquidity to be sufficient. We refer to the Outlook paragraph for further information.

Tax risks

Tax risks are managed by Royal 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 Royal IHC. The CFO acts as the formal representative and is advised by his team, aided by information from the risk management system. The adequacy and effectiveness of the framework are regularly reviewed, considering any changes in external business dynamics, as well as within the company.

Human resources (HR)

In January and February 2021, a culture survey was conducted among all employees globally. The goal was to learn how the corporate culture within Royal IHC is perceived and reveal any possible gaps with the desired culture. The timing was important, especially after the challenging period in 2020.

The main conclusion was that employees felt proud of Royal IHC's product, which is an important connecting factor. Although the perception of the current culture differed, there was consensus in the desired culture being more idealistic and caring, with room for a human dimension. It is important that everyone collaborates towards this desired culture, not least for our Senior Leadership Team to lead by example.

Therefore, the follow-up to the survey findings was to: actively discuss this within the management teams and departments; listen to their teams; and stimulate all colleagues. Special cards were designed to facilitate dialogue on the core outcomes, with the emphasis on listening. Further updates for growing towards the desired culture have been defined in several departments, and others have been encouraged to do the same and continue the dialogue.

As COVID-19 shifted from a short-term crisis to the status quo, HR Support improved the way of working regarding travel. Furthermore, the focus on mental health became part of its daily routine, including the interaction between employees and managers, supported by an initiative called "Mental health matters", which started in July 2021. Furthermore the working from home policy introduced in October offers the Royal IHC team flexibility in their work-life balance, resulting in less stress and a positive mindset.

Next to the above-mentioned milestones, the SpeakUp line was launched in July 2021. This tool offers employees the opportunity to anonymously address any misconducts.

Furthermore, during 2021 the topic of craftsmanship resonated in many conversations. It has become clear that the company has a strong need for craftsmen, and that past decisions have led to capability and knowledge gaps, especially with regard to the technical part of the organisation. Therefore, for example, the focus is on recruiting more students for the Training Education Centre. In addition, a clear "white spot" approach was taken to thoroughly analyse succession planning for the workforce.

For those identified white spots, additional recruitment efforts were taken and the number of contingency workers was reduced from approximately 900 to around 150. HR Staffing clarified the policy for recruiting and positioning contingency workers, and offered some of them permanent employment. This helps to keep their knowledge and capabilities in-house, and leaves room to recruit and commit capable craftsmen to the company. Additional effort was also put in place to increase mobility, by weekly analysing the needs for skilled workforce in the various departments and the availability of colleagues to step into such roles from other departments. Much effort was taken with great success to position colleagues temporarily outside of Royal IHC.

With regard to learning and development, several actions were taken to enhance skills within the company. The new platform, Archipel, was launched and a Young Executive Programme at Vlerick Business School was designed and launched in 2022. Several developmental sessions with SLT were held to strengthen leadership and alignment within the company.

As part of the cost-reduction programme announced in September 2022 the process for a worldwide reduction of 250 employees was started. The request for advice was approved by the Works Council in November 2022. The social plan for the employees in The Netherlands agreed in October 2020 is still applicable. Although it is difficult to let valuable people go, Royal IHC strived with this social plan to offer redundant employees a solid base to guide them from work to work.

Sustainability

Royal IHC has an active sustainability policy, and acknowledges that many social and environmental topics remain of high importance, especially with technical and legal developments in the maritime industry taken into consideration. The foundation of the company's sustainability strategy is to be a reliable partner for sustainable innovation to its customers and other stakeholders. This is reflected in its ability to provide alternative fuel options (for example LNG) to help reduce customers' carbon footprints, and conform to stricter emissions regulations.

In 2021, sustainability was recognised as an important element in Royal IHC's new vision, mission and strategy. The external business environment is challenged by the megatrends of climate change, energy transition and the call for a more sustainable society. Royal IHC also acknowledges the stagnation of economic growth, which calls for new paradigms on economy and welfare.

The company's vision – "Global challenges, including realising sustainable development goals, will have a major impact on the maritime industry" – underlines the importance of contributing to sustainable development goals in general, and the selected sustainable development goals of climate action (13), life below water (14), and partnership for the goals (17) in particular.

The company's mission – "Royal IHC is determined to play a leading role in making the maritime industry more efficient and sustainable" – sets out its role and ambition to provide a sustainable portfolio of products and services. In doing so, it aims to offer the benefit of game-changing sustainable performance to customers and the value chain.

The sustainability domain encompasses a range of environmental and social topics, which make up the three pillars of Royal IHC's strategy:

1. Responsible sourcing from the supply chain.
2. Conducting operations in a sustainable manner with a sensible footprint.
3. Offering a sustainable product and services portfolio to our customers.

1. Supply chain
Royal IHC codevelops the supply chain with its partners. It utilises local suppliers in response to the increasing demand for building locally. Furthermore, it exercises governance with rules and regulations for contractors and suppliers that explicitly describe their responsibilities. And the company prequalifies and audits suppliers by means of its QLIFT methodology.

2. Operations
Royal IHC applies game-changing production processes, including the introduction of automated welding and coating of components to improve quality and reduce delivery time. It also explores the automation of the 3D-forming process for plates – important for building efficient hull shapes – to ensure it is in control of the process and innovates for the future.

By reducing the company's CO_2 footprint with more efficient working methods, it also reduces its energy consumption and waste streams. One example of best practice is to reduce its scrap percentage to increase standardisation, while aiming for circular production. In addition, it explores coatings and processes to reduce VOC emissions to improve its environmental performance and safeguard the health and safety of workers.

3. **Products and services**

Royal IHC wishes to lead the way in making the maritime industry more sustainable and efficient. Technology development and broad cooperation from within the supply chain are vital to achieve that. Examples of development activities include:

- zero-emission vessels and alternative fuels
- proactively investing in the effects and integration of alternative fuels and zero-emission power supply technologies
- presenting alternatives to customers and providing solutions for consequences in vessel design, operation and total cost of ownership
- advanced drive concepts, such as those on SPARTACUS (dual fuel engines, a flywheel for peak shaving and a waste heat recovery system all contribute to a low carbon footprint)
- applying game-changing materials in cooperation with universities and foundries to produce better wear-resistant materials for all applications
- and exploring the use of composite materials to reduce weight and maintenance on mission equipment.

Royal IHC takes an outside-in approach, is aware of the challenges and developments on sustainability in the world, and uses these as a basis for research and development. The CSR Steering Committee ensures that the company's sustainability strategy incorporates its value chain and is executed efficiently in every location. The most significant topics are identified, enforced and monitored – and highlighted in Royal IHC's annual Sustainability Report.

Outlook

Liquidity shortfall

The group's liquidity was seriously affected by COVID-19, an unfavourable commodity market, and operating losses on the SPARTACUS and AMAZON projects. Because of operating losses and delayed orders for large vessels, Royal IHC needs to amend its financing arrangements with its lenders. Also, certain conditions under its bank financing are currently not being met. Management's most recent cash forecast shows a liquidity shortfall mid-February 2023.

Short term risks with regard to continuity and mitigating action plan

Status of current restructuring plan, planned sale of IQIP and standstill agreement

Management, the majority of the lenders, and other stakeholders of Royal IHC have agreed on a term sheet to restructure the group's finances. Central to the restructuring is the sale of Royal IHC's largest subsidiary, IQIP, to give Royal IHC a stronger financial position and provide liquidity. The company has entered into a conditional sale and purchase agreement with a prospective buyer.

Because IQIP is an integral part of the lender's security package, all lenders have to consent to the sale and purchase agreement. Under the term sheet, the majority of lenders is willing to agree to the sale of IQIP against a repayment of certain cash facilities and de-risking of other facilities out of the proceeds of the sale. The remaining proceeds would be available to the group.

Management reached a lock-up and standstill agreement with the majority of lenders, the Dutch State and the prospective buyer of IQIP. This agreements ends on 15 February 2023, with the option to extend upon approval of all parties. The agreement includes the prevention of enforcement of rights resulting from a breach of the group's covenants and extends the IQIP sale and purchase agreement to 15 February 2023.

Legal proceedings (WHOA) initiated to implement the term sheet

With the support of the requisite majority of lenders, management initiated a Dutch scheme procedure (also known as the WHOA "Wet Homologatie Onderhands Akkoord") to implement the term sheet. When at least a two-thirds majority of creditors in an in-the-money class of creditors voted in favour of the plan, the court could bind all creditors to a restructuring plan, including those who did not vote in favour of the plan. As a precaution, management obtained a court order granting a provisional moratorium ("afkoelingsperiode") before filing the restructuring plan.

There are uncertainties within the WHOA procedure, that could, individually and/or in aggregate, jeopardise the liquidity position of Royal IHC and the implementation of the term sheet:

- The duration of the WHOA procedure depends on multiple factors under which potential objections raised by individual non-cooperative lenders. Considering the term of the lock-up and standstill agreement, management aims to finalise the proceedings in the first half of February 2023. Given the most recent liquidity forecast and the ending date of the lock-up and standstill period, there is very limited room for further delays. Management is confident that, when there is no ruling per mid-February, the majority of lenders, the Dutch State and the prospective IQIP buyer will extend the lock-up and standstill period and sale and purchase agreement, and arrangements will be made for additional liquidity.

- Individual lenders could ask the court to end the moratorium, allowing them to take enforcement action.

- The outcome of the WHOA procedure can be unfavourable for the company, as the court may reject the request to sanction the scheme on certain (limited) grounds.

Management, supported by external legal counsel, expects a favourable outcome for the company of the WHOA procedure, resulting in implementation of the term sheet.

Medium term risks with regard to continuity
After having mitigated the short term risks, the company continues to face other medium term significant risks and uncertainties that need to be mitigated in order to achieve its goals:

- Royal IHC's operational and financial prospects may also be affected by other factors, mainly related to the materialization of a significant amount of currently unsecured orders. To return to profitability, to be able to meet its obligations under the financing agreement and to increase the cash position, Royal IHC needs a balanced increase in the order book and finalise the process to become a leaner, more efficient organisation. Royal IHC will focus more on its flow business to achieve this, while still designing, engineering, and producing large integrated vessels. Part of this strategy is to market any excess production and engineering capacity to carry out projects for third parties in non-core markets.

- Market and other conditions outside Royal IHC's control could impact its operations. Royal IHC's business continues to be affected by geopolitical developments, such as political turmoil, government-imposed trade barriers, volatility in energy and commodities markets, and natural disasters, with the situation in Eastern Europe and the COVID-19 pandemic being examples. These developments give rise to significant levels of uncertainty. Significant new investments from the group's major (dredging) customers can be negatively impacted by these developments, affecting the group's future order intake from other customers. Management addresses this situation by contacting key customers and markets to pre-empt their requirements.

- Royal IHC's risk profile is influenced by markets and competition, leading to price and margin pressure. Royal IHC seeks to manage this pressure by adding value to customers and meeting their requirements in all project phases.

- The group prepares liquidity forecasts sensitised to existing and future risks, including the impact of order intake. These are based on a more balanced project risk-return ratio and improvements in 'on-specification-on-budget-on-time' delivery.

- Operational and financial risks that have materialised have led to significant negative results in recent years. Although certain projects are, to a large extent, de-risked, the materialisation of existing project risks cannot be ruled out. The group now has controls to balance risks, and margins are better balanced when accepting projects. This and operational excellence should reduce future project risks.

- The most recent liquidity forecast showed that after the sale of IQIP is completed and refinancing is in place, the group would have sufficient liquidity to run its operations. In the business of Royal IHC, however, it has proved inherently challenging to forecast liquidity over a more extended period, and accuracy has been limited in the past. Liquidity will depend on meeting the expected order intake in challenging market conditions, improving Royal IHC's results, and mitigating the abovementioned risks by implementing the measures as described in the paragraphs above.

Conclusion
The ability of Royal IHC to continue as a going concern depends on the successful completion of the restructuring mentioned above of the group's finances and its ability to mitigate the risks and uncertainties described. These significant short term and medium term risks and uncertainties indicate the existence of a material uncertainty, which may cast significant doubt about the group's ability to continue as a going concern. Management is confident that the going concern assumption is appropriate, and therefore the financial statements have been prepared on this basis.

The priority for Royal IHC is clear: return to profitability while maintaining satisfied customers and a leading technological position. This will ensure that its customers can outperform in their respective markets. All the elements are present in the organisation to realise this goal.

Kinderdijk, 17 January 2023

Board of Management:
J.P. Klaver, CEO
A.P.M. van der Harten, CFO
M.M.J. de Roover, CRO

Abbreviated financial information 2021

Consolidated statement of profit or loss for the year ended 31 december 2021

In thousands of euros	2021		2020	
Revenue	532,155		737,728	
Other income	3,228		-	
Operating income		**535,383**		**737,728**
External costs	373,611		609,649	
Employee expenses	133,794		283,131	
Depreciation and impairment of property, plant and equipment and Investment property	25,190		52,508	
Amortisation and impairment of intangible assets	13,364		11,700	
Impairment on trade receivables and contract assets	11,087		275	
Other expenses	813		61,686	
Operating expenses		**557,859**		**1,018,949**
Result from operating activities		**-22,476**		**-281,221**
Finance income	3,887		38,976	
Finance expenses	-14,780		-51,042	
Net finance expense		**-10,893**		**-12,066**
Share of result of equity-accounted investees, net of tax		2,024		-1,410
Profit / (loss) before income tax		**-31,345**		**-294,697**
Income tax (expense) / income		-32,052		-5,394
Profit / (loss) for the period		**-63,397**		**-300,091**
Profit / (loss) attributable to:				
Owners of the Company		-63,324		-300,658
Non-controlling interests		-73		567
		-63,397		**-300,091**

Consolidated statement of financial position as at 31 december 2021
(before appropriation of result)

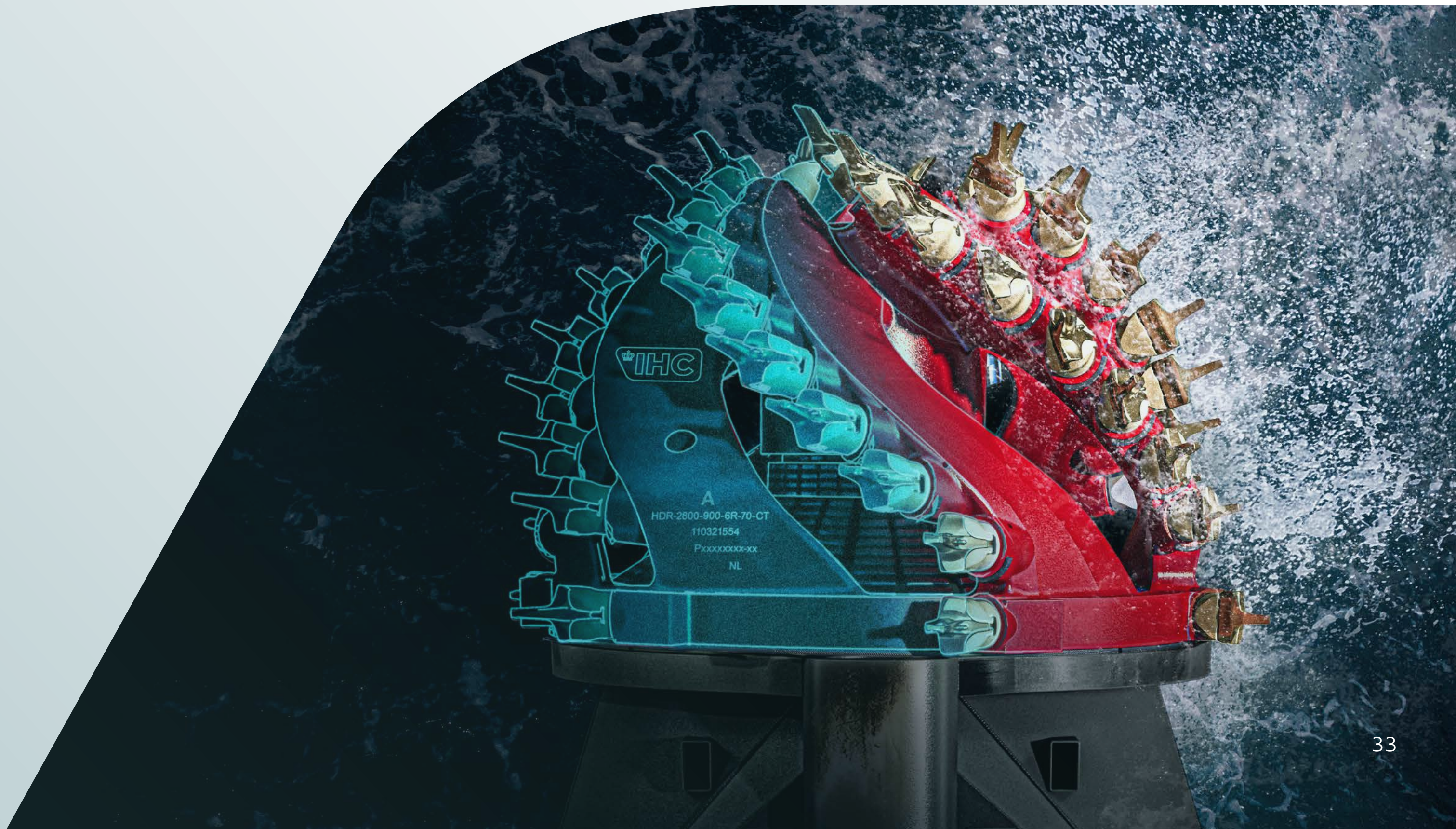
In thousands of euros	31 December 2021		31 December 2020	
Assets				
Property, plant and equipment	251,566		255,547	
Investment property	2,059		2,191	
Intangible assets and goodwill	23,070		35,285	
Investments in equity-accounted investees	13,864		291	
Deferred tax assets	2,340		32,931	
Other non-current financial assets	1,771		5,612	
Non-current assets		**294,671**		**331,857**
Contract assets	88,918		213,244	
Inventories	172,483		145,667	
Current tax assets	930		438	
Trade and other receivables	151,603		129,139	
Cash and cash equivalents	56,459		68,620	
Disposal group and assets held for sale	2,545		35,752	
Current assets		**472,938**		**592,860**
Total assets		**767,609**		**924,717**
Equity				
Share capital	460,604		258,464	
Share premium	72,307		72,307	
Reserves	-423,138		-124,202	
Unappropriated result	-63,324		-300,658	
Equity attributable to owners of the Company		**46,448**		**-94,089**
Non-controlling interests		-10		1,326
Total equity		**46,438**		**-92,763**
Liabilities				
Loans and borrowings	177,051		261,741	
Derivatives	259		543	
Provisions	31,877		37,439	
Deferred tax liabilities	194		689	
Other liabilities	18,483		24,572	
Non-current liabilities		**227,864**		**324,984**
Contract liabilities	75,398		133,935	
Current portion of loans and borrowings	174,144		214,756	
Current tax liabilities	1,340		-	
Trade and other payables	188,039		267,855	
Liabilities directly related to disposal group held for sale	-		15,722	
Provisions	54,386		60,228	
Current liabilities		**493,307**		**692,496**
Total liabilities		**721,171**		**1,017,480**
Total equity and liabilities		**767,609**		**924,717**

Comparative information is restated to reflect changes in presentation explained in 'Changes in presentation' in the notes to the abbreviated financial information

Consolidated statement of cash flows for the year ended 31 december 2021

In thousands of euros	2021	2020
Profit / loss for the period	-63,397	-300,091
Adjustments for:		
Depreciation, amortisation and impairment expenses	38,554	64,208
Revaluation of land through profit and loss	1,646	-
Loss / (gain) on sale of property, plant and equipment	-1,444	-
Loss/ (gain) on disposal group held for sale	-1,784	3,151
Share of result of equity accounted investees	-2,024	1,410
Impairment of non-current financial assets	2,591	-
Remittance of loan and write-down of loan	-	-6,732
Net interest expense	10,894	18,798
Income tax expense	32,052	5,394
Changes in provisions	-11,454	35,441
	5,634	-178,421
Interest (paid) / received	-8,575	-16,955
Income tax (paid) / received	-666	-1,895
Net cash flow from operating activities (excluding changes in working capital)	**-3,607**	**-197,271**
Changes in working capital:		
- Acquisition of rental fleet	-18,595	-9,444
- Inventories	-26,816	-5,988
- Contracts assets	124,326	-13,845
- Trade and other receivables	-26,163	-14,688
- Contract liabilities	-58,537	19,887
- Trade and other payables	-79,315	-87,019
Changes in working capital	**-85,100**	**-111,097**
Net cash flow used in operating activities	**-88,707**	**-308,368**
Acquisitions of intangible assets and property, plant and equipment	-3,632	-8,508
Proceeds from divestments of property, plant and equipment	4,117	7,852
Proceeds from disposals of group companies, net of cash disposed	6,314	7,491
Proceeds from disposal of participations and other financial assets	-	2,184
Issue of loans and receivables	-	-1,550
Dividends received	1,526	-
Proceeds of loans and receivables	-	5,026
Net cash flow generared from investing activities	**8,325**	**12,495**
Additions to loans and borrowings	270,992	245,392
Repayment of loans and borrowings	-195,427	-52,387
Capital contribution	-	60,000
Payment of lease liabilities	-7,406	-10,815
Net cash flow from financing activities	**68,159**	**242,190**
Net increase / (decrease) in cash and cash equivalents	**-12,223**	**-53,683**
Cash and cash equivalents as at 1 January	68,620	121,752
Movements in net cash and cash equivalents	-12,223	-53,683
Effect of exchange rate fluctuations on cash held	62	551
Cash and cash equivalents as at 31 December	**56,459**	**68,620**

Comparative information is restated to reflect changes in presentation explained in 'Changes in presentation' in the notes to the abbreviated financial information



Notes to the abbreviated financial information

1. General

The abbreviated financial information is derived from the financial statements 2021, 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 2021.

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 17 January 2023 was issued by KPMG Accountants N.V. The unabridged financial statements 2021 are available from the company or at the Chamber of Commerce in Rotterdam.

Going concern

Liquidity shortfall

The group's liquidity was seriously affected by COVID-19, an unfavourable commodity market, and operating losses on the SPARTACUS and AMAZON projects. Because of operating losses and delayed orders for large vessels, Royal IHC needs to amend its financing arrangements with its lenders. Also, certain conditions under its bank financing are currently not being met. Management's most recent cash forecast shows a liquidity shortfall mid-February 2023.

Short term risks with regard to continuity and mitigating action plan

Status of current restructuring plan, planned sale of IQIP and standstill agreement

Management, the majority of the lenders, and other stakeholders of Royal IHC have agreed on a term sheet to restructure the group's finances. Central to the restructuring is the sale of Royal IHC's largest subsidiary, IQIP, to give Royal IHC a stronger financial position and provide liquidity. The company has entered into a conditional sale and purchase agreement with a prospective buyer. Because IQIP is an integral part of the lender's security package, all lenders have to consent to the sale and purchase agreement. Under the term sheet, the majority of lenders is willing to agree to the sale of IQIP against a repayment of certain cash facilities and de-risking of other facilities out of the proceeds of the sale. The remaining proceeds would be available to the group. Management reached a lock-up and standstill agreement with the majority of lenders, the Dutch State and the prospective buyer of IQIP. This agreements ends on 15 February 2023, with the option to extend upon approval of all parties. The agreement includes the prevention of enforcement of rights resulting from a breach of the group's covenants and extends the IQIP sale and purchase agreement to 15 February 2023.

Legal proceedings (WHOA) initiated to implement the term sheet

With the support of the requisite majority of lenders, management initiated a Dutch scheme procedure (also known as the WHOA "Wet Homologatie Onderhands Akkoord") to implement the term sheet. When at least a two-thirds majority of creditors in an in-the-money class of creditors voted in favour of the plan, the court could bind all creditors to a restructuring plan, including those who did not vote in favour of the plan. As a precaution, management obtained a court order granting a provisional moratorium ("afkoelingsperiode") before filing the restructuring plan. There are uncertainties within the WHOA procedure, that could, individually and/or in aggregate, jeopardise the liquidity position of Royal IHC and the implementation of the term sheet:

- The duration of the WHOA procedure depends on multiple factors under which potential objections raised by individual non-cooperative lenders. Considering the term of the lock-up and standstill agreement, management aims to finalise the proceedings in the first half of February 2023. Given the most recent liquidity forecast and the ending date of the lock-up and standstill period, there is very limited room for further delays. Management is confident that, when there is no ruling per mid-February, the majority of lenders, the Dutch State and the prospective IQIP buyer will extend the lock-up and standstill period and sale and purchase agreement, and arrangements will be made for additional liquidity.
- Individual lenders could ask the court to end the moratorium, allowing them to take enforcement action.
- The outcome of the WHOA procedure can be unfavourable for the company, as the court may reject the request to sanction the scheme on certain (limited) grounds.

Management, supported by external legal counsel, expects a favourable outcome for the company of the WHOA procedure, resulting in implementation of the term sheet.

Medium term risks with regard to continuity

After having mitigated the short term risks, the company continues to face other medium term significant risks and uncertainties – elaborated in the unabridged financial statements – that need to be mitigated in order to achieve its goals. The ability of Royal IHC to continue as a going concern depends on the successful completion of the restructuring mentioned above of the group's finances and its ability to mitigate the risks and uncertainties described. These significant short term and medium term risks and uncertainties indicate the existence of a material uncertainty, which may cast significant doubt about the group's ability to continue as a going concern. Management is confident that the going concern assumption is appropriate, and therefore the financial statements have been prepared on this basis.

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 2021.

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.

Judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates made and the related assumptions are based on management's experience and various other factors that can be considered reasonable under the circumstances. Those estimates and assumptions form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcomes may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The most important estimates and assumptions in the financial statements concern the assessment of revenue recognition over time or at a point in time, measurement of inventories and contract assets and liabilities, assessment on contract modifications and assumptions on the expected result on contract assets and liabilities, impairment test of tangible fixed assets, intangible assets and goodwill, recognition of deferred tax assets, recognition and measurement of provisions and contingencies and measurement of expected credit loss allowance for trade receivables and contract assets.

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 on which control commences until the date on which 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 assets including property, production equipment and vehicles. The Group recognises right-of-use assets and lease liabilities for most of these leases.

Intangible assets and goodwill
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.

Revenue
Construction projects of the Group generate revenue from developing, building and delivering of vessels and equipment. The duration of the construction projects varies from approximately one month to several years. Contracts are agreements under which the Group and the customer have mutually enforceable rights and obligations. A combination of contracts rarely occurs but contract modifications, such as those related to additional work, are common. Additional work included in the recognition of revenue is based on mutually agreed contract modifications. In most cases such modifications or extended services are not distinct and therefore form part of a single performance obligation that is partially completed at the time of the contract modification. Most often the contracts contain only one performance obligation. Performance obligations are the asset to be constructed for the customer. Revenue recognized is based on contract considerations, including fixed prices and variable prices, possible claims, incentives or liquidated damages. If there is a right to variable remuneration, such as incentive agreements, this is taken into account to the extent that it is highly unlikely that it will be reversed at a later date. Payment terms for construction contracts vary from a small advance payment and the rest of the consideration on delivery to equal instalments over the duration of the contract. In the event that the period between payment and the performance provided, or the other way around, is less than one year, the Group does not adjust the contract consideration for finance components. Revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided through the Group's performance or when the Group creates or enhances an asset that the customer controls. In addition revenue is recognized over time when the Group creates or enhances an asset which does not have an alternative use to the group and the group has an enforceable right to payment for performance completed to date. 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. If the Group has recognized revenue but not issued an invoice, then the entitlement to consideration is recognized as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional, this usually occurs when the Group issues an invoice to the customer. Almost all contracts include a standard warranty clause to guarantee that the performance obligations comply with the agreed specifications. Based on historical data, the Group recognized a provision for this warranty.

Revenue from the sale of goods is recognised when the Group transfers control of the goods to the customer. The transaction price includes the initial amount agreed in the contract plus any variations in contract work, variable considerations or an adjustment for the effects of time value of money. The timing of the transfer varies depending on the individual terms of the contract.

Revenue from rendering of services is recognised in profit or loss in proportion to the stage of completion of the transaction at reporting date. The stage of completion is generally assessed on the basis of the basis of the cost incurred of the work performed in relation to the expected total costs of the project. When the outcome 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. Services are billed and paid on a periodic basis.

Revenue from rental contracts is recognised 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.

Changes in presentation

During 2021, the Group modified the presentation of the following items in the statement of financial position:

- As from 2021 the Group presents provisions for onerous contracts with customers in Provisions instead of Contract assets or Contract liabilities.
- As from 2021 the Group presents advance receipts for contracts with customers for which revenue is recognised at a point in time in Contract liabilities instead of Trade and other payables.

Comparative amounts for 2020 are restated for comparison purposes.

3. Research and development expenses

Research & development expenses, net of grants received, amounted to € 14.0 million (2020: € 14.2 million) and are included in external costs and employee expenses.

4. Order book

The order book at year-end 2021 amounted to € 237.0 million (year-end 2020: € 450.5 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 2021 (hereafter 'the abbreviated financial information') is derived from the audited financial statements of IHC Merwede Holding B.V. for 2021.

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 comprises:

1. the consolidated statement of profit or loss for the year ended 31 December 2021;
2. the consolidated statement of financial position as at 31 December 2021;
3. the consolidated statement of cash flows for the year ended 31 December 2021; and
4. the notes to the abbreviated financial 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 17 January 2023.

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 2021 in our report dated 17 January 2023.

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 is dependent on the development of the mentioned significant short and medium term risks and uncertainties that need to be mitigated. These short and medium term risks and uncertainties indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

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, 7 February 2023

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