2022

Financial report

Contents

Supervisory Board

F.A. Verhoeven, Chairman

C. Korevaar

G. van de Rozenberg

J.H. Kamps

Board of management

J.P. Klaver, CEO

D.W. te Bokkel, interim CFO

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		2022 pro forma**	2022*	2021*	2020	2019	2018
New orders	*	402.4	402.4	220.9	533.5	587.7	1,159.4
Revenue	*	354.0	354.0	380.9	737.7	1,069.7	941.7
Order portfolio as at 31 December	*	260.3	260.3	204.9	450.5	689.8	1,184.5
Profit or loss for the period		150.2	-35.1	-63.4	-300.1	-226.8	-79.4
Profit or loss for the period attributable to owners of the Company		150.2	-35.1	-63.3	-300.7	-226.5	-80.6
EBITDA	*	-23.9	-23.9	-37.3	-199.4	-111.5	-40.8
Equity		193.9	15.4	46.4	-92.8	-42.5	187.8
Total assets		558.5	636.3	767.6	924.7	1,049.2	1,044.7
Equity/total assets		35%	2%	6%	-10%	-4%	18%
Equity/capital employed		71%	6%	17%	-40%	-11%	37%
Average number of employees (head count)	*	2,143	2,143	2,542	3,319	3,535	3,314

* For the years 2022 and 2021, these key figures do not include the discontinued operations.
** The 2022 pro forma overview shows the recalculated key figures for 2022 as if the divestment of IQIP was effectuated before 31 December 2022 instead of March 2023. The Profit or loss for the period attributable to owners of the company includes a gain of EUR 181 million on the sale of IQIP.

Report of the supervisory board

Introduction

After some challenging years, Royal IHC can now fully focus on its core activities in the dredging, offshore energy, mining and defence markets. Rising steel and energy prices, and the general disruption to the supply chain made 2022 a challenging year for the commercial maritime industry. Also COVID-19 continued to play a role in business operations in 2022. Due to the uncertainty caused by these circumstances, the customers remained reluctant to make large investments. At the same time, there has been significant interest in Royal IHC's products and, while coping with these circumstances, the work on the AMAZON was completed and the vessel was handed over to McDermott on 31 August 2022. Again a state-of-the-art product delivered to the full satisfaction of the customer, which shows the craftsmanship and dedication of Royal IHC.

To absorb the cash impact of the aforementioned circumstances and to make Royal IHC robust for the future, the Board of Management, overseen by the Supervisory Board, worked to reduce the group's cost base and financially restructure the group.
A restructuring plan was prepared with the support of the majority of the lenders and other stakeholders. A Dutch scheme procedure was initiated to bind all creditors to this restructuring plan. In March 2023, a favourable outcome from this procedure resulted in the implementation of the financial restructuring plan, in which the divestment of IQIP was a central component.
In March 2023, the divestment of IQIP was effectuated and the proceeds were used to repay credit facilities and refinance Royal IHC.
The Group received from HAL Investments B.V. (i) in June 2023, a loan amounting to € 30 million with an ultimate repayment date in 2026 and (ii) in October 2023, a standby facility for an amount up to € 50 million with an ultimate repayment date in 2026. The loan and the standby facility are subordinated to the secured creditors.
The Supervisory Board is confident that this restructuring puts Royal IHC in a stronger financial position.

After the financial restructuring was completed, we noticed a growth in interest in Royal IHC products and trust in Royal IHC's future. This is also evidenced by the contract signed with Boskalis in October 2023 for the construction of a 31,000m^3 trailing suction hopper dredger.

Supervision

The Supervisory Board met 27 times during 2022, of which 9 were formal meetings and 18 additional calls. The Audit Committee convened two times in 2022 and one of these meetings was also attended by the statutory auditor.
The Technical and Investment Committee convened three times and the Remuneration Committee convened one time in 2022. 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 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): financial restructuring, COVID-19; health and safety; the new organisation; financial and operational performance; projects such as the AMAZON, leadership and management; compliance; and the long-term future of the organisation.

The composition of the Supervisory Board did not change in 2022. During 2023 some changes in composition have taken place. On 5 January 2023, Mr Van de Rozenberg joined the Supervisory Board. On 14 March 2023, Mr Snel and Mr Wentink left the Supervisory Board and on 25 April 2023 Mr Kamps joined. There is one vacancy we plan to fill in the course of 2023.

Financial statements

The Supervisory Board hereby presents the Annual Report 2022. 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 and approved by the Supervisory Board on 31 October 2023.

The auditor issued an unqualified independent auditor's report on the 2022 financial statements with an emphasis of matter paragraph in relation to the material uncertainty related to going concern. The result of IHC Group for 2022 is minus € 35.1 million. Excluding IQIP, the EBITDA increased from € 37.3 million negative in 2021 to € 23.9 million negative 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

The Supervisory Board appointed Mr Klaver as Director and CEO of Royal IHC with effect from 1 January 2022, replacing Mr Eggink. 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 and was not replaced. On 12 September 2022 Mr De Roover was appointed Chief Restructuring Officer (CRO) to guide the financial restructuring process.

In March 2023, Mr Te Bokkel was engaged to assist the Board of Management with the development of a future-proof business model, which was part of the financial restructuring plan agreed with the stakeholders. After the financial restructuring in March 2023, CFO Mr Van der Harten and CRO Mr De Roover resigned. We are looking for a new CFO for Royal IHC. Until then, we have appointed Mr Te Bokkel as CFO ad interim.

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. After a challenging period, 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.

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, 31 October 2023

F.A. Verhoeven, Chairman

C. Korevaar

G. van de Rozenberg

J.H. Kamps

Report of the board of management

Royal IHC is and remains a major player in the Dutch maritime manufacturing industry.
Like most companies in this sector, Royal IHC has recently had to deal with the effects of the international COVID-19 crisis and geopolitical developments. Both have had a major impact on the markets for our products and have also led to high volatility in the raw materials market and suppliers.

Nevertheless, the market for smaller projects (flow business) picked up well in 2022 and our business in the Dredging, Mining and Offshore Energy markets is showing growth and projects are profitable. The market for larger new-build projects still shows insufficient movement, resulting in a challenge to keep capacity covered.

On Wednesday the 31st of August 2022, Royal IHC handed over the J-lay vessel AMAZON to McDermott International. After an intensive and successful sea trial programme, the conversion project officially came to an end. Completing the AMAZON conversion has been challenging at times. However, we remain incredibly proud of it and the teams on both sides whose collaboration made this possible. This project compelled us to design a one of a kind system, with specifications that can redefine the pipelaying industry and the world’s understanding of what is possible in ultra-deepwater construction. Redelivering the AMAZON is the outcome of dedication, knowledge and passion of all those involved.

In 2022, Royal IHC has implemented a major restructuring worldwide and structurally reduced costs. In addition, a process was started to improve the financing structure. An agreement was reached with the majority of the financial stakeholders by the end of 2022 and after the favourable outcome for the company of the Dutch scheme procedure (also known as the WHOA “Wet Homologatie Onderhands Akkoord”) on 9 March 2023, the new finance structure was implemented.

Part of the plan was the sale of 100% subsidiary IQIP, which was completed on 14 March 2023. This allowed Royal IHC’s financial balance sheet to be strengthened and existing debts to be repaid. Further, the parties agreed on a strategic review to assess and work on a future-proof business model. Based on this model, further adjustments to the organisation are planned for 2023 and 2024, which, following advice from the Works Council, are expected to be implemented in the course of 2023.

The financial results for 2022 show an EBITDA excluding IQIP of € 23.9 million negative (2021: € 37.3 million negative) and a net loss of € 35.1 million (2021: € 63.4 million loss), which is a continued improvement compared to previous years. The reorganisation, increased flow business and completion of complex and loss-making legacy projects contributed positively. Furthermore, the COVID-19 government support helped us to retain our employees at a time of significant decline in order intake and revenues as a result of the pandemic.

Looking ahead

The effects of COVID-19 will be felt for some time. Large orders will be placed again as soon as clients regain the confidence to invest in renewal of their asset base with contracts for infrastructure projects in hand. The current growth in customised dredging vessels is mainly due to the supply of equipment, engineering and construction supervision packages. The rising steel prices – due to the war in Ukraine – mean that the market for new-build dredgers was at a standstill in the past year. For the offshore energy market, a clear transition from traditional oil and gas to renewables is underway. The latter is still in full development, which will mean some upcoming opportunities and possibilities.

The market for smaller projects showed growth in the order book at the end of 2021 and 2022. This is mainly due to the Beaver© segment in both the dredging and mining sectors, the after-sales business in dredging and mission equipment for the offshore energy sector.

Boskalis’ order for the construction of the 31,000 m3 TSHD is of strategic importance. It confirms our position as a provider of marine technology. The order book for 2023 shows growth, also for custom-built vessels. The cost level for construction in The Netherlands remains a point of discussion, and clients are increasingly asking about the alternative of building in different parts of the world. This will therefore become part of Royal IHC’s future-proof business model.

Organisation

Royal IHC views shipbuilding as a core competence. To that end, conscious choices were made during the last reorganisation in 2022 to gear the organisation to a €450 million turnover consisting of flow business (projects smaller than 50 million) and 1 to 2 large custom-built ships per year. In early 2023, the target of downscaling the organisation to a size of 1850 FTE worldwide linked to this reorganisation was achieved. In order to work more efficiently and save costs, it was decided, among other things, to centralise the production organisation in the Netherlands in Kinderdijk, mothball production location Krimpen aan den IJssel and move activities of location Sliedrecht Industrieweg to Kinderdijk. The matrix structure was also improved by clarifying roles, making it clear that the Product Market Groups (PMG) are primarily responsible for attracting new orders and delivering products and services for the four core markets.

Market developments and projects

Dredging

In 2022, the dredging market proved resilient, recovering steadily despite the setbacks caused by the war in Ukraine. Nevertheless, the war had far-reaching consequences, leading to unprecedented inflation and significant disruptions in the global supply chain. The long-term outlook for the dredging market remains positive as the market is buoyed by economic growth and increasing maritime trade. Ports are investing in marine infrastructure to accommodate larger ships. The world's population is expected to increase by 2 billion people over the next 30 years, which will further drive urban development and tourism in coastal areas, and more land will need to be reclaimed. In anticipation of rising sea levels and an increase in the frequency of extreme events such as storms, surges, floods and droughts, countries are initiating dredging projects to mitigate the damage caused by climate change.

Data holds immense potential to improve dredging operations, optimise efficiency and deliver sustainable outcomes. As part of our suite of operational and condition monitoring services for dredging vessels and equipment, an operational monitoring dashboard will be offered on all new Beaver® vessels from 2022. Using data generated by CO_2, NO_x and SO_x emission management systems or on-board fuel monitoring systems, it can help customers comply with environmental regulations. Another in-house development project is the autonomous Trailing Suction Hopper Dredger (TSHD), including the Autonomous Dredging Mission Master, which links the various systems on board.

At COP27 (the 27th Conference of the Parties to the UN Framework Convention on Climate Change), the message to the International Maritime Organization (IMO) was clear: it's time to deliver on the decarbonisation of shipping. A revised IMO strategy is adopted in July 2023. Uncertainty over which fuels will be used in the long term to reduce greenhouse gas emissions, fuel availability and emissions regulations are causing many shipping companies to delay fleet investments, although other ship owners are already investing in new green ships in anticipation of new regulations. In 2022, Royal IHC expanded its portfolio of standard cutter suction dredgers (CSDs) with a fully electric version of the standard Beaver®. The Beaver® E is more environmentally friendly and reduces emissions. The environmental footprint of the Beagle® 4 trailing suction hopper dredger was an important criterion for the Dutch contractor Gebr. van der Lee when purchasing its first new-build dredger. The vessel was named Teunis Huibertus.

In response to growing market demand for locally built vessels, Royal IHC signed an agreement for the design and engineering, hardware and support package for the licensed construction of a Beagle® 12 TSHD to be built by Cochin Shipyard for the Dredging Corp. of India (DCI). Another contract was signed with Karnafuly Ship Builders Ltd (KSBL) of Bangladesh for the design, engineering and hardware of four cutter suction dredgers (CSDs). The custom-built mono-pontoon CSDs will be built locally for the Bangladesh Inland Water Transport Authority (BIWTA). In the USA, the R.B. Weeks, a new 6,540m³ TSHD, was launched at Eastern Shipbuilding's Allanton Shipyard in Florida. Royal IHC supplied the design and equipment for this project and Royal IHC supported the construction process. Several Beavers were delivered in 2022, including the "DACINCO 07", a Beaver® 65 DDSP cutter suction dredger, to DACINCO Investment Construction Co. Ltd in Vietnam.

Following the unique cooperation between Boskalis and Royal IHC in the design and engineering phase of two state-of-the-art trailing suction hopper dredgers (TSHD), the two parties signed a Letter of Intent (LOI) in June 2023 for the construction of a 31,000 m3 TSHD. This will be built at the Royal IHC shipyard in Krimpen aan den IJssel in the Netherlands and is expected to be delivered to Boskalis mid 2026.

Offshore Energy

The conflict in Ukraine, which began in February 2022, sent shockwaves around the world. It highlighted the urgent need for investment in energy infrastructure, covering both conventional and sustainable resources, to mitigate the risks to Europe's energy security in the aftermath of the conflict. The offshore oil and gas sector is set for the highest growth in a decade over the next few years, with over $200 billion of new project investment in the pipeline. Rystad Energy's research shows that annual greenfield investment will exceed $100 billion in 2022 and again in 2023. As global demand for fossil fuels remains strong and countries look for carbon-friendly sources of production, offshore is back in the spotlight. Latin America accounts for 24% of all deepwater production projects approved globally in 2023, with Brazil and Guyana leading the way.

Brazilian oil giant Petrobras will deploy a series of 16 FPSOs in Brazilian waters over the next few years, and the company will require flexible pipe laying support vessels (PLSVs) to assist with subsea operations. In 2022, Petrobras welcomed commercial proposals from subsea contractors vying for lucrative new contracts for existing PLSVs to operate in Brazilian waters. In January 2023, Sapura awarded Royal IHC a contract for multiple upgrade packages for the Sapura Ônix & Sapura Jade PLSVs. The scope of the project includes upgrades to parts of the flex lay system and the vessel in general to make work safer and reduce the number of hands on deck. A similar contract was awarded by Sapura in 2022 for upgrade packages of the Sapura Diamante PLSV & Sapura Topazio PLSV. Petrobras will require additional PLSVs to be added to the fleet and a tender process is expected to start in 2023. In 2023, Royal IHC has already signed a LOI with Sapura for possible future cooperation on new PLSVs.

Petrobras' plans to operate many more FPSOs also provide new opportunities for Royal IHC's FPSO equipment. A repeat order for a Tandem Mooring & Offloading System for the Maria Quitéria FPSO was placed by Yinson in 2022. Another Tandem Mooring & Offloading System and Riser Pull-in System was delivered to Malaysian FPSO contractor Yinson for installation on the Anna Nery FPSO, which will be installed offshore Brazil.

In August, Royal IHC handed over the state-of-the-art J-Layer AMAZON to McDermott Int. following an intensive and successful sea trial programme. The vessel began its first deployment in West Africa. This project has required Royal IHC to design a unique system with specifications that may redefine the pipe laying industry and the world's understanding of what is possible in ultra-deepwater construction.

Natural gas has a key role to play in the energy transition. IHC Offshore Energy has proven to be a trusted partner to EConnect and its client New Fortress Energy, with two orders for twin LNG reel systems and Hydraulic Power Unit (HPU) equipment in 2022. EConnect Energy pioneered the world's first jetty-less LNG transfer, addressing the need for a cost effective and environmentally friendly solution in the LNG value chain. Further orders for the LNG reel systems are expected in the coming years.

While hydrocarbons are likely to remain part of the energy mix for some time, offshore wind will be a major contributor to the world's push towards net zero. Investment growth in renewable energy projects continues in 2023. There has been significant growth in offshore wind, with more than 45 GW of capacity coming online globally in 2022. With many countries ramping up efforts to meet self-imposed 2030 installation targets, 2023 is expected to be another big year for the sector, with 55 GW of offshore wind capacity expected to be opened for auction. In addition to Europe and the US, Japan has actively accelerated centralised tenders to drive offshore wind growth. Boskalis awarded a contract to Royal IHC for the supply of an advanced modular cable laying spreader to be used for the installation of inter-array power cables and its cable protection system in offshore wind farms.

The global subsea fibre optic market is expected to grow between 2022 and 2023-2030, driven by the increasing demand for high speed internet connectivity and the growing trend of digitisation driven by internet giants. Royal IHC was awarded a significant contract to provide a fibre optic cable splice to an Indonesian contractor. In addition, Global Marine awarded Royal IHC a 4-year rental contract for cable laying equipment. In late 2022, a follow-up order was received from LDA on behalf of Alcatel Submarine Networks Marine, consisting of a towing winch, electrical installation and various spare parts to be used on a newly converted cable lay vessel.

Mining

The global mining market grew again in 2022 to over $2000 billion, although the Russia-Ukraine war disrupted the chances of a global economic recovery from the Covid-19 pandemic. Geo-economic developments continue to constrain the availability of scarce resources such as battery minerals for the energy transition and other key minerals, such as sand and copper, needed to meet the growing demand of a developing world. Although commodity prices are constantly changing, a general trend towards increasing price levels can be expected in the coming years. This is certainly related to the demands of energy transition, climate change and sustainability issues.

A growing social awareness of scarce resources is leading to the development of resource strategies by governments, the EU and international organisations such as the UN, World Bank and IFC. Environmental impact, health and safety issues and sustainability remain key focus areas in the mining market, with ESG (environmental, social and governance) issues high on the agenda. Financial instruments are increasingly linked to ESG.

Growing raw material trends and important societal demands certainly have a positive impact on our own market position. In general, we are seeing growing interest in our portfolio of projects and contracts, and we ended 2022 with a healthy order book and a large portfolio of viable projects for 2023 and beyond. In addition to activities in our core business such as heavy minerals and precious minerals such as gold and diamonds, we are seeing growing interest in tailings processing, salt, silica sand and deep-sea mining due to interest in battery minerals. Projects are mainly for dredge mining equipment, although mineral processing equipment including recycling, evaluation studies and long-term maintenance contracts are also important.

In terms of deliveries in 2022, we completed our EU-funded deep-sea mining development project, Blue Harvesting, with a successful trial in the Mediterranean. We also completed an initiation study for a deep-sea mining crawler for CRC (Cobalt Rich Crust). Based on the results, we were awarded a contract to proceed with the conceptual design of this unit. In addition, much of the flow business, consisting of spare parts orders and other service-related activities, mineral processing and other types of equipment were delivered.

We have a number of ongoing projects for Vale in Brazil. A test tailings slurrification unit is being positioned at one of their closed tailings ponds, commissioning and start-up has commenced with ongoing testing in 2023. We are also commissioning and starting up 4 delivered cutter suction dredges at Vale's operation in northern Brazil. This equipment will recycle tailings for iron ore feed to a processing plant. For the ACDC diamond project in Canada, the support platform was completed and is awaiting transport during 2023. Work on the crawler installation has commenced and will be completed later in 2023.

A long-term maintenance contract for APC's potash mining operations in Jordan allows our customer to operate its dredgers with high uptime. At the end of 2022, we received an order from De Beers Marine for two large submersible pump installations to be installed on their newly built diamond mining crawlers. We also received an order from Vale for a new Beaver 45, which will be used to remove river-based material deposited after the Brumadinho dam collapse.

Defence

The war in Ukraine has prompted European nations to increase their defence spending. Following humanitarian, economic, and military aid responses, several EU governments, led by Germany, have vowed to massively increase defence spending.

In June 2022, the Dutch Minister of Defence announced in the defence memorandum: "A stronger Netherlands, a safer Europe", that the cabinet will increase the defence budget by a total of €14.8 billion between 2022 and 2025. From 2026, the budget will grow structurally by €5 billion. It is the biggest investment since the Cold War. According to the Ministry of Defence (MoD) the threats in the world and the war in Ukraine show that peace and security cannot be taken for granted.

On 17 November, Royal IHC's partner Naval Group received the tender for the replacement of the Dutch submarine capability. The Ministry of Defence asked 3 candidate shipyards to submit a tender for 4 new submarines. In addition to Naval Group, the candidate shipyards are Saab Kockums with Damen and ThyssenKrupp Marine Systems. The shipyards are expected to submit their offers around summer 2023. The analysis of the detailed offers will take several months. The MoD will decide by the end of January 2024 which shipyard will be allowed to build the submarines, based on pre-defined requirements and award criteria.

As part of the maintenance of the RDN fleet, Royal IHC successfully overhauled both propeller shafts of the HNLMS Groningen in 2022.
In addition to this technical work, the Karel Doorman was also overhauled. As part of a contract, Royal IHC continued to support the Dutch Defence Material Organisation (DMO) with the secondment of 20 technical staff to the customer's Maritime Systems Division (AMS).
The UK shipyard Cammell Laird placed an order for steel packages to be delivered through our Metalix capacity centre. Cammell Laird is converting an offshore support vessel for the UK Ministry of Defence.

Following the sabotage of the Nord Stream gas pipeline, the protection of data and power cables, as well as oil and gas production and transport infrastructure, is high on the government's agenda. British and US military intelligence officials have repeatedly warned that relatively little is being done to ensure the security of internet cables and that the Russian navy is constantly conducting activities near them. Royal IHC designs, manufactures and supplies a range of solutions to protect undersea infrastructure and can provide high quality, reliable equipment for inspection, detection, repair and mitigation.

Group developments

Changes in Supervisory Board

The composition of the Supervisory Board did not change in 2022. On 5 January 2023, Mr Van de Rozenberg joined the Supervisory Board.
On 14 March 2023, Mr Snel and Mr Wentink left the Supervisory Board and on 25 April 2023 Mr Kamps joined. There is one vacancy, which is planned to be filled in 2023.

Organisational adjustments

From 1 January 2022, Jan-Pieter Klaver started as CEO of Royal IHC. After the completion of the AMAZON, 31 August 2022, it was decided to move back to a smaller Board of Management and Kees van der Snel (COO) left the company. After the completion of the refinancing in March 2023, Paul van de Harten has also decided to leave Royal IHC. Derk te Bokkel is appointed interim CFO. Derk te Bokkel was also engaged to develop a future-proof business model.

Mothball Krimpen aan den IJssel facilities

As part of the cost reduction plan associated with the 2022 reorganisation, it was decided to mothball the Krimpen production site. By the end of 2022, the site was effectively closed. This means there will be 1 central production organisation in Kinderdijk Netherlands where all functions will be integrated. For the construction of the 31,000 m3 TSHD for Boskalis the yard Krimpen will be reopened as a project location under responsibility of the project organisation.

Sale of IQIP

IQIP is the global market leader in pile installation, structure lifting and handling equipment in the offshore market. 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 August 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. The sale of IQIP to HAL Investments was executed in March 2023.
For Royal IHC, this was an important step in the financial restructuring of the company. It allowed Royal IHC to strengthen its balance sheet and the existing credit and guarantee lines with the existing bank consortium to be repaid largely in advance. IQIP is presented as held for sale and discontinued operations in the financial statements 2022.

Sale of GranIHC

The focus on our core business also resulted in the divestment of our shares held in Brazilian joint venture GranIHC in May 2023.

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

Customer intimacy and operational excellence, care for safety, health and quality are of vital importance. The key to achieve those results is to improve the company's safety culture and way of working.

In 2022, Royal IHC was able to continue the engagement in its I-CARE (I Create A Right Environment) programme. This aims to improve the safety culture, 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 improved operational excellence.

Even though the implementation of I-CARE has had some setbacks due to COVID-19 restrictions, the activities were carried out as possible.

The number of lost time injuries (LTIs) dropped slightly: 15 in 2022 compared to 17 in 2021. This means that 15 people were seriously injured due to their work for Royal IHC. So, there is still much work to do to reduce LTIs to zero, which is our goal. The management agreed to take the lead and ownership of safety in their own departments, and actions are planned for 2023 to continue improving the safety culture. Further, an updated Personal Protection Equipment (PPE) policy was approved and implemented by May 1st 2023. This update created clarity for the PPE requirements at various locations and tasks, improving the safety of the workers.

With regard to the environment, there have been fewer incidents: 10 in 2022 compared to 13 in 2021. As compliance has improved at the yards and projects, the relationship with environmental authorities has also improved.

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 2022 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)	28,100	3 June 2025	Bullet	Committed
Revolving general facility	175,000	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	**438,100**			

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. 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 was extended to 3 June 2025 as part of the financial restructuring.

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.

In addition to the aforementioned credit facilities, the following credit facilities are in place on 31 December 2022:

(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 € 0.5 million as of 31 December 2022 (€ 2.1 million as of 31 December 2021);

(ii) € 1.8 million revolving credit facility which was fully drawn at 31 December 2022;

(iii) 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 at 31 December 2022, the outstanding loan amounted to € 43.9 million (€ 45.1 million as of 31 December 2021);

(iv) An amount of € 16.5 million is outstanding as of 31 December 2022 (€ 11.0 million as of 31 December 2021) under a lease facility of IQIP, 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;

(v) A € 10.0 million revolving credit facility was fully drawn on 31 December 2022 and 31 December 2021.

Facilities (iv) and (v) are IQIP facilities and part of the disposal group. In the financial restructuring in 2023, part of the facilities was repaid and cancelled, other parts have been amended and new facilities have been agreed, along with a number of other amendments including additional security.

Based on the amendments, the facilities as from 9 March 2023 are as follows:

In thousands of euros	Amount	Maturity date	Amortisation	Type
Bank guarantee facilities (senior debt)	450,000	3 June 2025	Not applicable	Committed
Bank guarantee facilities	**450,000**			
Construction loan (senior debt)	28,100	3 June 2025	Bullet	Committed
Incremental projects facility	25,000	3 June 2025	Bullet	Committed
Loan facilities	**53,100**			

The Group received from HAL Investments B.V. (i) in June 2023, a loan amounting to € 30 million with an ultimate repayment date in 2026 and (ii) in October 2023, a standby facility for an amount up to € 50 million with an ultimate repayment date in 2026. The loan and the standby facility are subordinated to the secured creditors.

Financial

Revenue and result development

In 2022, revenue decreased by 7% to € 354.0 million (2021: € 380.9 million). The external costs decreased by 36% to € 201.2 million (2021: € 316.8 million). These expenses amounted to 57% of revenue, which is a decrease of 26% compared with 2021 (83%). Employee expenses increased € 54 million compared with last year, partly as a result of government grants received under the NOW scheme. Employee expenses as a percentage of revenue increased from 27% to 45%. The average salary cost per employee amounted to € 78,000 – an increase of 5% compared to 2021. Depreciation and impairment of property, plant and equipment increased from € 16.5 million in 2021 to € 17.0 million in 2022. Amortisation and impairment of intangible assets decreased from € 12.7 million in 2021 to € 7.3 million in 2022. 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 negative € 23.9 million (negative € 37.3 million in 2021).

Order book

The order book as of 31 December 2022 amounted to € 260 million, which is 27% higher than the order book on 31 December 2021 (€ 205 million). Order intake in 2022 amounted to € 402 million (2021: € 221 million).

Working capital

Working capital amounted to minus € 59 million as of 31 December 2022 (minus € 77 million on 31 December 2021). 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 2022 were as follows:

In millions of euros	
Docks, slipways, dry docks, business premises, floating equipment	0.5
Plant and machinery	1.2
Rental equipment	4.4
Other assets	0.7
Assets under construction	30.6
	37.4

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. The total amount of investments in 2022 of the IQIP group of companies amounts to € 33.6 million.

Balance sheet ratios

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

In millions of euros	31 Dec 2022	31 Dec 2021	Difference
Non-current assets	184.5	294.6	-110.1
Working capital	-58.6	-79.4	20.8
Disposal group and assets held for sale	91.5	2.6	88.9
Cash and cash equivalents	28.6	56.5	-27.9
Net assets	**246.0**	**274.3**	**-28.3**
Non-current liabilities	230.6	227.9	2.7
Equity	15.4	46.4	-31.0
Financing	**246.0**	**274.3**	**-28.3**
Current ratio (current assets / liabilities)	1.16	0.96	
Solvency (total equity / assets)	2%	6%	

Equity decreased by € 31.0 million. This decrease consists of the loss for the 2022 financial year (minus € 35.1 million), an increase in the hedging reserves (€ 2.0 million) and a revaluation of land (€ 2.1 million).

In March 2023 IQIP was divested.
The consideration received net of cash disposed amounts to € 220 million and the result on divestment amounts to € 181 million.
The consideration received was partially used to repay € 155 million of the financing facilities outstanding as at 31 December 2022.
The employees working for IQIP, 317 in total (full time equivalents) remained in service of IQIP.
As a result of the divestment of IQIP, the balance sheet was significantly strengthened.
The balance sheet as at 31 December 2022 would have shown as follows if the divestment would have been effectuated before year-end 2022:

In millions of euros	31 Dec 2022	31 Dec 2021	Difference
Non-current assets	184.5	294.6	-110.1
Working capital	-58.2	-79.4	21.2
Disposal group and assets held for sale	52.5	2.6	49.9
Cash and cash equivalents	92.8	56.5	36.3
Net assets	**271.6**	**274.3**	**-2.7**
Non-current liabilities	77.7	227.9	-150.2
Equity	193.9	46.4	147.5
Financing	**271.6**	**274.3**	**-2.7**
Current ratio (current assets / liabilities)	1.30	0.96	
Solvency (total equity / assets)	35%	6%	

Research and development

Innovation is crucial and therefore focused on output that can be sold in the market. Royal IHC annually spends approximately 5% of its revenue on innovation and has a specialist in-house R&D institute.

Risk management

Royal IHC's risk profile is influenced by strong market dynamics and fierce competition, resulting in pressure on prices and margins. It seeks to manage this through close cooperation with 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, whistle-blower 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 market conditions, 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 to mitigate utilisation risk following the current non-linear order intake is to develop a more installed base-driven portfolio, with equipment, services, consultancy and engineering orders, as well as flexible financing arrangements for customers.

Human resources

Our people are our key to innovation. The tight labour market with trends like the "big resignation", "quiet quitting" and the "great reshuffle" where the work-life balance falls in favour of the employees, are risks for every company. Risks and opportunities are always close together. We refer to paragraph Human resources for the mitigating actions and opportunities we created to be able to deal and benefit from the developments in the market.

Safety, health and environment risks

The operation at 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, operational and financial risks cannot be completely eliminated. 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, including national and international sanctions and export control laws and regulations. Royal IHC does not perform any activities that are subject to sanctions and does not deal with sanctioned persons. Royal IHC follows the laws concerning export control for military and dual-use goods and services. The guiding principles regarding sanctions and export controls are included in our Code of Conduct and our Sanctions & Export Control Policy.

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 mitigate these risks, the group has an 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 counsellor 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 order book, 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)

Over the course of 2022, the number of employees excluding IQIP has decreased by about 400, mainly due to the implementation of a restructuring plan following the completion of several large projects.

We strive for a diverse and inclusive leadership. This shows in the proportion of employees who report directly to Board of Management, where women account for 33 per cent. The Supervisory Board and Board of Management is currently still exclusively male. We consider diversity of culture, experience and opinion to be important to be successful and we believe this will bring an appropriate balance of skills, expertise and experience. Our aim is that at least 20 per cent of the top two levels combined shall consist of women by the end of 2026.

The products of Royal IHC are, as endorsed by our Culture Survey ©2021, a connecting factor for our people. Especially in 2022 it was extremely important to know what binds our people to our company. Difficult financial times and a tight labour market, make retaining talent a number one priority. Our statistics show that we have an exceptionally loyal workforce, unlike the trend in the Netherlands where 1 in 5 employees changed employers in 2022.

Although the company faced underutilisation in 2022, there were several initiatives to preserve craftsmanship. The capabilities of our production and engineering departments are highly valued in the market. The model to cope with shortage of work was to create an eco-system where other companies could benefit from the skills of our staff. Lending our employees to other key players in the maritime industry created a 'boomerang career experience'. The employee leaves the organization only to return some time later with a more enriched experience and deeper knowledge.

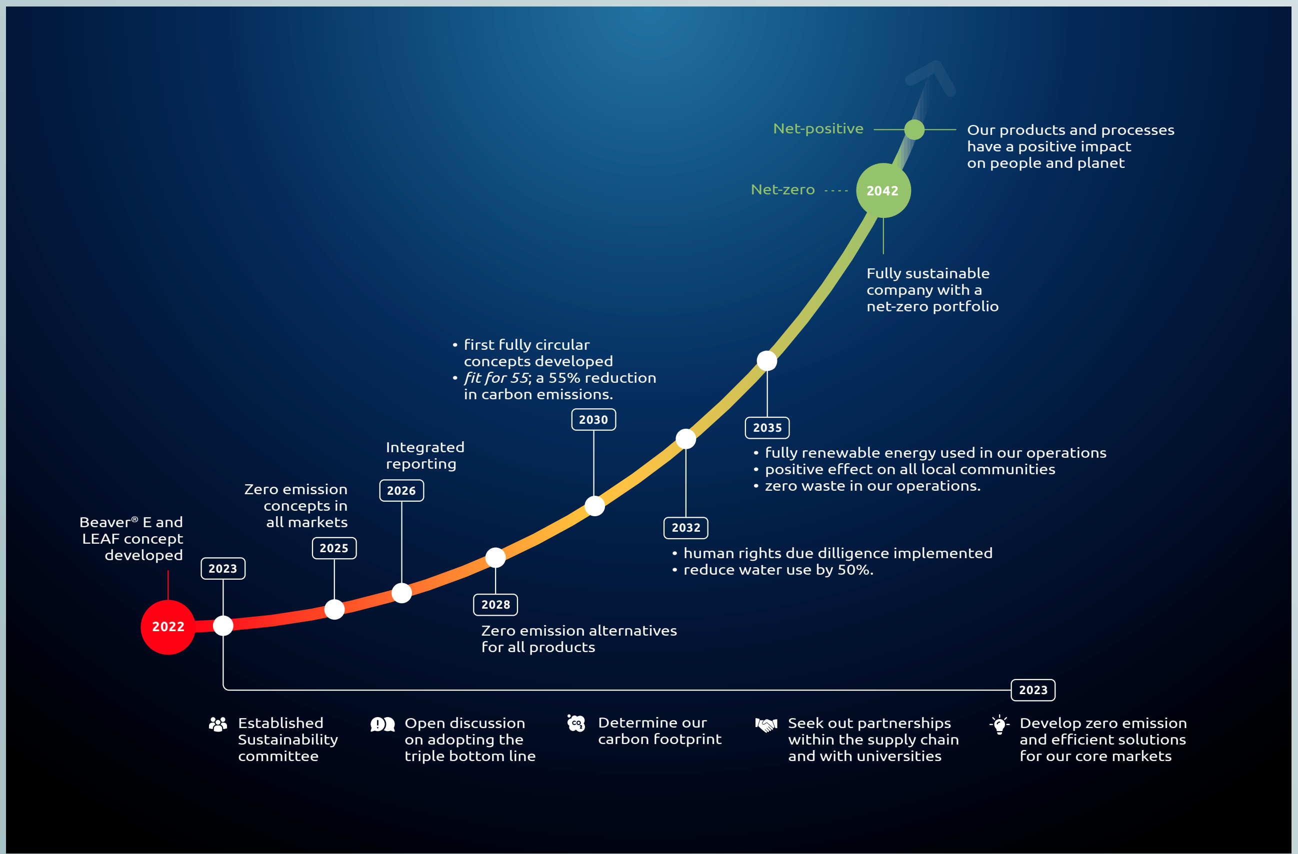
Internal mobility has always been high on the HR agenda. The tight labour market has forced us to make even better use of the talent we already have. With an increase in internal mobility via promotions and internal role transfers, almost every job opening was filled with internal candidates. This also means that the recruitment efforts mainly focus on campus recruitment and getting in interns and working students.

Our talent and performance cycle helps to identify talent. To be able to be successful with internal mobility, a good talent program is essential. A pool of leaders for the future successfully finished the Your Executive Programme at Vlerick Business School in November of 2022. Simultaneously the Senior Leadership Team also had a customised programme on strategy, leading change and 360 feedback.

As part of our Mental Health Matters initiative, leaders in the company got the chance to learn from the experts of Our Minds Work.
Mental Health is a topic that deserves ongoing attention. The continuum model helps to start conversations. Talking about mental health also addresses topics like stress vs. good pressure, quiet quitting and a healthy work-life balance.

Sustainability

Royal IHC has an active sustainability policy, and acknowledges that many social, governance and environmental topics remain of high importance, especially in light of recent developments on climate and governance legislation regarding the maritime industry. 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, hydrogen and methanol) to help reduce customers' carbon footprints, and conform to stricter emissions regulations. Further, first steps are being taken into an improved circularity by offering retrofit packages and by collecting worn out wear parts and recycling them in a dedicated manner at our Allard foundry.



The Royal IHC Sustainability Roadmap

In 2021, sustainability was recognised as an important element in Royal IHC's new vision, mission and strategy. A Sustainability purpose was defined. As we will celebrate our 400-year existence in 2042, we have set ourselves a goal: in 2042 Royal IHC is a fully sustainable company with a net zero portfolio.

In 2022 the steps towards our Sustainability purpose were defined, based on the analysis of megatrends, our materiality matrix and sector developments. This resulted in a corporate Sustainability roadmap, where we focus in four main themes:

1. sustainable energy and reduced water use
2. reducing emissions of our product portfolio
3. improving circularity
4. sustainable working conditions and care for local communities.

The domains where Royal IHC will make its steps on Sustainability are:

- Products and services: everything that we design, produce, sell and help to maintain over its entire life cycle. For example, developing efficient, zero-emission and circular vessels, equipment and services. Furthermore, our efforts to reduce, reuse, recycle, and explore new sustainable business models. We also support our customers (and their customers) with sustainable products and services to enable them to achieve their sustainability goals.
- Operations: everything related to how we conduct our business and work together, as well as our offices and how we manufacture our products. From using sustainable energy to our efforts to reduce waste, improve production processes, business objectives and incentives. Also to reduce the carbon footprint of our employees and positively impact the communities we are active in. We want to be a company that people are proud to work for, not just because of the products we make, but also because of our culture and how we do business.
- Supply chain: everything related to our supply chain, suppliers and purchases. The type of equipment and kinds of materials we use, where they come from and the sourcing of semi-finished products. Also, all aspects of sustainability that are important for our customers, and how we support them in pursuit of their sustainable activities. We aim to identify and apply more environmentally friendly and socially sustainable alternatives, and involve our suppliers to jointly move forward.

A net-zero portfolio is not something we can do alone. It requires cooperation through the entire value chain, from our customers' customers to our supplier's suppliers. We believe that we can only achieve our sustainability goals by collaborating within the entire ecosystem.
This means that we actively seek out partnerships that will move us closer to our goal of becoming a fully sustainable company. We will actively approach our customers to assist them in the pursuit of their sustainability goals.

Net-zero is not the end of our Sustainability journey. We aim to become a net-positive company beyond 2042. We are, together with suppliers, customers, governments, NGO's and all other stakeholders, currently discussing on how to achieve this. It will lead to the creation of net-positive concepts that we implement when possible. Now we are already creating triple win scenarios, where our business has a positive effect on people, planet and profit alike and contribute to our goal of becoming a net-zero company. As we move closer to 2042 these will be expanded and will gradually transform Royal IHC into a net-positive company.

Examples of development activities started or continued in 2022 include:

- Development of zero-emission vessels concepts and applicability of alternative fuels
- Presenting alternatives to customers and providing solutions for consequences in vessel design, operation and total cost of ownership
- Advanced drive concepts further developed (including alternative prime movers such as methanol engines, energy storage devices for peak shaving and waste heat recovery, electric charging offshore) these contribute for an efficient and low emission power supply of all types of work vessels
- Investigating the application of game-changing materials in cooperation with universities and foundries to produce better wear-resistant materials for all applications
- 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 selection of topics 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, implemented and the progress is monitored and highlighted in Royal IHC's annual Sustainability Report.

Outlook

The Group's results and liquidity were seriously affected by COVID-19, an unfavourable commodity market and operating losses on the SPARTACUS and AMAZON projects in the past. Royal IHC took measures to improve the liquidity position and amended the financing arrangements with its lenders. Furthermore, the Board of Management considers the recently signed contract for the construction of a 31,000m^3 trailing suction hopper dredger for Boskalis as an important indication of increasing interest in Royal IHC products and trust in Royal IHC's future. Based on the order book and in expectation of successfully concluding final contractual discussions on a number of larger opportunities, Royal IHC foresees an uplift of order intake and further improvement of results in 2023 and 2024. The most recent cash forecast, based on the assumptions of the Board of Management, shows no cash shortage for the upcoming period, including compliance with the minimum cash bank covenant. The group however continues to face significant risks and uncertainties that need to be mitigated in order to achieve this forecast:

- 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 the flow business to achieve this, while still designing, engineering, and producing large integrated vessels and equipment for large integrated vessels. The operational and financial prospects depend on the materialization of a significant amount of currently unsecured orders.

- 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 and volatility in energy and commodities markets. These developments give rise to significant levels of uncertainty. New investments from the group's major (dredging) customers can be negatively impacted by those developments, also affecting the group's future order intake from other customers. The Board of Management addresses this situation by keeping in contact with 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.

- Operational and financial risks that have materialised have led to significant negative results in past years, including 2022. 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 in place to balance risks, and margins are better balanced when accepting projects. This and operational excellence should reduce future project risks. 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.

- As mentioned before, the most recent liquidity forecast, based on the assumptions of the Board of Management, shows that the group has sufficient liquidity to run its operations and to comply with the minimum cash bank covenant. In the business of Royal IHC, however, it is 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.

The ability of Royal IHC to continue as a going concern depends on its ability to mitigate the risks and uncertainties described above.
These 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. Based on the above and the recently obtained financing, the Board of Management is confident that the going concern assumption is appropriate, and therefore the financial statements have been prepared on this basis.

Kinderdijk, 31 October 2023

Board of Management:
J.P. Klaver, CEO
D.W. te Bokkel, interim CFO

Abbreviated financial information 2022

Consolidated statement of profit or loss for the year ended 31 December 2022

In thousands of euros	2022		2021	
Revenue	354,004		380,898	
Other income	-		3,228	
Operating income		**354,004**		**384,126**
External costs	201,205		316,774	
Employee expenses	157,703		103,828	
Depreciation and impairment of property, plant and equipment, right-of-use assets and Investment property	16,985		16,467	
Amortisation and impairment of intangible assets	7,293		12,707	
Impairment on trade receivables and contract assets	347		-	
Other expenses	18,605		813	
Operating expenses		**402,138**		**450,589**
Result from operating activities		**-48,134**		**-66,463**
Finance income	1,567		3,655	
Finance expenses	-8,859		-14,892	
Net finance expense		**-7,292**		**-11,237**
Share of result of equity-accounted investees, net of tax		2,439		2,024
Profit / (loss) before income tax		**-52,987**		**-75,676**
Income tax (expense) / income		1,624		-21,037
Profit / (loss) for the period from continuing operations		**-51,363**		**-96,713**
Profit / (loss) for the period from discontinuing operations		16,251		33,316
Profit / (loss) for the period		**-35,112**		**-63,397**
Profit / (loss) attributable to:				
Owners of the Company		-35,100		-63,324
Non-controlling interests		-12		-73
		-35,112		**-63,397**

Consolidated statement of financial position as at 31 December 2022
(before appropriation of result)

In thousands of euros	31 December 2022		31 December 2021	
Assets				
Property, plant and equipment	164,311		251,566	
Investment property	272		2,059	
Intangible assets and goodwill	14,497		23,070	
Investments in equity-accounted investees	291		13,864	
Deferred tax assets	1,308		2,340	
Other non-current financial assets	3,776		1,771	
Non-current assets		**184,455**		**294,671**
Contract assets	27,503		88,918	
Inventories	124,669		172,483	
Current tax assets	811		930	
Trade and other receivables	75,736		151,603	
Cash and cash equivalents	28,578		56,459	
Disposal groups and assets held for sale	194,510		2,545	
Current assets		**451,807**		**472,938**
Total assets		**636,262**		**767,609**
Equity				
Share capital	460,604		460,604	
Share premium	72,307		72,307	
Reserves	-419,103		-423,138	
Unappropriated result	-98,424		-63,324	
Equity attributable to owners of the Company		**15,384**		**46,448**
Non-controlling interests		-27		-10
Total equity		**15,357**		**46,438**
Liabilities				
Loans and borrowings	195,011		177,051	
Derivatives	-		259	
Provisions	28,289		31,877	
Deferred tax liabilities	113		194	
Other liabilities	7,145		18,483	
Non-current liabilities		**230,558**		**227,864**
Contract liabilities	64,863		75,398	
Current portion of loans and borrowings	38,089		174,144	
Current tax liabilities	150		1,340	
Trade and other payables	160,250		188,039	
Liabilities directly related to disposal group held for sale	102,984		-	
Provisions	24,011		54,386	
Current liabilities		**390,347**		**493,307**
Total liabilities		**620,905**		**721,171**
Total equity and liabilities		**636,262**		**767,609**

Consolidated statement of cash flows for the year ended 31 december 2022

In thousands of euros	2022	2021
Profit / loss for the period	-35,112	-63,397
Adjustments for:		
Depreciation, amortisation and impairment expenses	29,576	38,554
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	-1,792	-1,784
Share of result of equity accounted investees	-2,439	-2,024
Impairment of non-current financial assets	-	2,591
Net interest expense	7,292	10,894
Income tax expense	-1,624	32,052
Changes in provisions	-32,345	-11,454
	-36,444	**5,634**
Interest (paid) / received	-5,980	-8,575
Income tax (paid) / received	554	-666
Net cash flow generated in operating activities (excluding changes in working capital)	**-41,870**	**-3,607**
Changes in working capital:		
- Acquisition of rental fleet	-33,566	-18,595
- Inventories	25,142	-26,816
- Contracts assets	61,415	124,326
- Trade and other receivables	32,796	-26,163
- Contract liabilities	33,658	-58,537
- Trade and other payables	2,578	-79,315
Changes in working capital	**122,023**	**-85,100**
Net cash flow used in operating activities	**80,153**	**-88,707**
Acquisitions of intangible assets and property, plant and equipment	-8,837	-3,632
Proceeds from divestments of property, plant and equipment	1,198	4,117
Proceeds from disposals of group companies, net of cash disposed	-	6,314
Issue of loans and receivables	-2,778	-
Dividends received	950	1,526
Proceeds of loans and receivables	773	-
Net cash flow generared from investing activities	**-8,694**	**8,325**
Additions to loans and borrowings	139,382	270,992
Repayment of loans and borrowings	-231,888	-195,427
Payment of lease liabilities	-7,509	-7,406
Net cash flow from financing activities	**-100,015**	**68,159**
Net increase / (decrease) in cash and cash equivalents	**-28,556**	**-12,223**
Cash and cash equivalents as at 1 January	56,459	68,620
Movements in net cash and cash equivalents	-28,556	-12,223
Effect of exchange rate fluctuations on cash held	675	62
Cash and cash equivalents as at 31 December	**28,578**	**56,459**

Notes to the abbreviated financial information

1. General

The abbreviated financial information is derived from the financial statements 2022, 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 2022. For a better understanding of the Group's financial position, IHC 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 31 October 2023 was issued by KPMG Accountants N.V.
The unabridged financial statements 2022 are available from the company or at the Chamber of Commerce in Rotterdam.

Going concern

The Group's results and liquidity were seriously affected by COVID-19, an unfavourable commodity market and operating losses on the SPARTACUS and AMAZON projects in the past. Royal IHC took measures to improve the liquidity position and amended the financing arrangements with its lenders. One of the measures taken is the divestment of IQIP in March 2023. The consideration received net of cash disposed amounts to € 220 million and the result on divestment amounts to € 181 million. The consideration received was partially used to repay € 155 million of the financing facilities outstanding as at 31 December 2022. As a result of the divestment of IQIP, the balance sheet was significantly strengthened.

Furthermore, the Board of Management considers the recently signed contract for the construction of a 31,000m3 trailing suction hopper dredger for Boskalis as an important indication of increasing interest in Royal IHC products and trust in Royal IHC's future. Based on the order book and in expectation of successfully concluding final contractual discussions on a number of larger opportunities, Royal IHC foresees an uplift of order intake and further improvement of results in 2023 and 2024. The most recent cash forecast, based on the assumptions of the Board of Management, shows no cash shortage for the upcoming period, including compliance with the minimum cash bank covenant. The group however continues to face significant risks and uncertainties that need to be mitigated in order to achieve this forecast:

- 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 the flow business to achieve this, while still designing, engineering, and producing large integrated vessels and equipment for large integrated vessels. The operational and financial prospects depend on the materialization of a significant amount of currently unsecured orders.

- 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 and volatility in energy and commodities markets. These developments give rise to significant levels of uncertainty. New investments from the group's major (dredging) customers can be negatively impacted by those developments, also affecting the group's future order intake from other customers. The Board of Management addresses this situation by keeping in contact with 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.

- Operational and financial risks that have materialised have led to significant negative results in past years, including 2022. 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 in place to balance risks, and margins are better balanced when accepting projects. This and operational excellence should reduce future project risks. 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.

- As mentioned before, the most recent liquidity forecast, based on the assumptions of the Board of Management, shows that the group has sufficient liquidity to run its operations and to comply to the minimum cash bank covenant. In the business of Royal IHC, however, it is 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.

The ability of Royal IHC to continue as a going concern depends on its ability to mitigate the risks and uncertainties described above. These 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. Based on the above and the recently obtained financing, the Board of 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 2022.

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.

Use of 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 currency

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.

3. Research and development expenses

Research & development expenses, net of grants received, amounted to € 10 million (2021: € 10 million) and are included in external costs and employee expenses.

4. Order book

The order book at year-end 2022 amounted to € 260 million (year-end 2021: € 205 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 2022 (hereafter 'the abbreviated financial information') is derived from the audited financial statements of IHC Merwede Holding B.V. for 2022.

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 2022;
2. the consolidated statement of financial position as at 31 December 2022;
3. the consolidated statement of cash flows for the year ended 31 December 2022; 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 31 October 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 2022 in our report dated 31 October 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, 25 October 2024 according to CLMS

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