

ANNUAL REPORT 2020



**THE TECHNOLOGY
INNOVATOR.**

04	CORPORATE PROFILE
04	KEY FIGURES 2016-2020
05	REPORT OF THE SUPERVISORY BOARD
08	REPORT OF THE BOARD OF MANAGEMENT
16	ABBREVIATED FINANCIAL INFORMATION 2020
19	NOTES TO THE ABBREVIATED FINANCIAL INFORMATION
22	REPORT OF THE INDEPENDENT AUDITOR

SUPERVISORY BOARD

M. Snel, Chairman
B.C. Wentink
C. Korevaar
F.A. Verhoeven

BOARD OF MANAGEMENT

G.M. Eggink, CEO
A.P.M. van der Harten, CFO
C.W. van der Snel, COO

CORPORATE PROFILE

ROYAL IHC IS DETERMINED TO PLAY A LEADING ROLE IN MAKING THE MARITIME INDUSTRY MORE EFFICIENT AND SUSTAINABLE

Anchored in rich Dutch maritime history, Royal IHC is setting out to expand its position as a leading supplier of maritime technology and expert craftsmanship.

With the right people with the right skill set on board, and driven by innovation, we provide a clear competitive edge to our worldwide customers in the dredging, offshore, mining and defence industries.

More than equipment, vessels and services, we deliver reliable, integrated solutions that further improve operational efficiency and allow for an even more sustainable performance. As we navigate new waters in an ever-changing world, our aim remains finding the smartest and safest way forward for both our customers and our people.

Working together, we are creating 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 2016-2020

AMOUNTS IN MILLIONS OF EUROS, UNLESS STATED OTHERWISE	2020	2019	2018	2017	2016
New orders	533.5	587.7	1,594.4	1,071.7	695.5
Revenue	737.7	1,069.7	941.7	800.2	764.1
Order portfolio as at 31 December	450.5	689.8	1,184.5	1,008.1	745.0
Profit or loss for the period	-300.1	-226.8	-79.4	-21.8	-21.6
Profit or loss for the period attributable to owners of the company	-300.7	-226.5	-80.6	-21.8	-20.8
EBITDA	-199.4	-111.5	-40.8	18.6	15.1
Equity	-92.8	-42.5	187.8	274.5	280.2
Total assets	889.2	1,049.2	1,044.7	911.8	886.1
Equity/total assets	-10%	-4%	18%	30%	32%
Equity/capital employed	-40%	-11%	37%	62%	60%
Average number of employees (head count)	3,319	3,535	3,314	3,010	3,255

REPORT OF THE SUPERVISORY BOARD

INTRODUCTION

2020 was a year of transition for Royal IHC. The refinancing and recapitalisation process finalised on the 3rd of June 2020 brought new investment from an industry consortium comprising HAL investments, Ackermans & van Haaren, MerweOord and Huisman. The process was supported by the IHC Group's existing syndicate of banks, the Dutch ministries of Economic Affairs and Finance, and credit insurer Atradius Dutch State Business. The Supervisory Board is pleased with the agreement that has been reached with the industry consortium and the support that lenders and the Dutch government provided. The Supervisory Board has worked with the Board of Management to achieve this milestone and is confident that the refinancing and recapitalisation will allow Royal IHC to execute its strategy and realise its return to profitability, while maintaining satisfied customers.

To this end, efforts were made to get the organisation in order last year. It is arranged around product market groups (PMGs) in which Royal IHC focuses on four core markets: dredging, offshore energy, mining and defence. Subsequently, the size of the organisation was adjusted to the developments in the market and the expected turnover ambition. In the period surrounding the reorganisation, the Supervisory Board held regular consultations about progress with the Board of Management. The members of the Supervisory Board also participated in the development of a new business and marketing strategy, which will be rolled out in 2021.

Royal IHC continued its delivery of innovative equipment, vessels and services, and focused on actions to regain profitability and project control. Steps were made to further strengthen the management team and the organisation in order to execute orders effectively, but the effect of staff changes and process interventions will take time to materialise. Further setbacks on legacy projects, adverse market conditions and the expenses associated with the refinancing, recapitalisation and reorganisation had a material effect on Royal IHC's results in 2020. Despite this difficult period, Royal IHC maintained its safety, innovation and corporate social responsibility (CSR) efforts to preserve its reputation as the leading provider of innovative integrated solutions in the maritime industries, both in Europe and the rest of the world.

SUPERVISION

The Supervisory Board met 44 times during 2020 (ten meetings and 34 conference calls). The audit committee convened three times in 2020. These meetings were also attended by the statutory auditor. An investment committee for the approval of new large orders has been established. 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.

The composition of the Supervisory Board changed significantly over the course of 2019 and 2020. In September 2019, Mr De Bruin and Mr De Klerq-Zubli departed, with their positions filled by two new members – Mr Wentink and Mr Huijskes. Mr Huijskes was first appointed as vice-chairman and was chairman from April to 31 October 2020, when he stepped down from the Supervisory Board.

In April 2020, after 27 years of participation, Mr Ten Cate stepped down as chairman of the Supervisory Board and Ms De Bruin also left. Following their departure, two new members joined the Supervisory Board – Mr Snel on 3 June 2020 and Mr Verhoeven on 1 July 2020. Mr Snel started as vice-chairman and took the position as chair of the Supervisory Board on 1 October 2020. This brings the total board to four independent members. In 2021, one additional member will be added to the Supervisory Board.

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

Noteworthy topics of attention have been: COVID-19, health and safety; restructuring; reorganisation, financial and operational performance; the implementation of the investment committee; leadership and management; compliance; and the long-term future of the organisation.

FINANCIAL STATEMENTS

The Supervisory Board hereby presents the Annual Report 2020. This incorporates the financial statements for the year as prepared by the Board of Management. The financial statements were audited and discussed with KPMG Accountants N.V. These were approved by the Supervisory Board on 30 April 2021. The auditor issued an unqualified independent auditor's report on the 2020 financial statements. The result attributable to the shareholders of the IHC Group for 2020 is negative € 301 million. EBITDA decreased from a negative € 112 million in 2019 to a negative EBITDA of € 199 million in 2020. The balance sheet totals € 892 million with equity standing at € 93 million negative. € 202 million of loan facilities related to three construction contracts will convert to equity upon the delivery of two vessels. Both vessels are scheduled to leave the IHC yards in the course of 2021.

The Board of Management proposes to pay no dividend over 2020 and deduct the net loss from the reserves. This has been approved by the Supervisory Board.

BOARD OF MANAGEMENT COMPOSITION

In April 2020, the Supervisory Board appointed Mr Eggink as Director and CEO, replacing Mr Vander Heyde. At the same time Mr Van der Harten was appointed as Director and CFO replacing Mr Vergunst who stepped down in February 2020. Mr Antvelink stepped down in June 2020, having completed his interim assignment as CTO. In February 2021, Mr Van der Snel was appointed as Director and COO of Royal IHC.

CONCLUSION

The Supervisory Board is convinced that Royal IHC has a unique knowledge base, that combined with its craftsmanship, forms a solid foundation in the realisation of a sustainable future for its customers, employees and stakeholders. The new management has a clear focus on Royal IHC's core activities and improvement of the operational and financial performance. The goal of returning to profitability with the core business and bringing revenues and risk more in balance will remain a major topic on the agenda of the Supervisory Board.

We thank Royal IHC's customers, suppliers and all other stakeholders for their ongoing trust in Royal IHC, and all employees for their ongoing efforts to serve Royal IHC's customers to the fullest of their capabilities. We trust that Royal IHC will get back on track in terms of its delivery organisation.

Kinderdijk, 30 April 2021

M. Snel, Chairman
B.C. Wentink
C. Korevaar
F.A. Verhoeven

REPORT OF THE BOARD OF MANAGEMENT

REPORT OF THE BOARD OF MANAGEMENT

INTRODUCTION

The first half of 2020 was dominated by the refinancing and recapitalisation of Royal IHC. A strong consortium from the maritime sector and the Royal IHC banking syndicate took an important step to enable Royal IHC to look ahead again and work towards a sustainable future. In order to retain the knowledge and expertise of Royal IHC for the Dutch maritime cluster, HAL Investments, Ackermans & van Haaren, MerweOord and Huisman joined forces by setting up the IHC Continuity Foundation.

The Dutch State is also represented in the Foundation. On 3 June 2020, Stichting Continuïteit IHC acquired the shares in IHC Merwede Holding BV. The recapitalisation was achieved with the support of the existing syndicate of banks of Royal IHC, the Ministries of Economic Affairs and Climate and Finance, and credit insurer Atradius Dutch State Business.

The Board of Management realigned its strategy with its new stakeholders and defined a healthy organisation going forward. The renewed capital position and new and continued facilities, together with the strengthened governance structure, provide a solid basis on which to operate.

The second half of 2020 was all about transition and strengthening our position in the maritime sector. Under the heading: 'The way forward to a sustainable Royal IHC', decisions were made in the past year, improvements were implemented and the organisation put in order. Only a safe and profitable Royal IHC that maintains high quality, great customer satisfaction and a technological lead, has a sustainable future.

In addition to the refinancing, recapitalisation and transition, 2020 was dominated by the COVID-19 pandemic, which had a strong impact on market developments and required full attention to enable safe working on projects all over the world. The pandemic greatly affected the already declining market, leading to further delays in decision-making by our customers and therefore resulting in a lower order intake. This, in combination with the challenges Royal IHC was facing in executing certain projects for highly innovative vessels and equipment, led to a historic loss in 2020. However, by the end of 2020 the first signs were visible that markets were moving favourably.

MARKET DEVELOPMENTS

2020 was all about COVID-19, which also left its mark on the dredging market. Initially, the pandemic caused a drastic fall in global economic growth, resulting in companies postponing investments. During the recovery, which started in the second half of the year, there was increased focus towards sustainability and digitisation. In addition, climate change and the urbanisation of coastal areas were a stable factor before and are now drivers of a delicate market recovery. This has been proven by the projects contracted by our dredging customers in the second half of 2020.

In the offshore energy markets COVID-19 caused a major upset in the first half of the year. The pandemic led to an unprecedented collapse in

oil and gas demand, and oil prices reached an all-time low. Investments in large CAPEX projects were postponed or cancelled but the demand for services and refurbishments remained, although at a lower level. For Royal IHC this led to service contracts on pipelay vessels, refurbishment orders, as well as the supply of tandem mooring and offloading systems, and riser pull-in systems.

The offshore energy renewable market proved resilient and maintained steady growth. This was partly fuelled by the green recovery that picked up after the initial shock of the pandemic wore off. In the telecommunications market the pandemic showcased the global dependency of communications on submarine cables. Royal IHC received orders for a cable plough upgrade and cablelay spreads. In addition, we were also successful in the order and delivery of a subsea trenching vehicle to a Mexican operator.

For IHC IQIP the biggest impact of COVID-19 was felt in the oil and gas market, where the number of modifications and new build orders declined. In the coastal and civil market the order intake remained stable instead of an expected growth. The resilience of the offshore wind market proved positive for IHC IQIP with an increase in order intake, predominantly in The Netherlands, China and Japan. In total, IHC IQIP had an order intake of € 185 million, an increase of € 41 million compared to 2019.

In the mining market, companies were hesitant to invest, and there were delayed new-build projects and postponed CAPEX decisions due to COVID-19. Even though the diamond market was hit particularly hard in the first part of the pandemic, it showed signs of recovery in the second half of 2020. Other positive signs came from the mineral sands market, which seemed less affected. And the increased urgency to decommission old tailings dams in Brazil also provided opportunities for Royal IHC, resulting in the first commercial consultancy studies for the tailings market. Despite the decline of smaller orders due to the pandemic, 2020 ended up being a good year for our mining cluster. Two customised dredgers and a multi-year maintenance and service contract were delivered – a typical proposition for the mining industry to increase operational efficiency.

In 2020 Royal IHC expanded its activities in the global defence market and intensified contact with the Ministry of Defence in The Netherlands. We contracted three engineering assignments for the Department of Material Maintenance (DMI) and were able to contribute to the recovery of the NH90 in the field of engineering and production. We are also part of the HR ecosystem and partner in the Maritime Capacity Alliance, a collective of national and international (civil) companies that share knowledge, as well as innovate and collaborate with the Dutch Ministry of Defence in the context of the adaptive armed forces. In 2020, we continued our collaboration with Naval Group for the Walrus replacement programme. For the years ahead we expect an increase in defence investments, due to growing tensions across the globe. In The Netherlands, this will result (among other things) in the renewal of (part of) the fleet.

DEVELOPMENTS

2020 has been an important year for Royal IHC to strengthen its position in the maritime sector and realise a sustainable future. Owing to a strongly declining market (both dredging and offshore), a declining order book and a number of complex projects with significant losses, Royal IHC found itself in a 'perfect storm', with negative financial results and sharply increasing losses since 2016. As of mid 2020 the situation had improved through the refinancing and recapitalisation.

New shareholder

In order to retain Royal IHC's knowledge and expertise for the Dutch maritime cluster, HAL Investments, Ackermans & van Haaren, MerweOord and Huisman have joined forces by establishing the Stichting Continuïteit IHC. This foundation ultimately owns 100% of the shares of IHC Merwede Holding B.V. The recapitalisation was partly achieved with the support of the existing syndicate of banks of Royal IHC, the Ministries of Economic Affairs and Climate and Finance, and credit insurer Atradius Dutch State Business. The Dutch State is therefore also represented in the Stichting Continuïteit.

The refinancing and recapitalisation of Royal IHC is a welcome boost and a new opportunity to do things differently. Together with the new shareholders and management, we worked hard in 2020 on the plans – and the implementation of them – for a sustainable future for Royal IHC. This involves three strategic choices:

1. defining core and potential core activities, and divestment of non-core activities
2. making the organisation less complex: new matrix organisation
3. adapting the organisation to market developments and order book: reorganisation.

Core and potential core activities

For a sustainable future it is important that Royal IHC becomes profitable again. To achieve this, Royal IHC must become leaner and more efficient, and respond differently and faster to developments in the market. In 2020, this led to the strategic choice to return to Royal IHC's core activities in the dredging and offshore market. The activities in the (wet) mining and defence market have been designated as so-called 'potential core' activities. These are being given the opportunity to develop further.

All other activities and parts have been or will be terminated or divested. The activities of ShipSupport and TI Geosciences were wound down in 2020. IHC Fundex Equipment was divested in October 2020, Rotterdam Offshore Group B.V. in February 2021, and Vuyk Engineering Rotterdam B.V. and KCI The Engineers B.V. in March 2021. Further portfolio action will continue in 2021.

Matrix organisation

In addition, the organisation has been put in order and operational improvements have been implemented. In 2020, Royal IHC was set up for the most important products and markets with PMGs for the core and potential core. Each PMG focuses on an activity within a specific market that contributes to the profitability of Royal IHC, with high quality, high customer satisfaction and technological advantage. Organising Royal IHC according to PMGs results in an organisation with more ownership and shorter communication lines. This will benefit Royal IHC's strengths. All PMGs are supported by functional disciplines (such as sales, project management, engineering, etc.) and corporate disciplines (SHE-Q, HR, finance etc.) to realise a safe and profitable operation.

Reorganisation

The organisation will be brought into line with the current order book and turnover ambition for the coming years. In view of global economic developments, an order book with a value of € 600-700 million is a realistic starting point. Unfortunately, we had to say farewell to some employees worldwide.

In total, about 300 jobs will be lost in The Netherlands and 300 abroad. This mainly concerns management and office functions. Furthermore, a significant reduction of 700 contingent workers was initiated. A social plan with a term of two years has been agreed with the trade unions in The Netherlands. This gives Royal IHC scope to further optimise its organisation in the coming period. The aim is to help employees as much as possible from 'work to work', partly through cooperation with the government and industry.

COVID-19

An important and still unpredictable factor is the development of the COVID-19 pandemic. To ensure a coordinated approach across all locations worldwide, Royal IHC installed a trained Corporate Crisis Management Team (CCMT) to oversee all efforts regarding the pandemic, with the goal of reducing any negative impacts. For the Board of Management and the CCMT, the wellbeing of employees is a first priority, closely followed by the continuation of the business and its operations.

The pandemic has had a significant impact on order intake and the day-to-day execution of our projects worldwide. With the support of local governments we have been able to continue to pay our employees and proceed with our operations.

Agent payments in Brazil

The case, brought to the attention of Royal IHC in September 2020, is related to contractual fees that Royal IHC paid its Brazilian agent almost 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. Royal IHC has publicly stated that a thorough investigation is done by external experts on this transaction. This investigation has been materially completed and based on 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 now awaiting the decision of the Dutch Public Prosecutions Office as to whether it wants to proceed with its investigation

SHEQ

Royal IHC emphasises the importance of providing a safe working environment, with (mental) wellbeing for all our employees, conducting business with respect for the environment, and delivering quality to the satisfaction of our customers all prioritised.

Although our incident figures have improved in 2020, we still have a major challenge when it comes to improving our safety culture. Royal IHC's Board of Management is committed to making a step change on safety and therefore launched Royal IHC's safety programme I-CARE in early 2020. I-CARE stands for 'I Create A Right Environment' – a physically safe environment in the sense that we provide a safe workplace for everyone working under our prevailing influence and a socially safe one, because we are open to engage in dialogues on safety dilemmas. The Board of Management committed to make a continued significant investment in the implementation of leadership training, awareness campaigns, and supportive tooling for 2020-2023.

We have taken major steps to improve the environmental impact of our production process in 2020, in close cooperation with the environmental inspection authorities. Several items have been corrected and we continue to invest in the energy transition. Our ambition is for customers to recognise us as a partner in designing and building highly efficient and sustainable low-emission solutions for complex working vessels. We involve our customers early in discussions about emission reduction technologies and efficiency improvements. It is a worthwhile challenge for us to continue to innovate on alternative fuels, together with partners in the value chain.

We've made additional efforts on quality assurance and control in order to meet or exceed our promises to our customers. We aim to nourish a 'first-time-right' continuous improvement culture to the satisfaction of our customers.

COMPOSITION OF THE BOARD OF MANAGEMENT

In April 2020, the Supervisory Board appointed Mr Eggink as Director and CEO, replacing Mr Vander Heyde. At the same time Mr Van der Harten was appointed as Director and CFO replacing Mr Vergunst who stepped down in February 2020. Mr Antvelink stepped down in June 2020, having completed his interim assignment as CTO. In February 2021, Mr Van der Snel was appointed as Director and COO of Royal IHC. The focus of the new board will be to return Royal IHC to profitability while maintaining satisfied customers and technological leadership.

FINANCIAL

Revenue and result development

In 2020, revenue decreased by 31% to € 738 million (2019: € 1,070 million). The external costs decreased by 28% to € 610 million (2019: € 851 million). These expenses amounted to 83% of revenue, which is an increase of 3% compared to 2019 (80%). Employee expenses decreased by € 42 million compared to last year. Due to the decrease in revenue, employee expenses as a percentage of revenue increased from 30% to 38%.

The average salary cost per employee amounted to € 75,000 – an increase of 6% compared to 2019. Depreciation and impairment of property, plant and equipment decreased (from € 55 million in 2019 to € 53 million in 2020). Amortisation and impairment of intangible assets decreased from € 45 million in 2019 to € 12 million in 2020. 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 € 199 million (negative € 112 million in 2019).

Order book

The order book on 31 December 2020 amounted to € 450 million, which is 35% lower than the order book on 31 December 2019 (€ 690 million). Sales in 2020 amounted to € 534 million (2019: € 588 million).

Working capital

Working capital amounted to negative € 168 million as of 31 December 2020 (31 December 2019: negative € 200 million). Fluctuations in working capital are due to the project-related characteristics of the company, as the work in progress is financed either on a milestone payment schedule by the customer or by an agreed payment schedule with 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 2020 were as follows:

IN MILLIONS OF EUROS	
Docks, slipways, dry docks, business premises, floating equipment	0.3
Plant and machinery	4.5
Rental equipment	3.8
Other assets	0.7
Assets under construction	5.6
	14.9

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

Balance sheet ratios

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

IN MILLIONS OF EUROS	31 DEC 2020	31 DEC 2019	DIFFERENCE
Non-current assets	331.9	453.5	-121.6
Working capital	-168.3	-200.0	31.7
Cash and cash equivalents	68.6	121.8	-53.2
Net assets	232.2	375.3	-143.1
Non-current liabilities	325.0	417.8	-92.8
Equity	-92.8	-42.5	-50.3
Financing	232.2	375.3	-143.1
Current ratio (current assets / liabilities)	0.85	0.88	
Solvency (total equity / assets)	-10%	-4%	

Equity decreased by € 50 million. This decrease is the balance of the loss for the 2020 financial year (€ 301 million), a capital contribution of € 258 million, a decrease in the hedging reserves (€ 2 million), a negative devaluation of land (€ 1 million) and a negative movement in the currency differences (€ 5 million).

Once the delivery of the vessels and equipment has taken place, € 202 million of the loan facilities related to three construction contracts will convert to equity. The balance sheet as of 31 December 2020 would have been shown as follows if the conversion would have taken place before this date:

IN MILLIONS OF EUROS	31 DEC 2020 INCLUDING CONVERSION	31 DEC 2020	DIFFERENCE
Non-current assets	331.9	331.9	0.0
Working capital	-149.4	-168.3	18.9
Cash and cash equivalents	68.6	68.6	0.0
Net assets	251.1	232.2	18.9
Non-current liabilities	141.7	325.0	-183.3
Equity	109.4	-92.8	202.2
Financing	251.1	232.2	18.9
Current ratio (current assets / liabilities)	0.88	0.85	
Solvency (total equity / assets)	12%	-10%	

Research and development

Innovation is crucial to answer tomorrow's market demands and is focused on innovative output that can be sold in the market. Royal IHC annually spends approximately 4% of its revenue on innovation and has a specialist in-house R&D institute, IHC MTI. Its focus is to develop the most efficient vessels, equipment and services for the specialist maritime industry.

FINANCING

The recapitalisation and refinancing of the IHC Group in 2020 included a conversion to capital of the € 137 million revolving general facility and the € 61 million subordinated debt (junior facility). Furthermore, the existing facilities have been amended and new facilities have been provided by the consortium of lenders.

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

IN THOUSANDS OF EUROS	NEW OR EXISTING	AMOUNT	MATURITY DATE	AMORTISATION AND CONVERSION	TYPE
Covered bank guarantee facilities (senior debt)	Existing	375,000	3 June 2025	Not applicable	Committed
Uncovered bank guarantee facilities (senior debt)	Existing	475,000	3 June 2025	Not applicable	Committed
Bank guarantee facilities		850,000			
Construction loan (senior debt)	Existing	150,000	31 Dec 2021	Bullet	Committed
Term facility (contingent convertible)	Existing	74,300	31 May 2021	Converted to equity	Committed
Super senior revolving credit facility	New	20,000	3 June 2023	Bullet	Committed
Construction loan (contingent convertible)	New	25,000	31 May 2021	Converted to equity	Committed
Revolving general facility	New	155,000	3 June 2025	Bullet	Committed
Construction loan (contingent convertible)	New	100,000	31 Dec 2021	Converted to equity	Committed
Incremental projects facility	New	50,000	3 June 2025	Bullet	Committed
Accordion facility	Existing	185,000	3 June 2025	Not applicable	Uncommitted
Loan facilities		759,300			

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

These facilities are provided by a consortium of financial institutions consisting of ABN AMRO, Commerzbank, DBS Bank Ltd, Nationale-Nederlanden, NIBC, Deutsche Bank, ING Bank, Lloyds Bank, Rabobank, Nationale Borg and NatWest. In the context of this credit agreement, most of the immovable property has been mortgaged and certain inventories, receivables, bank accounts, other movable property and current assets have been pledged to the lenders. The commitments to the financial covenants have been met in full as of 31 December 2020.

In addition to the aforementioned credit facilities, the IHC Group initiated the following credit facilities on 31 December 2020:

- A € 65 million bilateral construction loan facility, of which € 52.2 million was outstanding as of 31 December 2020 (€ 35.3 million was outstanding as of 31 December 2019). The commitments are similar to the aforementioned financial covenants
- 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 € 4.3 million as of 31 December 2020 (€ 8.3 million as of 31 December 2019)
- An amount of € 27.9 million is outstanding as of 31 December 2020 (€ 21.6 million as of 31 December 2019) under a lease facility provided by a leasing company to finance (part of) the rental assets of the group in the form of a five-year annuity on a quarterly basis
- € 2.7 million revolving credit facility which was fully drawn at 31 December 2020
- A € 10 million revolving credit facility was fully drawn on 31 December 2020 and 31 December 2019
- A € 10.0 million shareholder loan which was fully drawn at 31 December 2020
- Two ring-fenced subsidiaries of the Group have raised non-recourse project financing of € 47.9 million, whereby the revenues generated with the assets are used as a source for repayment and the assets themselves are pledged as collateral to the relevant lender(s). The loans are fully drawn. As of 31 December 2020 the outstanding loan amounted to € 46.4 million (€ 47.9 million as of 31 December 2019).

RISK MANAGEMENT

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

Governance and culture

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

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

As an internationally operating group, Royal IHC puts great value on maintaining its core values, business ethics and compliance standards throughout its worldwide organisation. The main pillars for this cultural and behavioural framework are the code of conduct, anti-bribery policy, export controls and 'know your customer' procedures, the whistleblower regulations, and agent procedures. These reflect Royal IHC's risk attitude and response to mitigation, and give guidance on how to act in situations that potentially conflict with Royal IHC's policies.

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

Strategy and objective setting

The Board of Management is responsible for defining a strategic plan. The targets for the top building blocks of the strategy are cascaded down into the organisation and further definition takes place in the yearly cycle of the business units' operational and financial plans. Identification of the main threats and opportunities in order to achieve the plans, as well as the management's reaction on how to cope with these, are an integral part of this process.

Principal risks and uncertainties facing Royal IHC

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

Market, operational and strategic risks

Royal IHC sells capital goods to a wide group of customers in various markets across the world which are cyclical in nature and may be affected by the state of the economy and geopolitical risks. Inherently, the order intake is volatile. In addition, there are risks regarding our supply chain, production, and sales processes, and we are dependent on a limited number of production sites across the globe. Changes in market circumstances, the competitive environment and disruption of

our production process and/or supply chain may have an adverse effect on our business, results and financial position.

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

Safety, health and environment risks

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

Contract risks

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

Project risks

If customer demands are not met – in terms of delivery and quality performance – the consequences could be severe, both in the short term (additional costs, liquidated damages) and long term (reputation). Royal IHC seeks to mitigate the risks relating to customer projects and is further strengthening its project management process and control framework. This contains continuous risk and opportunities assessments and risk-mitigating sessions via project board meetings. The risk profile for each project is continuously monitored and managed by project managers and controllers, and contract managers. As from 2020, the COVID-19 pandemic is included in the risk assessments. The project risk register is reported in the project reports, which are shared with the Executive Committee.

Materialised operational and financial risks have resulted in significant negative results in recent years. Although certain projects are to a large extent de-risked, materialisation of project risks cannot be ruled out for 2021 and onwards, albeit that these are currently not expected. With the objective of better balancing risks and margins, tight control during the acceptance of projects is now embedded in the processes of the IHC Group, including the role of the Supervisory Board. In combination with operational excellence, this should lower project risks in the future.

Claims and legal cases

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

International compliance risks

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

IT risks

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

Interest rates and currency risk

The 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 of this policy is to protect Royal IHC against the risk of the ultimate cash flow being affected negatively by exchange rates or interest fluctuations. The IHC Group'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 into interest rate swaps for almost all loans and borrowings with variable interest rates.

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

Credit risk

The IHC Group has strict acceptance procedures and risk 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 the business performance and the competitive environment, the IHC Group faces certain financing and liquidity risks. Maintaining up-to-date and accurate accounting records mitigates liquidity risks, as well as managing the cash positions by preparing short- 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 the forecasts, Royal IHC's management believes liquidity to be sufficient.

Tax risks

Tax risks are managed at a group level 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 staff, and aided by

information from the risk management system. The adequacy and effectiveness of the framework are regularly reviewed, taking into account any changes in external business dynamics, as well as any changes within Royal IHC.

HUMAN RESOURCES

The start of 2020 was marked by the critical situation faced by the company. The effects on all parts of the business, including HR, cannot be denied. Cost-cutting measures were necessary, resulting in a drastic reduction in the hiring of new employees and contingent workers at all levels and a cut on training and development possibilities and travel. The latter was further reduced to almost zero when the pandemic struck The Netherlands and the rest of the world.

The next step to a leaner and meaner organisation was the preparation for a simplified structure of the core of Royal IHC, focusing on the customer via PMGs. Via an open internal hiring process the new leadership for these groups and functional and corporate disciplines was appointed, also increasing female representation at the top. The new leadership was asked to work with the Board of Management via a clean sheet methodology to prepare for their customer-focused organisations with the aim of increasing efficiency. Core business plans were developed as a basis for the necessary headcount. The overall organisation was based upon the current order book and turnover ambition for the coming years.

Negotiations with the Unions and Works Council towards a restructuring began in May. Conversations were open-minded to bridge conflicting interests. In order to survive, it was vital for Royal IHC to focus on its core activities. This meant saying goodbye to non-core activities, for which the request for advice was approved by the Works Council in July.

Parallel negotiations with Labour Unions led to an agreement of the social plan for the employees in The Netherlands in October 2020, for a period of two years. Although it is difficult to let valuable people go, Royal IHC strived with this social plan to offer redundant employees a solid base to guide them from work to work.

On 12 November 2020, all Royal IHC employees worldwide were invited by their manager either to hear the bad news of redundancy or as an engagement for their continuation of work at Royal IHC. It was announced that, in total, about 300 jobs would be lost in The Netherlands and 300 abroad. Furthermore, a significant reduction of 700 contingent workers was initiated.

From that moment on, it was time to turn the page and start building towards the future.

During the process of reorganisation, Royal IHC was coping with the challenges of COVID-19. Temperature measurements at the gate and 1.5m distance signage throughout, were in place in a matter of days. The company kept communicating about the rules and regulations on a regular basis and tools were provided to enable employees to work from home (for those whose jobs allowed them to do so). Special attention was paid to social cohesion and mental health – both for colleagues working in the yards who could not work from home, and for office employees working from home.

For 2021, the plan is to continuously keep building on the new matrix structure and focus on the efficiency and effectiveness of the organisation. From a HR perspective, among other areas, this means focusing on further enhancing craftsmanship within production and engineering. Furthermore, leadership development, a transparent

reward structure and enhancing the inclusion and diversity of the workforce are top of mind – all the while adhering to and coping with the limitations that COVID-19 still imposes throughout.

Appointments into the Supervisory Board and the Board of Management are considered on the basis of a profile, taking into account the nature of Royal IHC's activities and the desired background and expertise of candidates. Diversity is an important criterion in order to establish a balance in nationality, gender, age, experience, and background of the individual members. The Supervisory Board and the Board of Management aims for at least 30% of its membership to meet the diversity criteria.

SUSTAINABILITY

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

The sustainability domain encompasses a range of environmental and social topics, which make up the three pillars of our sustainability strategy: sustainable entrepreneurship, social responsibility, and environmental accountability. Royal IHC takes an 'outside-in' approach, is aware of the challenges and developments on sustainability in the world, and takes these as a basis for research and development activities. The CSR Steering Committee ensures that Royal IHC's sustainability strategy incorporates our value chain and is executed efficiently everywhere we operate. The most significant topics are identified, enforced and monitored, and reported on in Royal IHC's annual – and externally assured – Sustainability Report.

Our sustainability policy saw continued development in 2020 where sustainability was recognised as an important element in the new vision, mission and strategy of Royal IHC.

OUTLOOK

The Board of Management will continue to focus on its adopted strategy around Core markets and will complete the divestment of non-core activities. Increased emphasis will be put on a healthy balance between risk and rewards when contracting new orders. A successful return to profitability will depend on a balanced order book combined with increased operational excellence resulting from the leaner and more efficient organisational set up which was initiated in 2020.

Royal IHC still faces significant risks and uncertainties that need to be mitigated in order to achieve its goals:

- Royal IHC's risk profile is still influenced by market dynamics and intense competition, resulting in price and margin pressure. Royal IHC seeks to manage this pressure by emphasising its added value to the operations of the customer as well as a deep understanding of customers' needs during all phases of the project.
- Global markets have had a major hit in March 2020 due to the ongoing discussions between oil-producing nations as well as the COVID-19 pandemic. These two major factors are expected to delay new large investments from the major oil companies and other customers, and as such, might impact the IHC Group's future order intake. In particular the impact of the COVID-19 pandemic is

still subject to significant levels of uncertainty. The Board seeks to address this situation by keeping a close contact with key customers and markets in order to pre-empt customer needs

- If customer demands are not met – in terms of delivery and quality performance – the consequences could be severe, both in the short term (additional costs, liquidated damages) and the long term (reputation). Royal IHC seeks to mitigate the risks related to customer projects and is further strengthening its project management process and control framework.
- Materialised operational and financial risks have resulted in significant negative results in recent years. Currently ongoing projects are to a large extent de-risked but materialisation of project risk can never be fully ruled out. With the objective to have risks and margins more balanced, tight control on acceptance of projects is now embedded in the processes of the IHC Group, including specific review by the Supervisory Board of all material orders. Together with operational excellence this should lower the project risks in the future.
- The IHC Group prepares liquidity forecasts, sensitised with existing and future risks including the COVID-19 pandemic impact, based on management's expectations that a more balanced project risk return ratio and improvements in 'on specification', 'on budget' and 'in time' delivery will be realised. The forecast as per March 2021 shows that the IHC Group has sufficient liquidity to run its operations. However, in the business Royal IHC operates in, it has proven to be inherently difficult to forecast liquidity over a longer period and forecasting accuracy has been limited in the past. Moreover, liquidity will be dependent on the achievement of the expected order intake in challenging market conditions, impacted by COVID-19, improvements in the company's results and the mitigation of the risks above.

The going concern of the company is dependent on the development of the above mentioned significant risks and uncertainties that need to be mitigated. These significant 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. Notwithstanding these significant risks and uncertainties, the Board of Management is confident that the use of the going concern assumption is appropriate. Therefore, the financial statements have been prepared on the basis of the going concern assumption. For further information regarding the financial situation of the IHC Group we refer to note 1 of the Financial Statements.

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

Kinderdijk, 30 April 2021

Board of Management

G.M. Eggink, CEO
A.P.M. van der Harten, CFO
C.W. van der Snel, COO

ABBREVIATED FINANCIAL INFORMATION 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

IN THOUSANDS OF EUROS	2020	2019
Revenue	737,728	1,069,675
Other income	-	8,285
Operating income	737,728	1,077,960
External costs	609,649	850,598
Employee expenses	283,131	324,679
Depreciation and impairment of property, plant and equipment	52,508	54,750
Amortisation and impairment of intangible assets	11,700	45,437
Impairment on trade receivables and contract assets	275	748
Other expenses	61,686	13,481
Operating expenses	1,018,949	1,289,693
Result from operating activities	-281,221	-211,733
Finance income	38,976	5,045
Finance expenses	-51,042	-27,158
Net finance expense	-12,066	-22,113
Share of result of equity-accounted investees, net of tax	-1,410	-438
Profit / (loss) before income tax	-294,697	-234,284
Income tax (expense) / income	-5,394	7,444
Profit / (loss) for the period	-300,091	-226,840
Profit / (loss) attributable to:		
Owners of the Company	-300,658	-226,474
Non-controlling interests	567	-366
	-300,091	-226,840

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

(Before appropriation of result)

IN THOUSANDS OF EUROS	31 DEC 2020	31 DEC 2019
Assets		
Property, plant and equipment	255,547	312,556
Investment property	2,191	410
Intangible assets and goodwill	35,285	53,609
Investments in equity-accounted investees	291	14,041
Deferred tax assets	32,931	26,231
Other non-current financial assets	5,612	46,675
Non-current assets	331,857	453,522
Contract assets	177,742	168,895
Inventories	145,667	139,530
Current tax assets	438	290
Trade and other receivables	129,139	138,883
Cash and cash equivalents	68,620	121,752
Disposal group and assets held for sale	35,752	26,319
Current assets	597,358	595,669
Total assets	889,215	1,049,191
Equity		
Share capital	258,464	250
Share premium	72,307	72,307
Reserves	-124,202	110,597
Unappropriated result	-300,658	-226,474
Equity attributable to owners of the Company	-94,089	-43,320
Non-controlling interests	1,326	774
Total equity	-92,763	-42,546
Liabilities		
Loans and borrowings	261,741	354,219
Derivatives	543	841
Provisions	37,439	18,083
Deferred tax liabilities	689	214
Other liabilities	24,572	44,441
Non-current liabilities	324,984	417,798
Contract liabilities	61,762	96,013
Current portion of loans and borrowings	214,756	157,058
Current tax liabilities	-	558
Trade and other payables	349,019	391,691
Liabilities directly related to disposal group held for sale	15,722	8,927
Provisions	15,735	19,692
Current liabilities	656,994	673,939
Total liabilities	981,978	1,091,737
Total equity and liabilities	889,215	1,049,191

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

IN THOUSANDS OF EUROS	2020	2019
Profit / loss for the period	-300,091	-226,840
<i>Adjustments for:</i>		
Depreciation, amortisation and impairment expenses	64,208	100,187
Loss / (gain) on sale of property, plant and equipment	-	404
Share of result of equity accounted investees	1,410	438
Loss/ (gain) on sale of subsidiaries	3,151	-8,285
Remittance of loan and write-down of loan	-6,732	-
Net finance expense	18,798	22,113
Income tax expense	5,394	-7,444
Changes in provisions	34,214	2,203
Changes in deferred taxes	-	-2,722
Subtotal	-179,648	-119,946
Interest (paid) / received	-16,955	-17,547
Income tax (paid) / received	-1,895	-
Net cash flow from operating activities (excluding changes in working capital)	-198,498	-137,493
<i>Changes in working capital:</i>		
- Acquisition of rental fleet	-9,444	-8,123
- Inventories	-5,988	15,896
- Contracts assets	-8,315	-132,969
- Trade and other receivables	-14,688	52,247
- Contract liabilities	-33,052	-84,880
- Trade and other payables	-38,383	65,715
Changes in working capital	-109,870	-92,114
Net cash flow from operating activities	-308,368	-229,607
Acquisitions of intangible assets and property, plant and equipment	-8,508	-26,396
Proceeds from divestments of property, plant and equipment	7,852	11,063
Proceeds from disposals of group companies, net of cash disposed	7,491	8,334
Proceeds from disposal of participations and other financial assets	2,184	-
Issue of loans and receivables	-1,550	-6,960
Proceeds of loans and receivables	5,026	-
Net cash flow used in investing activities	-12,495	-13,959
Additions to loans and borrowings	245,392	351,394
Repayment of loans and borrowings	-52,387	-139,074
Capital contribution	60,000	-
Acquisition of non-controlling interests	-	-2,750
Payment of lease liabilities	-10,815	-7,671
Net cash flow used in financing activities	242,190	201,899
Net increase / (decrease) in cash and cash equivalents	-53,683	-41,667
Cash and cash equivalents as at 1 January	121,752	161,000
Movements in net cash and cash equivalents	-53,683	-41,667
Effect of exchange rate fluctuations on cash held	551	2,419
Cash and cash equivalents as at 31 December	68,620	121,752

NOTES TO THE ABBREVIATED FINANCIAL INFORMATION

1. GENERAL

The abbreviated financial information is derived from the financial statements 2020, 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 2020.

For a better understanding of the Group's financial position, IHC's emphasises that the abbreviated financial information should be read in conjunction with the unabridged financial statements, from which the abbreviated financial information was derived. An unqualified auditor's report thereon dated 30 April 2021 was issued by KPMG Accountants N.V. The unabridged financial statements 2020 are available from the company or at the Chamber of Commerce in Rotterdam.

Going concern

The Covid-19 pandemic greatly affected the already declining market leading to a further delay in decision making at our customers resulting in lower order intake. This, in combination with the challenges Royal IHC was facing in executing some legacy projects for highly innovative vessels and equipment and the expenses associated with the refinancing, recapitalisation and reorganisation has led to a historic loss in 2020 of € 300.1 million.

As a consequence of the loss for the 2020 financial year equity decreased to an amount of negative € 92.8 million. However the recapitalisation and refinancing of Royal IHC in 2020 include a contingent conversion to capital of € 202 million of the debt related to three construction loan facilities. Upon delivery of two vessels in 2021 the outstanding amount will be converted to equity.

The Group still faces significant risks and uncertainties –elaborated in the unabridged financial statement- that need to be mitigated in order to achieve its goals. The going concern of the company is dependent on the development of the significant risks and uncertainties that need to be mitigated. These significant 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. Notwithstanding these significant risks and uncertainties, the Board of Management is confident that the use of the going concern assumption is appropriate. Therefore, these financial statements have been prepared on the basis of the going concern assumption.

2. SIGNIFICANT ACCOUNTING POLICIES

An abbreviation of a selection of the most significant accounting policies is included below. For a full overview of the accounting policies refer to the unabridged financial statements 2020.

Basis of preparation

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

Estimates

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

Basis of consolidation

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

Foreign currencies

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

Derivatives

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

Impairment

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

Property, plant and equipment

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

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

Intangible assets

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

Contract assets and contract liabilities

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

Revenue

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

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

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

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

3. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses, net of grants received, amounted to € 14.2 million (2019: € 14.2 million) and are included in external costs and employee expenses.

4. ORDER BOOK

The order book at year-end 2020 amounted to € 450.5 million (year-end 2019: € 689.8 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 2020 (hereafter 'the abbreviated financial information') is derived from the audited financial statements of IHC Merwede Holding B.V. for 2020.

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

The abbreviated financial information comprise:

- 1 the consolidated statement of profit or loss for the year ended 31 December 2020
- 2 the consolidated statement of financial position as at 31 December 2020
- 3 the consolidated statement of cash flows for the year ended 31 December 2020, and
- 4 the notes to the abbreviated financial information accompanying other explanatory information.

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

The abbreviated financial information and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements of 30 April 2021.

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 2020 in our report dated 30 April 2021. 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 risks and uncertainties that need to be mitigated, which are also partially affected by COVID-19 uncertainties.

These significant 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.

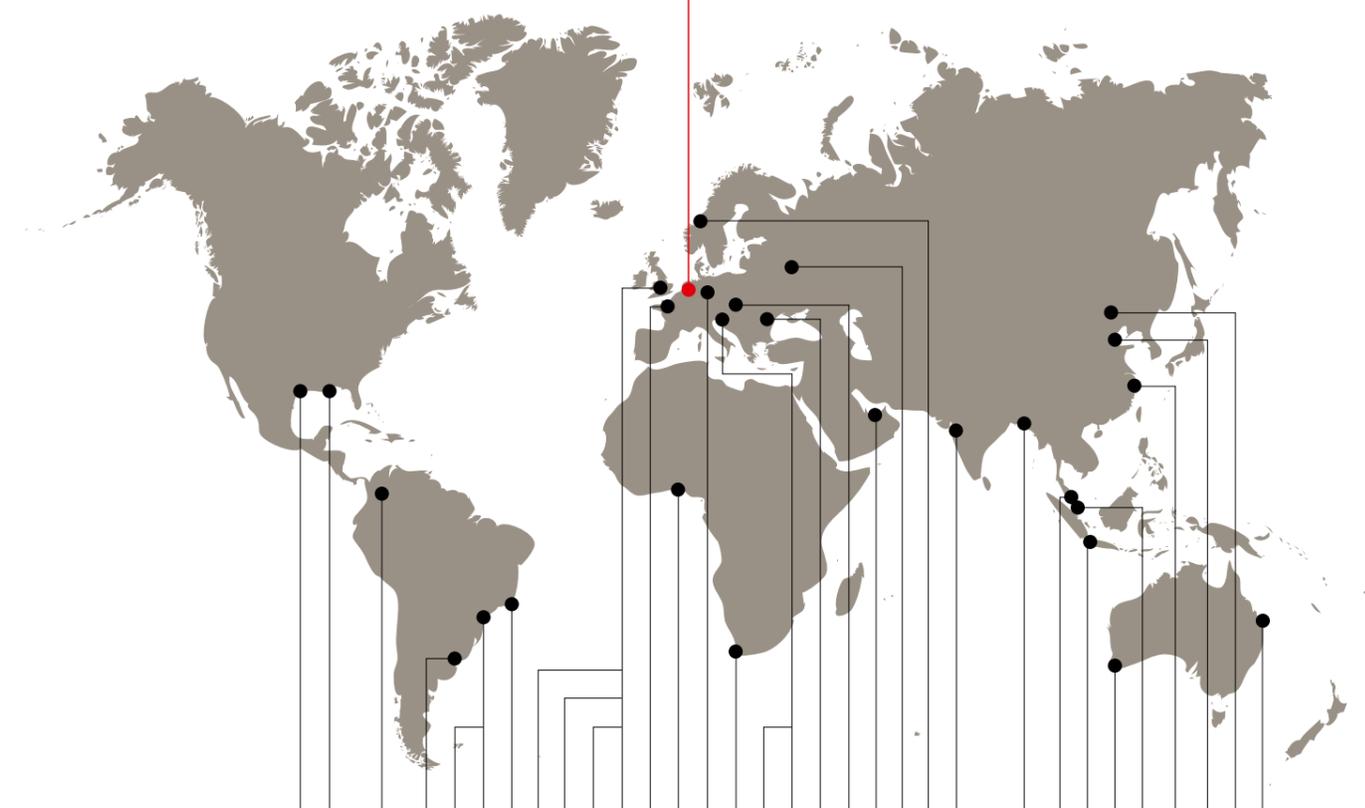
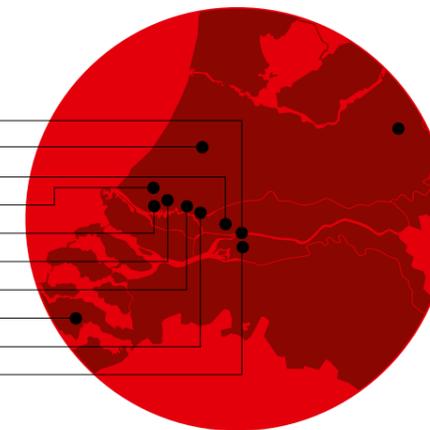
OUR RESPONSIBILITIES FOR THE AUDIT OF THE ABBREVIATED FINANCIAL INFORMATION

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, 18 May 2021

KPMG Accountants N.V.
J. van Delden RA

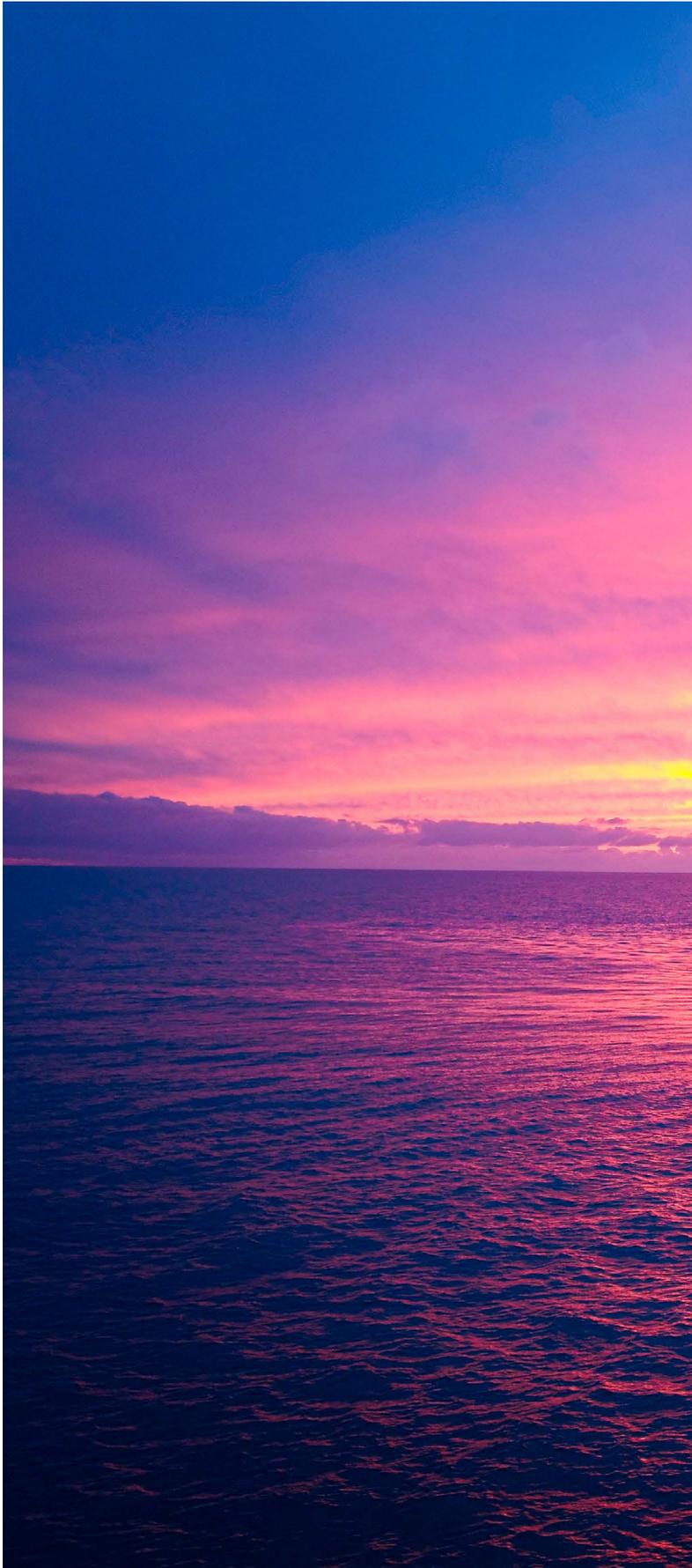
- THE NETHERLANDS**
- HARDINXVELD - GIESSENDAM
 - ALPHEN AAN DEN RIJN
 - SLIEDRECHT
 - DELFT
 - SCHIEDAM
 - ROTTERDAM
 - KRIMPEN AAN DEN IJSSEL
 - GOES
 - KINDERDIJK
 - RAAMSDONKSVEER



- HOUSTON, TX
- BROUSSARD, LA
- BOGOTA
- MONTEVIDEO
- CURITIBA
- JUNDIAI
- RIO DE JANEIRO
- BLANDFORD FORUM
- NEWCASTLE
- PORT OF BLYTH
- STOCKSFIELD
- VERBERIE
- LAGOS
- BREMEN
- CAPE TOWN
- PULA
- RIJEKA
- BUCHAREST
- KOMARNO
- DUBAI
- MOSCOW
- MOLDE
- MUMBAI
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- JOHOR BAHRU
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