

Royal IHC Limited

Annual report and financial statements

Registered number 03347951

31 December 2021

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Company information

Directors

AL Merlino de Freitas (Resigned 26.01.22)
Gerben Marius Eggink (Resigned 30.12.21)
Jan-Pieter Klaver (Appointed 01.01.22)
Antoon Paul Marie van der Harten (Resigned 17.03.23)
Cornelis Willem van der Snel (Resigned 01.10.22)

Company number

03347951

Registered office

71 Grey Street
Newcastle Upon Tyne
NE1 6EF

Auditor

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Bankers

The Royal Bank of Scotland PLC
2nd Floor
1 Trinity Gardens
Broad Chare
Quayside
Newcastle upon Tyne
NE1 2HF

ABN AMRO Bank N.V.
London Headquarters
250 Bishopgate
EC2M 4AA

Solicitor

Muckle LLP
32 Gallowgate
Newcastle upon Tyne
NE1 4BF

Strategic report

Principal activities

The principal activities of Royal IHC Limited ('the Company') during the period continued to be the design and manufacture of engineered products and solutions, principally for the offshore oil and gas, offshore renewable energy and telecom markets. Safety of operation in all aspects of its business activities is of paramount importance to the Directors of the Company.

Business model

The Company is dedicated to being a world class provider of innovative engineered products for each of its chosen target markets. The Company's objective is to deliver innovative engineering solutions and provide an efficient and effective, long term service to clients and partners.

As part of the Royal IHC group of companies ('the Group'), the Company enjoys access to an extensive product portfolio and strong international presence.

The Company is able to provide a range of offerings from standalone products to fully integrated engineering solutions through close collaboration with and expertise provided by other Royal IHC companies.

Business review and Market developments

In 2021, Royal IHC's focus was on successfully completing the large and complex projects that had been contracted in 2017 and 2018. During the year, the company was confronted with a series of unforeseen setbacks, which affected not only the progress of these projects, but also the results. Nevertheless, in December 2021, the AMAZON returned from successful sea trials, which marked another milestone in the completion of the vessel's conversion project. On 31 August 2022 the vessel was successfully transferred to McDermott.

Royal IHC continued its delivery of innovative equipment and solutions, and focused on actions to regain profitability and project control. Steps were made to further strengthen its management and the organisation in order to execute orders effectively. Despite this difficult period, IHC maintained its innovation and corporate social responsibility (CSR) efforts to preserve its reputation as the leading provider of integrated solutions in the maritime industries, both in Europe and the rest of the world.

Royal IHC continued to be severely affected by COVID-19 in 2021. Due to the uncertainty surrounding the course of the pandemic – and also the general economic outlook – many of the sales leads that the company worked on did not lead to concrete orders. As a result, Royal IHC was unable to make up for the strong loss of turnover compared to the pre-COVID-19 period. Therefore, it also had to rely on Parent company support, which enabled the company to continue to work towards the period when the uncertainty surrounding the pandemic would subside and the market would once again be willing to invest in new equipment.

Royal IHC also took the opportunity to exercise a break clause in our Stocksfield site, which has been largely dormant since 1 January 2021. The lease is sectioned into 2 units the first break clause date was 8th July 2021, which has been exited. The second has a break clause dated 8th July 2023, we negotiated early settlement of this lease with the landlord and fully exited Stocksfield Hall in September 2022. Further details can be found in Note 17.

Strategic report *(continued)*

Business review and results *(continued)*

The Company's performance is summarised below:

	2021 £000	2020 £000
Turnover	21,893	49,161
Gross loss	(26,728)	(30,424)
Gross loss (%)	(122.1%)	(61.88%)
Loss for the financial year	(35,545)	(39,767)
Loss for the financial year (%) of turnover	(162.4%)	(80.89%)
Average number of employees	157	205

The financial results of the Royal IHC Limited for 2021 were disappointing. Executing a number of highly innovative projects within budget and to tight timeframes proved a significant challenge resulting in an overall loss for the year.

Revenue for 2021 was £21.9m compared to £49.2m in 2020. The loss for the year was £35.5m compared to the loss of £39.8m in the previous year.

The reduction in turnover reflects reduced order backlog coming into the year and the stage of completion of the large projects that Royal IHC Limited worked on during the year.

Key performance indicators

The business delivers performance directly through the results and profitability of its projects.

The main performance indicator used by the Company to measure project performance is gross margin. Individual project margins are totalled to form the Gross Loss.

Overall Gross Loss was lower than the previous year. However, Gross Loss as a percentage of revenue increased to (122.1%) compared to (61.88%)% in 2020 reflecting the continuing challenging trading environment which has led to a number of projects trading at a loss and the inclusion of a contract loss provision at the year end.

The second key performance indicator relates to utilisation of resources required to deliver commercial projects as measured by direct cost recovery and the cost of indirect support functions.

Staff numbers reduced on average during the year to reflect the decreased activity, this will reduce further as we work through 2023, with target FTE of c.140.

Strategic report (continued)

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks affecting the Company are the market conditions, particularly in the oil and gas sector, the balancing of resources in relation to the level of demand, the competitive environment, and commercial risk both pre and post contract award.

Financial risk management

The main financial risks arising from the Company's business operations are described below.

Market Developments / Covid-19

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 cable lay spreads. In addition, we were also successful in the order and delivery of a subsea trenching vehicle to a Mexican operator.

In 2021, the COVID-19 pandemic continued to affect how Royal IHC operated. In particular, the people who normally work in the office have spent most of the year working from home. The measures introduced by the company followed the development of the pandemic.

In this way, we reduced the risk of contamination for our production team, so that the effect on any project was minimised. Fortunately, there were no outbreaks of COVID-19 within Royal IHC. To thank the employees for their efforts, and to compensate for the inconvenience of the pandemic, everyone received a one-off allowance.

Although the long periods of working from home over the past two years have been tough, it has also made everyone realise that a combination of remote and office working has a positive effect on work-life balance. In October 2021, a hybrid policy came into effect, whereby employees who wish to work from home for part of the week can do so in coordination with their manager.

Pre Contract Commercial risk

The Company has established procedures and operates software to evaluate a range of risks, whether technical, commercial, or financial in the bidding phase of a contract, and to develop appropriate risk mitigation strategies to protect the Company's position in the event of contract award.

Post Contract Commercial risk

The main risk is that the Company underestimates the complexity of the contract and the hours and material costs required to complete the contract. Where possible, variation orders are obtained from the customer where the contract scope has been increased. Regular project reviews take place to assess costs to complete and to forecast expected contract outturns.

Credit risk

The Company has a policy that requires credit checks on potential new customers before sales are made. Credit limits are assessed on an ongoing basis and adjusted as appropriate. For larger orders payment security is obtained in line with Group policies. Amounts owed by customers are reviewed routinely and managed proactively.

Liquidity risk

The Company aims to mitigate liquidity risk by managing cash to ensure it has sufficient resources to meet its short and long term obligations.

Interest rate and foreign exchange risk

The Company invests surplus cash with the Group Treasury function and earns commercial rates of interest on those deposits. The Company's interest income is therefore affected by movement in interest rates. The Company also has exposure to overseas income and expenditure, principally through sales and purchases in Euro and US Dollars, therefore takes steps to hedge its exposure to foreign exchange movements.

Strategic report (continued)

International compliance risk

The company must be aware of local culture, laws and regulations when operating in an overseas country and all applicable international laws when trading with entities based overseas.

Whilst the Company has experience gained from completing international contracts over a numbers of years, it also has access to the Group's legal and compliance teams and operates in line with Group policies.

Going concern

A significant proportion of the Company's ongoing work is in partnership with fellow subsidiaries of the Group headed by the intermediate parent undertaking IHC Merwede Holding B.V. ('the Group'), in particular on large integrated vessel contracts.

The Covid-19 pandemic caused global disruption, with significant negative consequences for human health and economic activity. This has increased unprecedented levels of uncertainty in the UK and beyond and makes it challenging to firmly predict its long term effects on Royal IHC limited. A range of measures have been introduced by the company to minimise the impacts of the pandemic, however in the short term, the Company is exposed to risks and uncertainties that impact the financial outlook of the Group as a whole, most notably relating to the successful completion of certain large contracts in 2024.

Notwithstanding a loss for the year ended 31 December 2021 of £35.5m, the financial statements have been prepared on a going concern basis which the directors consider appropriate for the following reasons.

The company meets its day to day working capital requirements from operational cash flows, together with an intercompany loan and trading balances with the group headed by Stichting Continuïteit IHC, the ultimate parent company.

The directors have prepared a business plan including cash flow forecasts and performed a going concern assessment which indicates that, in both the base and reasonably possible downsides, the company will require additional funds, through funding from its intermediate parent company, IHC Merwede Holding B.V., to meet its liabilities as they fall due during the 12 month period from the date of approval of these financial statements, the going concern assessment period.

Those forecasts are dependent on IHC Merwede Holding B.V. not seeking repayment of the amounts currently due to the group, which at 31 December 2021 amounted to £25.1m, and providing additional financial support during the going concern assessment period. IHC Merwede Holding B.V. has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, during the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

However, the ability of IHC Merwede Holding B.V. to continue to provide this support is dependent on the mitigation of key risks including the materialisation of a significant amount of unsecured orders, external conditions outside the control of the group including geopolitical developments (such as the unrest in Eastern Europe, resulting trade barriers and volatility in energy and commodities markets), Covid-19 and the impacts on the oil industry, market dynamics and competition, performance on significant contracts, and inherent uncertainty in forecasting liquidity in the business IHC operates. The IHC Merwede Holding B.V, 31 December 2021 financial statements signed on 17 January 2022 include a material uncertainty related to going concern.

The accounts are available to the public, see note 24 for details.

Based on IHC Merwede Holding B.V.'s indications of its intent to support the company, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis as they have concluded that the company's financial position means that it is realistic for at least a year from the date of approval of these financial statements (the going concern assessment period). However, these circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern and, therefore, that the company may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Strategic report (continued)

Future developments

Management will realign its strategy and define a healthy organisation going forward. The renewed capital position and new and continued facilities, together with the strengthened governance structure, provide a solid basis on which to operate. Throughout the organisation, the focus will remain on increasing efficiency, decreasing costs and improving the balance between revenues and risks, by enforcing stricter contract and project management and the new order acceptance process. IHC will strengthen where necessary, as the workforce is an important enabler to realise our goals, but will also 'right size' the organisation to reduce complexity and improve execution efficiency. We are convinced that with the support of our stakeholders and proposition that IHC holds the keys to success – specialist domain knowledge, adherence to the highest quality, and the craftsmanship of our workforce. The profitability and future outlook depend on the winning of new orders and the 'on specification', 'on budget' and 'in time' realisation of projects.

Research and Development

During the year the company continued to invest in innovation which is a key requirement for our customers. Further investment was made in R&D across all sectors developing both existing products and supporting future development and this will continue into 2023 and beyond.

The company also supported the Group's innovation strategy in areas such as digitisation and data collection.

Directors' statement of compliance with duty to promote the success of the Company

The Directors are aware of their duty under S172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the group for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to:

- The interest of the Company's employees;
- The need to foster the Company's relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and the environment: and
- The desirability of the Company maintaining a reputation for high standards of business conduct.

Having regard to employee's interest

The Board attaches great importance to the skill and experience of the management and employees of the Company. Its aim is to retain the best talent and believes that they will benefit from the opportunities within the Company.

The Board is committed to consulting, as appropriate on a regular basis. This includes monthly line manager meetings and Quarterly all employee Town Hall updates.

Fostering business relationships

The Company is dedicated to being a world class provider of innovative engineered products for each of its chosen target markets. The Company's objective is to deliver innovative engineering solutions and provide an efficient and effective, long term service to clients and partners.

The Company recognises that maintaining strong and open relationships with its suppliers is integral to our success. These relationships contribute to the Company's competitive advantage. They not only enable us to execute our strategy efficiently, but also help suppliers plan their business, managing cash flow and production.

The company also engages actively with suppliers to make sure they fully comply with our code of conduct for suppliers and partners, which includes provisions on human rights and environmental standards.

Impact on community and environment

The Company values communities in which it operates, and aim is for its business activities to have a positive impact on them. The Company will continue to promote green technology via our Renewable Energy equipment product range. We continue to seek to reduce the environmental impact of our business.

The company continues to encourage employees to support charities that are close to their hearts. All charitable activity is promoted through ongoing internal communications.

Strategic report (continued)

Streamlined Energy and Carbon Reporting (SECR)

Royal IHC Limited meets the qualifying conditions to report our carbon emissions and energy usage. The methodology used was in line with the Greenhouse Gas Protocol (GHG Protocol) and followed an operational controlled approach to identify what was included within the footprint.

Emissions have been calculated using the latest conversion factors provided by the UK Government. There are no material omissions from the mandatory reporting scope.

We have reporting using the following GHG Protocol Corporate Standard scopes:

- Scope 1 emissions are direct emissions from owned or controlled sources.
- Scope 2 emissions are indirect emissions from the generation of purchased energy.

Greenhouse gas emissions

Category	2021	2020	Change
Fuel combustion: (Natural Gas)	21	4	-81%
Purchased Electricity	190	86	-55%
Kerosene	30	20	-33%
Diesel	50	5	-90%
Total emissions (tCO2e)	291	115	-60%


Category	2021	2020	Change
Fuel combustion: (Natural Gas)	4	-	4
Purchased Electricity	-	86	86
Kerosene	20	-	20
Diesel	5	-	5
Total emissions (tCO2e)	29	86	115

Category	2021
Fuel combustion: (Natural Gas)	23,790
Purchased Electricity	405,330
Total Emissions (KWh)	429,120

Category	2021
Kerosene	8,000
Diesel	1,747
Total emissions (Litres)	9,747

Royal IHC Limited aims to operate in an environmentally efficient manner to reduce harm to the environment whilst reducing our operating costs. Royal IHC Limited will continue to promote and grow green technology via our Renewable Energy equipment product range. We continue to seek to reduce the environmental impact of our business.

By order of the board


Jan-Pieter Klaaver
Director

12.05.2023

Directors' report

The Directors present their report for the year ended 31 December 2021.

Directors

The Directors who held office during the year and up to the date of signing of the financial statements were as follows:

AL Merlino de Freitas (Resigned 26.01.22)
Gerben Marius Eggink (Resigned 30.12.21)
Jan-Pieter Klaver (Appointed 01.01.22)
Antoon Paul Marie van der Harten (Appointed 30.12.21, Resigned 17.03.23)
Cornelis Willem van der Snel (Appointed 30.12.21, Resigned 01.10.22)

Dividends

No dividends were proposed or paid during the year (2019:nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year.


Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board


Jan-Pieter Klaver
Director

71 Grey Street
Newcastle Upon Tyne
NE1 6EF

Company registered number: 03347951

12.05.2023

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG LLP

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of Royal IHC Limited

Opinion

We have audited the financial statements of Royal IHC Limited ("the Company") for the year ended 31 December 2021 which comprise the profit and loss account and statement of comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that the company's ability to continue as a going concern is dependent on the continued financial support of the group provided by IHC Merwede Holding B.V., the intermediate parent company. The audit report in the financial statements of IHC Merwede Holding B.V includes a material uncertainty related to going concern indicating that the company depends on the mitigation of key risks including; external conditions outside the control of the group including geopolitical developments (such as the unrest in Eastern Europe, resulting trade barriers and volatility in energy and commodities markets), Covid-19 and the impacts on the oil industry, market dynamics and competition, performance on significant contracts, and inherent uncertainty in forecasting liquidity in the business IHC operates. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Our conclusion based on our financial statements audit work: we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Independent auditor's report to the members of Royal IHC Limited*(continued)*

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of senior management as to the Company’s high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Considering remuneration incentive schemes and performance targets.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet performance targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that management may be in a position to make inappropriate accounting entries; and
- the risk of bias in accounting estimates for contract forecasts used in the calculation and recognition of long-term contract revenue.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included revenue journals with corresponding entries into unusual or unexpected accounts, cost of sales journals moved between different contract codes, and unusual entries to cash and loan accounts.
- Substantive testing of revenue recognized in the period, including the assessment of contract revenue calculated using the input method, forecast costs to complete and margin recognition on a sample of high risk long-term contracts
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and senior management (as required by auditing standards), and from inspection of the Company’s regulatory and legal correspondence and discussed with the directors and senior management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Independent auditor's report to the members of Royal IHC Limited(continued)

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law and export control, recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and senior management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent auditor's report to the members of Royal IHC Limited *(continued)*

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

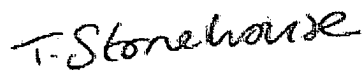
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Tara Stonehouse (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

15 May 2023

Profit and loss account and other comprehensive income
for the year ended 31 December 2021

	<i>Note</i>	2021 £000	2020 £000
Turnover	2	21,893	49,161
Cost of sales		(48,621)	(79,585)
		<hr/>	<hr/>
Gross loss		(26,728)	(30,424)
Administrative expenses		(7,736)	(12,340)
Other operating income	3	162	326
		<hr/>	<hr/>
Operating loss		(34,302)	(42,438)
Interest receivable and similar income	7	482	3,071
Interest payable and similar charges	8	(1,687)	(339)
		<hr/>	<hr/>
Loss before taxation		(35,507)	(39,706)
Tax on loss	9	(38)	(61)
		<hr/>	<hr/>
Loss for the financial year		(35,545)	(39,767)
Other comprehensive expense		-	-
		<hr/>	<hr/>
Total comprehensive expense		(35,545)	(39,767)
		<hr/> <hr/>	<hr/> <hr/>

Balance sheet
at 31 December 2021

	Note	2021 €000	2020 €000
Fixed assets			
Intangible assets	11	183	238
Tangible assets	12	2,924	2,227
Investments	13	-	-
		<u>3,107</u>	<u>2,465</u>
Current assets			
Stocks	14	12,374	13,031
Debtors	15	6,950	17,793
Cash at bank and in hand		1,860	605
		<u>21,184</u>	<u>31,429</u>
Creditors: amounts falling due within one year	16	<u>(69,131)</u>	<u>(51,406)</u>
Net current (liabilities)		<u>(47,947)</u>	<u>(19,977)</u>
Total assets less current liabilities		<u>(44,840)</u>	<u>(17,512)</u>
Provisions for liabilities	17	<u>(22,992)</u>	<u>(14,775)</u>
Net (liabilities)		<u>(67,832)</u>	<u>(32,287)</u>
Capital and reserves			
Called up share capital	19	10,003	10,003
Share premium account		14	14
Profit and loss account		(77,849)	(42,304)
Shareholders' funds		<u>(67,832)</u>	<u>(32,287)</u>

These financial statements were approved by the board of directors on 12.05.2023 and were signed on its behalf by:


Jan-Friedrich Klaver
Director

Company registered number: 03347951

Statement of changes in equity

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2019	10,003	14	(2,537)	7,480
Profit or loss	-	-	(39,767)	(39,767)
Total comprehensive income for the period	-	-	(39,767)	(39,767)
Transactions with owners, recorded directly in equity				
Equity dividends paid	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2020	10,003	14	(42,304)	(32,287)
Profit or loss	-	-	(35,545)	(35,545)
Total comprehensive income for the period	-	-	(35,545)	(35,545)
Transactions with owners, recorded directly in equity				
Equity dividends paid	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2021	10,003	14	(77,849)	(67,832)

Notes

(forming part of the financial statements)

1 Accounting policies

Royal IHC Limited (the "Company") is a company limited by shares and incorporated, domiciled and registered in England in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") as issued in August 2018. The amendments to FRS 102 issued in July 2019 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's parent undertaking, IHC Merwede Holding B.V. includes the Company in its consolidated financial statements. The consolidated financial statements of IHC Merwede Holding B.V. are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from its registered office at Molendijk 94, 3360 Sliedrecht, The Netherlands.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries; and
- Key Management Personnel compensation.

As the consolidated financial statements of IHC Merwede Holding B.V. include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosure:

- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument *Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified at fair value through the profit or loss.

Notes (continued)

1 Accounting policies (continued)

1.2 Going concern (continued)

A significant proportion of the Company's ongoing work is in partnership with fellow subsidiaries of the Group headed by the intermediate parent undertaking IHC Merwede Holding B.V. ('the Group'), in particular on large integrated vessel contracts.

The Covid-19 pandemic caused global disruption, with significant negative consequences for human health and economic activity. This has increased unprecedented levels of uncertainty in the UK and beyond and makes it challenging to firmly predict its long term effects on Royal IHC limited. A range of measures have been introduced by the company to minimise the impacts of the pandemic, however in the short term, the Company is exposed to risks and uncertainties that impact the financial outlook of the Group as a whole, most notably relating to the successful completion of certain large contracts in 2024.

Notwithstanding a loss for the year ended 31 December 2021 of £35.5m, the financial statements have been prepared on a going concern basis which the directors consider appropriate for the following reasons.

The company meets its day to day working capital requirements from operational cash flows, together with an intercompany loan and trading balances with the group headed by Stichting Continuïteit IHC, the ultimate parent company.

The directors have prepared a business plan including cash flow forecasts and performed a going concern assessment which indicates that, in both the base and reasonably possible downsides, the company will require additional funds, through funding from its intermediate parent company, IHC Merwede Holding B.V., to meet its liabilities as they fall due during the 12 month period from the date of approval of these financial statements, the going concern assessment period.

Those forecasts are dependent on IHC Merwede Holding B.V. not seeking repayment of the amounts currently due to the group, which at 31 December 2021 amounted to £25.1m, and providing additional financial support during the going concern assessment period. IHC Merwede Holding B.V. has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, during the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

However, the ability of IHC Merwede Holding B.V. to continue to provide this support is dependent on the mitigation of key risks including the materialisation of a significant amount of unsecured orders, external conditions outside the control of the group including geopolitical developments (such as the unrest in Eastern Europe, resulting trade barriers and volatility in energy and commodities markets), Covid-19 and the impacts on the oil industry, market dynamics and competition, performance on significant contracts, and inherent uncertainty in forecasting liquidity in the business IHC operates. The IHC Merwede Holding B.V. 31 December 2021 financial statements signed on 17 January 2023 include a material uncertainty related to going concern.

The accounts are available to the public, see note 24 for details.

Based on IHC Merwede Holding B.V.'s indications of its intent to support the company, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis as they have concluded that the company's financial position means that it is realistic for at least a year from the date of approval of these financial statements (the going concern assessment period). However, these circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern and, therefore, that the company may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the profit and loss account.

1 Accounting policies (continued)

1.4 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

The Company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives are as follows:

- Leasehold Improvements 3 years
- Plant and Tooling equipment 3-5 years
- Office Equipment 5 years
- Computer Equipment 3 years
- Motor Vehicles 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

1.6 Intangible assets

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

1 Accounting policies (continued)

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- development costs of Computer Software 2-3 years

The Company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

1.7 Government grants

Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred.

1.8 Amounts recoverable on contracts

Amounts recoverable on contracts represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date (see the Turnover accounting policy) less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

Amounts recoverable on contracts are presented as part of debtors in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as Payments received on account on contract work as part of creditors in the balance sheet.

1.9 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell.

A review of stock valuations is carried out on an annual basis. If any necessary impairment is identified the value of stocks are written down through the Profit and Loss Account.

Cost includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

1.10 Employee benefits

Defined contribution pension schemes

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The pension cost represents contributions payable by the Company to the funds. The Company also makes contributions to the personal pension plans of three employees, who are not members of the Company's scheme. All contributions are charged to the profit and loss account on an accruals basis.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably.

1 Accounting policies (continued)

1.11 Provisions

Provision is made for warranty work in respect of equipment manufactured by the Company, based on the remaining warranty period, warranty costs to date and an assessment of the risk of further warranty claims that may be incurred. Any unused warranty provision is released to the profit and loss account at the end of the warranty period, normally one to two years.

Provision is made for losses on all contracts as discussed in note 1.12.

Provision is made for any other obligations that are probable but for which the timing and amount are uncertain.

When the effect of the time value of money is material, the provision is discounted to its present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1.12 Turnover

Turnover is recognised to the extent that the Company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Long term contracts

Turnover on long term contracts is recognised by reference to the stage of completion. Stage of completion is measured by reference to the costs incurred to date on a project, (including labour, materials and overheads) as a proportion of the total forecast costs.

Turnover is recognised as the contract progresses; however profit is only recognised once the outcome of the contract can be predicted with reasonable certainty. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Full provision is made for losses on all contracts in the year in which they are first foreseen.

1.13 Leases

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

1.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference.

Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes (continued)

2 Turnover

	2021 £000	2020 £000
Construction contract revenue	9,524	43,250
Rendering of services	9,533	4,270
Sale of goods	2,836	1,641
	21,893	49,161
	21,893	49,161
By geographical market	£000	£000
UK	4,163	9,204
Europe	8,621	32,119
Rest of World	9,109	7,838
	21,893	49,161
	21,893	49,161

3 Other operating income

	2021 £000	2020 £000
Income arising on tax credits relating to research and development expenditure	162	326
	162	326
	162	326

4 Expenses and auditor's remuneration

Included in loss for the year are the following:

	2021 £000	2020 £000
Research and development expensed as incurred	438	14
Depreciation of tangible fixed assets	494	1,175
Amortisation of intangible fixed assets	55	50
Foreign exchange losses/(gains)	221	135
Operating lease rentals		
– Land and buildings	1,055	1,055
– Others	2	2
	1,057	1,057
<i>Auditor's remuneration:</i>	£000	£000
Audit of these financial statements	117	88
Amounts receivable by the Company's auditor and its associates in respect of:		
Taxation compliance services	37	40
Other advisory services	21	25
	58	65
Total non-audit services	58	65
Total	175	153

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was as follows:

	Number of employees	
	2021	2020
Technical and Administrative	157	205

The aggregate payroll costs of these persons were as follows:

	2021 £000	2020 £000
Wages and salaries	9,328	13,428
Social security costs	1,058	1,564
Contributions to defined contribution pension plans (note 18)	473	723
	<u>10,859</u>	<u>15,715</u>

6 Directors' remuneration

	2021 £000	2020 £000
Directors' remuneration	-	-
Company contributions to defined contribution pension plans	-	-

A management fee of £239,000 (2020: £nil) was paid for director services, this did not form part of the directors remuneration.

	Number of directors	
	2021	2020
Retirement benefits accrued during the year to the following number of Directors under defined contribution schemes	0	0

7 Interest receivable and similar income

	2021 £000	2020 £000
Interest receivable	6	8
Gain on discounting of provision (note 17)	476	3,063
	<u>482</u>	<u>3,071</u>

8 Interest payable and similar charges

	2021 £000	2020 £000
Total other interest payable and similar charges	<u>1,687</u>	<u>339</u>

Notes (continued)

9 Taxation

Total tax credit recognised in the profit and loss account

	2021 £000	£000	2020 £000	£000
<i>Current tax</i>				
Current tax on income for the period	38		38	
Adjustments in respect of prior periods	-		23	
Group relief receivable in respect of losses surrendered	-		-	
	<u> </u>		<u> </u>	
Total current tax		38		61
<i>Deferred tax (see note 10)</i>				
Origination and reversal of timing differences	-		-	
Adjustments in respect of prior periods	-		-	
Effect of change in tax rate	-		-	
	<u> </u>		<u> </u>	
Total deferred tax		-		-
Total tax charge		<u>38</u>		<u>61</u>

Reconciliation of effective tax rate

	2021 £000	2020 £000
Loss for the year	(36,285)	(39,767)
Total tax charge	38	61
	<u> </u>	<u> </u>
Loss excluding taxation	(36,247)	(39,706)
Tax using the UK corporation tax rate of 19% (2020: 19.0%)	(6,887)	(7,544)
Difference in tax rate on deferred tax balances	-	-
Non-deductible expenses	12	85
Adjustments in respect of prior periods	-	23
Deferred tax not recognised	6,913	7,497
Total tax charge included in profit or loss	<u>38</u>	<u>61</u>

Factors that may affect future current and total tax

In the Spring Budget 2021 the Government announced that from 1 April 2020 the corporation tax rate would remain at 19%. This new law was substantively enacted on 17 March 2020. Deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements. In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge.

The Company has unrecognised gross tax losses of £54,519,000 (2020: £16,056,000) against which no deferred tax assets have been recognised as it is uncertain that the Company will generate sufficient future earnings to utilise the losses. The Company has unrecognised gross loss post April 2017 of £52,853,000 (2020: £14,390,000).

Notes (continued)

10 Deferred taxation

Amounts included within debtors:

	2021 £000	2020 £000
At 1 January 2020	-	-
Deferred tax charge	-	-
At 31 December 2021	<u>-</u>	<u>-</u>
Accelerated capital allowances	-	-
Short term timing differences	-	-
Tax losses	-	-
	<u>-</u>	<u>-</u>

11 Intangible assets

	Computer software £000
Cost	
Balance at 1 January 2021	1,173
Acquisitions	-
Disposals	-
Balance at 31 December 2021	<u>1,173</u>
Amortisation	
Balance at 1 January 2021	935
Amortisation charge for the year	55
Disposals	-
Balance at 31 December 2021	<u>990</u>
Net book value	
At 31 December 2020	<u>238</u>
At 31 December 2021	<u>183</u>

Notes (continued)

12 Tangible fixed assets

	Leasehold improvements £000	Plant and equipment £000	Office equipment £000	Computer equipment £000	Motor Vehicles £000	Total £000
Cost						
Balance at 1 January 2021	1,347	3,383	75	766	12	5,583
Acquisitions	-	1,153	-	38	-	1,191
Disposals	(7)	(308)	-	-	(7)	(322)
Balance at 31 December 2021	1,340	4,228	75	804	5	6,452
Depreciation						
Balance at 1 January 2021	968	1,778	75	523	12	3,356
Depreciation charge for the year	56	365	-	73	-	494
Disposals	(7)	(308)	-	-	(7)	(322)
Balance at 31 December 2021	1,017	1,835	75	596	5	3,528
Net book value						
At 31 December 2020	379	1,605	-	243	-	2,227
At 31 December 2021	323	2,393	-	208	-	2,924

13 Fixed asset investments

The Company has the following investments in subsidiaries:

	Country of incorporation	Class of shares held	Ownership 2020 %	Ownership 2019 %
IHC Concept Limited	United Kingdom	Ordinary	-	100

IHC Concept Limited's registered office is at 71 Grey Street, Newcastle Upon Tyne NE1 6EF. Following the transfer of the trade and assets of IHC Concept Limited into Royal IHC Limited on 1 July 2017, this company is now dormant.

14 Stocks

	2021 £000	2020 £000
Spare parts and consumable items	780	333
Finished goods	11,594	12,698
	12,374	13,031

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £49,000 (2020: £174,000). Finished good stock relates to the cancellation of a sales contract that had been completed in 2019 (note 17).

Notes (continued)

15 Debtors

	2021 £000	2020 £000
Trade debtors	3,036	5,384
Amounts recoverable on long term contracts	1,367	1,653
Amounts owed by group undertakings	756	5,633
Other debtors and accrued income	248	3,609
Deferred tax asset (see note 10)	-	-
Corporation tax (see note 9)	488	326
Prepayments	1,055	1,188
Derivative financial instruments (note 20)	-	-
	<u>6,950</u>	<u>17,793</u>

16 Creditors: amounts falling due within one year

	2021 £000	2020 £000
Payments received on account for contract work	22,947	9,104
Trade creditors	2,172	7,000
Amounts owed to group undertakings	37,462	27,673
Contract accruals	4,477	5,316
Taxation and social security	306	454
Accruals and deferred income	1,686	1,778
Derivatives financial instruments (note 20)	81	81
	<u>69,131</u>	<u>51,406</u>

Included within the amounts owed to group are £25.1m loan facility, (2020 £27.6m) on which the company pays 8% rate of interest.

17 Provisions

	Contract £000	Warranty £000	Lease £000	Other £000	Total £000
Balance at 31 December 2020	2,462	596	1,198	10,519	14,775
Provisions made during the year	9,055	90	-	297	9,442
Provisions used during the year	-	(241)	(452)	-	(693)
Provisions reversed during the year	(476)	-	-	(56)	(532)
	<u>11,041</u>	<u>445</u>	<u>746</u>	<u>10,760</u>	<u>22,992</u>

Notes (continued)

17 Provisions (continued)

Warranty

Costs of warranty include the cost of labour, material and related overhead necessary to repair a product during the warranty period. The warranty period is usually one to two years. The Company accrues for the estimated cost of the warranty upon recognition of the sale of the product. The costs are estimated based on actual historical expenses incurred on similar products and on estimated future expenses, and are updated periodically.

Lease

Royal IHC also took the opportunity to exercise a break clause in our Stocksfield site, which has been largely dormant since 1 January 2021. The lease is sectioned into 2 units the first break clause date was 8th July 2021, which has been exited. The second has a break clause dated 8th July 2023. At 31st December 2021 an early exit has not been agreed. This resulted in an onerous lease provision of £746k.

Other

Other provisions relate to a sales transaction which was due to complete in 2019 but was cancelled by the company post year end.

The assets had previously been sold to a customer under a long-term contract that the company no longer expects to complete. The final amount of the payment is subject to ongoing negotiations with the customer and therefore there is some estimation uncertainty in this provision.

The provision is therefore based on the amount originally paid by the customer and represents the Other provisions balance.

The underlying assets were included within Stock in the prior year at the lower of cost and estimated selling price less any additional costs to sell (note 14).

At the reporting date, the matter was expected to be settled within 24 months and has been discounted on this basis. Discount rate applied was 10.81%, this reassessment increased the provision by £297,000 shown as provision made during the year in provisions table above.

Contract

A full provision is made for losses on all contracts in the year in which they are first foreseen and are then updated periodically. Any realised losses are subsequently charged against the loss provision. In the event of part or all of a loss provision ultimately not being required then it will be reversed against cost of sales in the Profit and Loss Account.

At the reporting date, the SSB contract, which is a loss making project, was expected to be completed in 2024 and the loss provision for this contract has been discounted on this basis. Discount rate applied was 10.81% which results in a gain on discounting of £476,000 shown as provision made during the year in provisions table above.

The balance relates to losses forecast on a contract which is expected to complete in 2023 and 2024.

18 Employee benefits

Defined contribution plans

The Company operates a defined contribution pension plan and makes contributions to the personal pension plans of one employee, who are not members of the company scheme.

The total expense relating to these plans in the current year was £473,000 (2020: £723,000).

Notes (continued)

19 Share capital

	2021	2020
	£000	£000
<i>Allotted, called up and fully paid</i>		
10,003,000 'A' ordinary shares of £1 each	10,003	10,003
21,215 'B' ordinary shares of 1p each	-	-
	10,003	10,003
	10,003	10,003

The respective rights of each class of share, subject to other rights and restrictions contained in the Company's articles of association are as follows:

Voting

The holder of 'A' Ordinary Shares are entitled to one vote per share.

The 'B' Ordinary Shares carry no right to vote.

Dividends

Any profits available for distribution shall be applied amongst holders of 'A' Ordinary Shares. 'B' Ordinary Shares have no rights to dividend.

Return on capital

In the event of a return on capital, on liquidation or otherwise, the surplus of assets of the Company available for distribution amongst the members, shall be applied between the 'A' Ordinary Shareholders only, rateable according to the nominal value of their respective holding of such shares. No such assets shall be available for distribution amongst the 'B' Ordinary Shareholders.

20 Financial instruments

Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2021	2020
	£000	£000
Assets/(liabilities) measured at fair value through profit or loss		
Forward foreign exchange contracts	(81)	(81)
	(81)	(81)
	(81)	(81)

Financial instruments measured at fair value

Derivative financial instruments

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Notes (continued)

21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2021 £000	2020 £000
Less than one year	1,029	1,029
Between one and five years	3,119	3,668
More than five years	1,365	1,820
	<hr/>	<hr/>
	5,513	6,517
	<hr/>	<hr/>

During the year £1,055,000 was recognised as an expense in the profit and loss account in respect of operating leases (2020: £1,055,000).

22 Commitments

Capital commitments

The Company's contractual commitments to purchase tangible fixed assets at the year end were £215,000 (2020: £108,000).

23 Contingencies

As at 31 December 2020 the Company has contingent liabilities in respect of various performance bonds and advance payment guarantees amounting to £10,674,000 (2020: £12,729,000).

24 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Royal IHC Limited. Until 3 June 2020 the ultimate controlling party was IHC Merwede Holding B.V, following this it became Stichting Continuïteit IHC and B.V. Finance Continuïteit IHC.

The largest group in which the results of the Company are consolidated is that headed by IHC Merwede Holding B.V. a company incorporated in The Netherlands. No other group financial statements include the results of the Company. The consolidated financial statements of IHC Merwede Holding B.V. are available to the public and may be obtained from Molendijk 94, 3360 Sliedrecht, The Netherlands.

The Royal IHC annual report which includes abbreviated consolidated financial statements of IHC Merwede Holding B.V. can be obtained at the Group's website www.royalihc.com. Full statutory accounts are available from The Netherlands Chamber of Commerce website, www.kvk.nl.

Notes (continued)

25 Accounting estimates and judgements

In the preparation of the financial statements, it is necessary for the management of the Company to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

Revenue

The estimation of total contract cost is a critical factor in the recognition of revenue arising from the contract. The Company's estimate of remaining project costs depend on the ability to properly execute engineering and design activities, availability of skilled resources, productivity factors, performance of subcontractors and potentially weather conditions. Experience, systematic use of the project execution model and focus on core competencies reduce, but do not eliminate, the risk that cost estimates may change significantly.

Liquidated damages (LD's) are penalties for not achieving defined milestones. LD's are common in construction contracts. If a project does not meet the defined milestone in a contract, a provision reducing project revenue is made when considered probable that LD's will be imposed. The estimate LD provision is highly judgemental and based on experience with similar LD situations and negotiations with customers.

The construction contracts may have significant changes in scope of work and variation orders are normally agreed up front. However, unapproved variation orders may be included in the forecast revenue where recovery is assessed as probable and other criteria are met.

Impairment of debtors

The Company makes an estimate of the recoverable value of trade debtors and amounts recoverable on contracts. When assessing impairment management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.

Provisions

Provision is made for the Company's estimate of future warranty costs on construction contracts, losses foreseen on contracts and to settle any other obligations that are probable, but for which the timing and amount are uncertain.

Provisions require management's best estimate of the costs that will be incurred based on experience, contractual requirements and appropriate professional advice.

Stock

The company makes an assessment of the valuation of Stock to ensure that it is stated at the lower of cost and estimated selling price less costs to complete and sell.

For significant items of Stock that have been constructed for resale, management will estimate if any impairment is required based on historical data and experience but also looking at current market data and future sales forecasts.