IHC MERWEDE

Annual Report
2013

The technology innovator.

Supervisory Board
J.C. ten Cate, Chairman
C.J. de Bruin
C. Korevaar
G.L.M. Hamers
B.H.C. de Bruin-van Eijck

Board of Management
D.A.A.J.A.G. Vander Heyde, CFO
A. Roelse, COO

Directors
A. Klijnsoon
F.J.H.L. Tummers

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Company profile

IHC Merwede is focussed on the continuous development of design and construction activities for the specialist maritime sector. It is the global market leader for efficient dredging and mining vessels and equipment – with vast experience accumulated over decades – and a reliable supplier of innovative ships and supplies for offshore construction.

IHC Merwede has in-house expertise for engineering and manufacturing integrated standard and custom-built vessels, advanced equipment and also providing life-cycle support. This integrated systematic approach has helped to develop optimum product performance and long-term business partnerships. The company's broad customer base includes dredging operators, oil and gas corporations, offshore contractors and government authorities.

IHC Merwede has over 3,000 employees based at various locations in The Netherlands, Brazil, China, Croatia, France, India, Malaysia, the Middle East, Nigeria, Singapore, Slovakia, South Africa, the United Kingdom and the United States.

Technological innovation will remain the company's underlying strength through its continuous investment in research and development. Moreover, it helps to safeguard a sustainable environment.

Key figures 2009-2013

Amounts in millions of euros, unless stated otherwise	**2013**	2012	2011	2010	2009
New orders	**1,767.1**	678.7	1,056.9	1,024.4	452.9
Revenue	**984.5**	894.9	1,049.8	1,007.8	1,125.7
Order portfolio as at 31 December	**1,743.1**	963.6	1,178.8	1,167.2	1,129.9
Profit for the period	**56.3**	36.9	103.2	100.7	58.8
Profit for the period attributable to owners of the Company	**54.4**	34.7	100.9	98.8	56.7
EBITDA	**108.0**	83.9	161.4	152.7	101.9
Group equity	**315.4**	370.4	371.6	340.6	227.7
Total assets	**1,083.8**	832.3	934.5	904.5	846.7
Group equity/total assets	**29%**	45%	40%	38%	27%
Group equity/capital employed	**65%**	76%	82%	79%	72%
Average number of employees (head count)	**3,224**	3,239	3,109	3,016	3,060

Report of the Supervisory Board

Introduction

Although 2013 was another transitional year from an economic viewpoint for IHC Merwede Holding B.V. ("the Company", "the Group" or "IHC Merwede"), it will be remembered as a milestone in its development. This was due to the negotiations of the shareholders' restructure during the first half of the year, which dominated most of the Supervisory Board's agenda.

As of 28 June 2013, the shareholders' restructure was finally concluded and Indofin obtained a majority shareholding of 62.10% (previously 18.11%), while Stichting Administratiekantoor Management en Personeel IHC (STAK) and Rabo Capital reduced their shareholdings to 27.89% (32.6%) and 10.01% (49.29%) respectively. Parkland N.V., part of the Indofin Group, is the investment holding of the De Bruin family, which develops a long-term stable shareholdership and continues IHC Merwede's strategy of growth, innovation, internationalisation and cooperation in the dredging, offshore and mining markets.

The Hydrohammer group[1] – which was earmarked for sale in 2012 – was eventually retained within the IHC Merwede group. Instead the shareholding restructure was realised via the upstreaming of a superdividend of €131.3 million and raising additional financing at shareholder level. This solution leaves the earning capacity of IHC Merwede intact. The position of STAK as shareholders changed from management participation to pure financial shareholding, as the link between being a member of management and personnel was dissolved.

After the closure of the shareholding restructure, Mr G.L.M. Hamers announced that he would step down as Chief Executive Officer of IHC Merwede and take a chair on the Supervisory Board of the Company on behalf of STAK, where he replaced, as of 1 October, Mr J.J.C.M. van Dooremalen, who stepped down on 28 June. During this short interregnum, Mr J. van der Horst represented STAK on the Supervisory Board, symbolising the transition of STAK into a financial participation vehicle. The Supervisory Board would specifically like to thank Mr J. van der Horst for his willingness to take the chair on behalf of STAK and his valued participation in the discussions on the implementation of the restructure during the transitional period.

Mr J.L. van Nieuwenhuizen, a member of the Supervisory Board on behalf of Rabo Capital, also stepped down on 28 June and was replaced by Ms B.H.C. de Bruin-van Eijck on the same date. It was also decided that Mr J.C. ten Cate should become chairman of the Supervisory Board in lieu of Mr J.J.C.M. van Dooremalen.

The increasing complexity of projects and the ongoing 'offshorisation' of many customers are at the basis of the Supervisory Board's concerns for operational excellence and streamlining the operational execution. This has resulted in IHC Merwede's adaptation of its internal organisation in order to become even more in control of project execution and related risks. The most important changes relate to:

- a focus on three divisions: Dredging, Offshore and Mining
- the Technology and Services division was split up into three clusters: Motion Control & Automation, Offshore Tools and Technological Services
- the centralisation of Project Management, Business Control, Finance and Human Resources
- the central coordination of Supply Chain, Research & Development and SHEQ[2].

For the same reason the Board of Management was expanded by the appointment of Mr A. Roelse, the former Dredging division director, as COO. It now consists of three members: CEO, CFO and COO. Unfortunately, the newly appointed CEO, who started on 1 September, stepped down after two months.

The Supervisory Board immediately started searching for a new CEO. A number of profiles were drawn and extensively discussed, both within the Supervisory Board and the Board of Management. The announcement of the new CEO should be made before June 2014. Meanwhile the Supervisory Board requested that the other members of the Board of Management, Mr D. Vander Heyde (CFO) and Mr A. Roelse (COO), temporarily take over the duties of the CEO.

The adapted internal organisation lays the necessary foundations under the 'One IHC Merwede' programme. One IHC Merwede will lead to the standardisation of all systems, procedures and methods across the whole Group. During 2013, the functional requirements on all major enterprise processes have been listed, presented and discussed within the Supervisory Board.

Special attention was requested by the Board for embedding 'change' management as an essential part of the One IHC Merwede project. The Board was also informed at length on the risk profile of the programme and it was formally approved in December 2013 with the selection of ICT tools and partners, in addition to the planning. In 2014 One IHC Merwede will design, build and test the new ERP system, and the rollout is scheduled to start as early as 2015.

Economically, 2013 was a difficult year. In Europe, the economy did not show any signs of growth. Even the BRIC countries saw their growth figures decline. More positive growth expectations only came to the market towards the end of 2013.

Under these difficult circumstances, IHC Merwede was remarkably successful in securing new orders that amounted to €1.8 billion, mainly driven by the biggest order it has ever obtained – six offshore pipelaying vessels in July 2013. As a result, the order book increased from €964 million at the end of 2012 to €1,743 million 12 months later. The healthy order book gives IHC Merwede solid foundations for future growth in upcoming years.

Financial results

The Supervisory Board of IHC Merwede Holding B.V. hereby presents the Annual Report 2013. This incorporates the financial statements for the year as drawn up by IHC Merwede Holding B.V.'s Board of Management. The financial statements were audited and discussed with KPMG Accountants N.V. (KPMG). It issued an unqualified independent auditor's report on the 2013 financial statements.

IHC Merwede Holding B.V.'s financial statements were authorised for issue by the Board of Management and approved by the Supervisory Board on 10 March 2014. The result attributable to the owners of the Company for the 2013 financial year is €54.4 million, which is up from €34.7 million in 2012. Normalised for one-off costs, such as shareholding restructure and related costs, and the loss on the sale of a plot of land, the net result achieved €60 million. The improvement of internal business processes, implementing lean production, increasing focus on supply chain and tight cost control were some of the successful measures put in place during 2013. The balance sheet totals €1,083.8 million, with Group equity standing at €315.4 million.

In line with long-standing policy, the Board of Management has proposed distributing a dividend of 50% of the normalised net result, i.e. €30 million to the shareholder IHC B.V. and adding the remaining amount of €24.4 million to the other reserves. This has been approved by the Supervisory Board.

Supervision

During the financial year 2013, the Supervisory Board met seven times in person and twice by conference call, with the Board of Management also in attendance. Most of the time in 2013 was spent on the shareholding restructure during the first half of the year and subsequently on the search for a new CEO.

With the new shareholding structure and subsequent organisational changes, as described above, in place, the Supervisory Board will pay special attention to the re-evaluation of IHC Merwede's long-term strategy in 2014. Another topic that the Supervisory Board has put forward in 2013 – and will continue to do so in upcoming years – is risk management, covering such fields as: project- and operational risks; financial and fiscal risks; ICT and information-related risks; SHEQ; and reputation risks, including agency and facilitation payments.

On the latter subject, a comprehensive policy was discussed and approved by the Supervisory Board, and the rollout throughout the Company has already started. Due to the focus on the shareholder restructure, the internationalisation of IHC Merwede and acquisition proposals received less attention during 2013, but will be prioritised again as part of the overall strategy in 2014. Last but not least, CSR (corporate social responsibility) was discussed as a fixed agenda item at all venues.

The Supervisory Board also met three times without the Board of Management in attendance to cover such subjects as remuneration, management succession and auditing. As of 28 June, a formal remuneration committee was established within the Supervisory Board. It consists of Mr J.C. ten Cate and Ms B.H.C. de Bruin-van Eijck.

The Supervisory Board received all relevant documents and information on discussed subjects from the Board of Management, which allowed it to make an independent and fair opinion on the Company's overall activities.

From time to time, business unit reviews were held before the Supervisory Board by the respective directors to elaborate on their development and strategy.

Alternating members of the Board attended some of the meetings between the Works Council and the Board of Management. These meetings were always constructive, held in good cooperation and focused on solutions, as may be evidenced by the respectful and good labour relations between management and personnel.

[1] Hydrohammer Group consists of the following statutory entities: IHC Hydrohammer B.V., IHC Aannemersmaterieel B.V., Hydro-Ram Inc., IHC Deutschland GmbH, Sea Steel Ltd, IHC Fast Frames Ltd, IHC Equipement & Services S.A.S., SCI La Main Fermee and activities for IHC Hydrohammer B.V. currently under IHC Asia Pacific Pte. Ltd.

[2] SHEQ: Safety, Health, Environment and Quality.

Report of the Supervisory Board

Conclusion

IHC Merwede has enjoyed a remarkable year in 2013. The new shareholding structure is the basis for a renewed long-term and stable shareholdership. On this basis, IHC Merwede will continue to fulfill its strategy of innovation, internationalisation, cooperation and growth in its core markets of dredging, offshore and mining by reinforcing its market position as ‘the technological innovator’.

The order portfolio of €1.8 billion and the net result of €54.4 million show that IHC Merwede is resilient in adverse economic times and well positioned to benefit from the upcoming growth in 2014.

The Supervisory Board would also especially like to thank Mr J.J.C.M. van Dooremalen for his inspiring leadership as chairman of the Supervisory Board and Mr J.L. van Nieuwenhuizen for his continuous support as a board member on behalf of Rabo Capital for many years. The Supervisory Board is also grateful to Mr G.L.M. Hamers, who guided IHC Merwede from 2006 as a ‘dredging’ shipyard towards the integrated technology innovator for dredging, offshore and mining – where it stands today. It would also like to welcome Mr G.L.M. Hamers and Ms B.H.C. de Bruin-van Eijck as new and inspiring Supervisory Board members.

Last but not least, the Supervisory Board wishes to express its appreciation to all employees. They remain the core and essence of IHC Merwede. Thanks to their lasting efforts and commitment towards IHC Merwede, the Company was able to post positive results for 2013 and improve its position in a rapidly changing and economically difficult environment.

Sliedrecht, 10 March 2014

The Supervisory Board
J.C. ten Cate, Chairman (as of 28 June 2013)
C.J. de Bruin
C. Korevaar
G.L.M. Hamers (as of 1 October 2013)
B.H.C. de Bruin-van Eijck (as of 28 June 2013)

Report of the Board of Management

Introduction

For IHC Merwede, 2013 may be characterised by duality. Not only was a long sought-after change of control realised over the summer, but this period also proved to be the watershed between a long period of bidding for projects and finally reaping the fruits of this labour.

A marked change for the Company and its staff was in awaiting the outcome of a number of internal and external processes to be able to move forward in executing a new future. Although internal and external environment conditions are still proving to be difficult in general terms, the success in both these transaction arenas shows that the foundations of IHC Merwede are very solid, as proven by the trust of the shareholders and customers alike in investing in its products and continuity.

Due to the unresolved uncertainty in financial institutions, especially in the way that debt problems have crept into the veins of most business communities, investment in maritime and related industries has been very hesitant. Driven by the need to avoid downwards spiraling in essential energy sectors, a number of the Company’s traditional customers have been assisted in finding bank financing structure solutions.

Without these necessary investments, the development of a basic deep-water oil infrastructure would not be achieved. For IHC Merwede, this meant that after a dry first six months, the business started rolling again for large new-build working vessels. The pull that was created by these orders for vertically integrated equipment and technology supply companies meant that the overall level of business came back to represent more than one year’s portfolio in hand.

There were two sides to the dredging market from an equipment perspective. Although in general the projects available for the commercial dredging contractors were short in execution and highly competitive in price, most companies managed to realise acceptable deployment of their vessels and personnel.

However, there was no push to invest in terms of cash flow and requisition of new equipment. Most state-owned and -controlled dredging companies adhered to a different heartbeat and a number had new building projects tendered to the market. Tender processes in all of these cases, however, took a long time in terms of decision-making, which resulted in numerous counter proposals and technical discussions without yet coming to a conclusion.

In summary, the dredging business is slow, but steady with enough of a backlog and new orders to last to the expected upswing in the next cycle. Thanks to shipping and environmental regulations, and divestments of technologically and economically outdated dredging vessels, it is warranted that this cycle will start from the second half of this decade onwards.

The past year has been IHC Merwede’s best in the offshore market. The offshore equipment units were able to continue their traditional track record of benefitting from a market that was hunting for deeper water resources and government-backed plans to invest in renewable energy.

In addition, the pipelaying business took off with a second order for a large number of vessels and large standalone equipment. Being able to deliver, having a stable track record and a *prêt-a-porter* approach to the operation of a vessel, were the differentiating factors in winning the proposals from a technical point of view.

Financial engineering was the other important factor in packaging a complete deal for the customer, making it possible to foreclose delays in the setup of the transaction and guarantee. This take-off opens up new possibilities for the development of a future generation of integrated mission equipment.

Brazil is mainly responsible for the offshore *hausse*, as it needs the flow of oil to increase, so that its return on investment will keep the flame of the GDP growth burning. In other geographic areas, activity in the oil and gas sector is moderate in terms of new investments.

Renewable maritime energy, such as wind and tidal, still depends heavily on government subsidies and therefore the appetite of project developers depends on the guarantee of the offtake contracts in a major way. Each individual country on a global basis makes its own set of rules to stimulate this form of energy generation, so finding an overall strategy in this dense forest of small print and special conditions is a challenge for even the biggest companies.

The Mining division is still out on a limb as a result of a combination of factors. Money is hard to come by, even for smaller projects, such as pilot mining. The artificially cramped resource situation has eased off due to a relaxation of the political situation and the slow economic growth, which reduced the industry’s need for minerals and raw materials.

IHC Merwede’s position in the wet-mining market is valued by the major players and feared by the competition, thanks to an extensive network and a selective high-end research programme. It is expected that the current situation will only change slowly and the mainstay of the business will comprise development programmes that focus on return on investment, risk assessment and environmental issues.

Report of the Board of Management

The preparation of the whole package in the mining cycle has been the main activity for a number of customers in the past year, as they aim to stay ahead in the changing landscape that confronts potential investors. Being ready to reassess decisions that were made earlier and change them to fit the change in the market is part of this professionalism.

The financial markets further recovered from the turmoil that started in 2008. Slowly some long-term finance is becoming available again for projects. Nevertheless, tailor-made pre- and post-delivery finance solutions remain an important part of the proposal for customers.

The decision-making process with customers depends more and more on uptime, production output and financial cost, resulting in a cost per day rather than on the capital cost of the vessel. This ties in with IHC Merwede's strategy to offer fully integrated vessels and equipment packages, including life-cycle support and training in a one-stop shop approach. In 2013, the Company arranged a $760 million post-delivery finance agreement with support of Dutch and UK export credit agencies. The availability of a competitive financial toolbox in The Netherlands is essential to compete on a level playing field with other European and non-European competitors.

As predicted in last year's Report of the Board of Management, 2013 was a transitional year. The shareholder restructure was completed, helping to bring more direction in terms of strategic and operational focus within the Company. IHC Merwede has a lot of work in progress. A solid backlog of orders, complemented by a high-quality project list, has created a good foundation to modernise the internal organisational structure and procedures.

The One IHC Merwede programme – designed to standardise all systems, procedures and methods – is on track. During 2013, functional requirements were delivered and used to select the appropriate Enterprise Resource Planning (ERP), Product Data Management (PDM) and Computer Aided Design (CAD) systems. At the end of 2013 the contracts were signed with the relevant vendors and in 2014 the design, build and testing of the ERP and ancillary systems will be completed. The implementation and rollout will take place from early 2015 and continue into the following year. The results will include cost reductions, greater reliability and flexibility, reduced lead times, increased control and the creation of more value for IHC Merwede.

After the successful restructuring of the shareholder structure, Mr G.L.M. Hamers stepped down as CEO and joined the Supervisory Board. In September 2013, the Board of Management was also extended from two to three people with the appointment of Mr A. Roelse as COO.

However, the newly appointed CEO resigned in early November and his position is currently vacant. A search for the new CEO was immediately started by the Supervisory Board and is expected to reach a conclusion by June 2014. Meanwhile Mr A. Roelse (COO) and Mr D. Vander Heyde (CFO) took over the duties of the CEO on a temporary basis.

In line with the appointment of the COO, the internal organisation was amended by splitting up the former Technology and Services division into three technology clusters: Motion Control & Automation, Offshore Tools and Technology Services. The latter consists of the internal capacity units and all engineering companies within IHC Merwede.

To gain even greater control of project execution and related risks, it was decided to centralise project management and directly report to the COO. Supply Chain and SHEQ remain in their respective divisions, but will be coordinated by the COO. HR and Finance became centrally shared services within the Group and report directly to the CFO, which is why the four-eyes principle has been introduced across IHC Merwede.

Lean production methods, efficiency management and tight cost control were the focus points for IHC Merwede during 2013. These resulted in lower organisation and production costs, as well as gross margins remaining intact, although fierce competition continued to put pressure on margins.

Based on the volume and quality of the current order portfolio, the Board of Management is confident that the year ahead has all of the ingredients to match the challenges for 2014. Dealing with tight margins and an open eye for working 'from the outside looking in' are the deciding factors in realising this target.

Financial

Revenue and result development

Although production capacity was not fully occupied during the first half of 2013, revenues during the year increased by 10% to €984.5 million (2012: €894.9 million). Delays in order intake caused some idle time, in anticipation of orders coming to fruition.

External costs increased by 10.7% to €616.9 million (2012: €557.9 million). These expenses amounted to 62.7% of revenue, which is an increase of 0.4% compared to 2012 (62.3%).

The employee costs increased by 2.0% to €257.8 million (2012: €252.6 million). Expressed as a percentage of revenue, employee costs decreased from 28.2% in 2012 to 26.2% in 2013.

The average cost per employee amounted to €62,228, an increase of 3.4% compared to 2012. Depreciation and impairment of property, plant and equipment remained stable (€29.3 million in 2012 to €28.7 million in the year under review), caused by investments in mainly rental equipment and a partial impairment of €1.2 million on a specific operating fixed asset. Amortisation and impairment of intangible assets increased from €6.8 million in 2012 to €10 million in 2013, due to increased amortisations caused by recent additions and impairments of some development costs and acquired technology.

The result from operating activities, plus the depreciation and impairment of property, plant and equipment, and amortisation and impairment of intangible assets (EBITDA) was €108 million (€83.9 million in 2012), an increase of 28.7% compared to the previous year due to higher revenues.

Order book

The order book as at 31 December 2013 amounted to €1,743.1 million – which is 80.9% higher than the order book on 31 December 2012 (€963.6 million). The prospects for the coming years are positive.

Sales in 2013 amounted to €1,767 million, an increase of €1,089 million compared to 2012. The Group expects a full utilisation of the permanent production capacity for 2014.

Cash flow

The following represents the cash flow in the last two years:

In millions of euros	2013	2012
Net cash flow from:		
Operating activities (excluding changes in working capital)	**108.6**	83.8
Changes in working capital	**-80.9**	14.8
Investing activities	**-17.6**	-41.3
Financing activities	**29.6**	-123.8
Net increase/decrease in cash and cash equivalents	**39.7**	**-66.5**

Working capital

Working capital amounting to €95.1 million negative, as at 31 December 2013, is more negative than the previous year (-€41.4 million, including the reclassification 'Asset held for sale'). Such fluctuations are inherent within the character of the Company, as work in progress is financed either on a milestone payment schedule by the customer or by an agreed payment schedule with the bank consortium. Dependent on the agreed payment schedule with the customer and the stage of completion of the projects under construction, the amount due to or due from customers, or the amount of trade receivables may differ substantially.

Working capital management continues to be an important activity in the Group. The uniformisation of processes and reporting, integrated planning over the whole production process and central credit management are all part of this approach.

Investments

Investments in property, plant and equipment during 2013 can be broken down as follows:

In millions of euros	
Land, docks, slipways, dry docks, business premises and floating equipment	**8.9**
Plant and machinery	**3.3**
Rental equipment and other operating fixed assets	**14.8**
Other items	**4.2**
	31.2

Investments in property, plant and equipment are directly related to the current business. Investments in rental equipment are related to increasing demand from customers to hire rather than buy.

Investments in other non-current financial assets include long-term derivatives, which are contracted to hedge currency risks on building contracts composed in foreign currencies.

Balance sheet ratios

The condensed balance sheet as at 31 December is:

In millions of euros	31 Dec 2013	31 Dec 2012	Difference
Non-current assets	355.6	298.9	**+56.7**
Working capital (excluding cash and cash equivalents)	-95.1	-41.4	**-53.7**
Assets held for sale	-	62.5	**-62.5**
Cash and cash equivalents	223.9	179.9	**+44.0**
Net assets	484.4	499.9	**-15.5**
Non-current liabilities	169.0	129.5	**+39.5**
Group equity	315.4	370.4	**-55.0**
Financing	484.4	499.9	**-15.5**

Report of the Board of Management

Group equity decreased by €55 million. This decrease is the balance of the profit for the 2013 financial year (€56.3 million) less the distributed dividend (totaling €150.9 million) and a positive movement in the hedging reserve (€39.5 million after tax) related to hedge accounting on outstanding contracts. The solvency ratio as at 31 December 2013 was 29.10%, a decrease of 15.41% compared to 31 December 2012. The current ratio as at year-end 2013 was 1.2 (year-end 2012 was 1.6).

Financing

Since June 2011, the Group had agreed €1.5 billion of secured credit facilities divided over (i) €900 million of bank guarantee facilities of which €865 million was committed per ultimo 2013 and (ii) up to €600 million in cash credit facilities of which €495 million was committed as per ultimo 2013, while the balance of €105 million is uncommitted.

The committed €495 million cash credit facilities were divided over €45 million of debt drawn for capex purposes and €450 million of debt (to be) used to fund working capital for a number of vessels. €148 million was drawn ultimo 2013 and during the course of 2014 the drawings will increase to fund the underlying work in progress. The capex facility has an amortising character, while the working capital facility will be (partly) repaid on the delivery date of the relevant vessel.

The above-mentioned credit facilities have been provided by a consortium of banks, consisting of ABN AMRO, DBS Bank, Deutsche Bank, ING Bank, Rabobank and the Royal Bank of Scotland. In the context of the financing agreement, certain immovable property has been mortgaged and certain inventories, receivables, bank balances, other movable property and current assets have been pledged to the banks.

In addition to the above-mentioned credit facilities, the Group has a €60 million guarantee facility with N.V. Nationale Borg-Maatschappij.

The total amount of outstanding bank guarantees as at 31 December 2013 was €477 million (€406 million in 2012).

The commitments pursuant to the financial covenants agreed with the bank consortium have been met in full as at 31 December 2013.

General market developments

The stabilisation of the economy, never mind an upturn in worldwide activity for trade, industry and tourism, did not take place in 2013. Different areas saw different rates of development and over the year the sentiment changed slowly from belief in more or less positive growth factors to apprehension about the possibility of a long period of deflation. A Japanese scenario for the western industrial world keeps cropping up in the models for future economic development, coupled with the hesitant start of the tapering of the massive debt financed by the FED.

Overcapacity in shipyards all around the world, due to historically large investments in shipbuilding capacity in the previous years together with a slow economy, made for a competitive playing field. Although expertise in highly integrated working vessels is not widely found, a number of shipyard owners changed their tactics from a cargo-type profile to a more complex shipbuilding model. The relative continuity in the sectors for specific offshore ships and dredging equipment attracted new competitors, some as a consequence of a programme for indigenous development, others helped by end-users in search of a one-off profit.

IHC Merwede profited from the fact that financiers and end-users shy away from risky ventures in these turbulent times, when the capital is lost as a result of bankruptcy proceedings or the late delivery time ruins the return-on-investment window. Having a solid track record in the performance of delivery, both stakeholders have played an important part in securing new orders, betting against a big risk versus the promise of a small profit.

The dredging contractors have had to deal with a fluctuating capacity load and short jobs with a high demand for (de) mobilisation. Compared to the work in previous years, this resulted in a more aggressive price policy and higher operational costs. As a result, cash flow reserves were lower, which meant a downturn of investment capacity in new-build ships and equipment.

The tendency in the market is to postpone the necessary replacement of economically and technologically outdated ships – made stronger by the new environmental regulations coming into force no earlier than from 2015 onwards. Beaver sales have been unexpectedly high, reflecting the demand in the world for small-scale maintenance works. State-owned and controlled dredging companies tender according to an investment cycle that is not linked to world economic growth, but adhere more to political factors. In this respect, 2013 is representative of a loss of direction with a relatively good volume of tenders, but slow decision-making processes.

In the offshore market, specialist vessels and equipment were in big demand with the conclusion of a six-package deal in one week. All of these pipelaying vessels were requisitioned for the plumbing in the pre-salt field off the coast of Rio de Janeiro and connecting the underground wellheads located at a depth of two kilometres on the ocean floor to the FPSOs at sea level. This is by far the biggest order to date for IHC Merwede, creating a three-year order backlog for the Offshore division.

Financing this package – in terms of working capital and payment guarantees, with an additional arrangement for a post-financing facility – was an important structure in making the deal possible. In view of the scarcity of capital, this contract was a textbook example of the current complexity, and showing how technical and financial engineering go hand in hand.

The end of the year was made even more successful thanks to the contracting of several offshore systems and a large pipelaying tower to be integrated in a non-IHC Merwede vessel. Equipment sales in the offshore tools group were on average consistently high over the year. The need for piling and specialist handling tools in renewable energy project development put IHC Merwede in pole position through in-stock availability and tried-and-tested solutions.

The mining business remains in an embryonic state. The focus of IHC Merwede is on mining technology, nearshore/onshore applications and deep-water topics, such as the vertical transport of slurries. The investment grade of the available projects is too low for financiers to involve themselves in a big way. Political pressure around scarcity and national ownership claims have eased since economic industry levels have come down.

The mainstay of IHC Merwede's involvement is divided into two fields that constitute the grey areas responsible for the below-par quality of the business proposition of its customers. The first is consultancy for alternative solutions and environmental issues. The second is engineering studies directed to technical challenges in component-process interaction, and post-processing and offloading of mined deposits.

The total order intake reached an all-time high in 2013, giving IHC Merwede a boost in terms of the backlog and reviving revenue, starting from 2014.

Strategy

IHC Merwede's four strategic priorities were unchanged for 2013: cooperation, development, growth and internationalisation. An important factor in realising these objectives is facilitating employees in concentrating on the drivers for change. Making staff aware of the need for directing their efforts in structuring the processes within the Company and the interfaces with the outside world in such a way that the optimum result for IHC Merwede's stakeholders is attained. This is not only for the year ahead, but in a sustainable way that guarantees a future for the Company as a whole, in a world that needs to cater for an ever-growing population.

Forcing companies and people to cooperate usually has an adverse effect. Creating the right attitudes and circumstances, so that both parties will benefit from cooperation, will generate a process that strengthens the interaction. Furthermore, the One IHC Merwede programme will power the transformation by the standardisation of operating procedures and implementing one set of tools that will help to focus on the right products for customers, instead of losing energy in internal procedures and working with different toolboxes.

The programme for personnel to rotate between job functions and business units has created awareness in the importance for individuals and companies alike to grow a repertoire of capabilities, instead of sticking to a home-grown specialty. The robustness that the individual employee will develop by learning to cope with challenges in different company cultures and technical disciplines is the foundation of a company's strength to deal with ever-forceful changes in the world around us.

The need for flexibility in the ways of achieving solutions demands that business units are prepared to change their tactics through the innovation of product portfolios and process structures. The raising of the retirement age on the other hand has made everybody realise that lifetime employment necessitates continuous learning in all aspects of job performance. IHC Merwede supplies skill-training programmes and facilitates job rotation to strengthen the competence of the individual employee by making him/her better equipped to deal with changing demands of professional growth.

Within the limits of worldwide economic growth, IHC Merwede is constantly looking to expand its portfolio of products and services. The investment in research and development (R&D) will be maintained at the current level needed to stay ahead in a highly competitive technological market.

In the coming year, a new rating instrument will be introduced to assess the level of return of investment for new projects more accurately. The comparison of projects in the R&D pipeline will be normalised over the main drivers of the business to push the successful introduction of new techniques in the portfolio into areas where future benefits appear to be maximal. The conventional approach to R&D needs to be reconsidered in a business like IHC Merwede, in which the developments are stretched to the end of the incremental cycle, while the markets are under heavy pressure to come up with alternative solutions.

The integration of functions that IHC Merwede has provided for the dredging industry over the years is also proving to be a successful formula for the offshore and deep-sea mining industries. The combination of product and process integration from the starting point of conceptual design makes for equipment that has a higher output rate and is faster on stream.

The expansion of the portfolio of mission critical components within the Group, either by acquisition or through business development, is one of the main strategic drivers for the coming period. Concentrating on added value contributing to group results will also make for a revaluation of current assets. Shifting the claim on future investments to assets that have a better multiplier over a longer period of time will protect the continuity and safeguard the development orientation of IHC Merwede as a whole.

Subcontracting on a global scale within IHC Merwede has developed to a professional level over the past five years. The concentration of functions into one business unit responsible for contracting major equipment to outside yards has provided IHC Merwede with a storehouse of capabilities to address the challenging requirements of its customers.

The growth of IHC Merwede's international staff is slow but steady, and the integration of different cultures and ways of working is a major prerequisite to create a smoothly running machine. The strong belief in being on the ground with local staff who are familiar with cultural and business aspects directs the effort to become a more international organisation. The demands on supporting processes in the fields of personnel recruitment, remuneration and bonding will have to keep pace with this development.

Risk management

With current volatile market dynamics, IHC Merwede is renewing its focus on risk management. Regulatory requirements, reputation risk, 'offshorisation' of markets with an increasing focus on contract management, SHEQ and traceability, information and data security are drivers for increased management focus on the entire corporate, project and data risk environment. Therefore, in the last quarter of 2013, a corporate risk manager, reporting directly to the CFO, and an information security manager, reporting to the ICT manager, were appointed.

Risk management is completed via a process of risk identification and analysis, mitigating actions, implementing risk management processes and follow-up monitoring. With the introduction of quarterly enterprise risk reports by all reporting entities, a better insight of all risks and the interdependence of risk over different entities are obtained. The types of risk inherent within the company's business have not altered substantially and market conditions dictate which resilient action will be required.

Market risks

IHC Merwede's order intake is irregular due to the nature of the company's business, focusing on high-end integrated goods with large capital value. Irregular order intake in combination with heavy price competition and late cyclical markets can form a cyclic dependency, especially when faced with rigid organisational costs.

This risk is mitigated by increasing flexibility within the organisation through outsourcing and subcontracting, hiring additional workers and renting slipway capacity. The portfolio approach with a focus on the three core markets of dredging, mining and offshore, lowers the commercial risk of irregular order intake, because each market has its own economic cycle and the interconnection is limited.

IHC Merwede also focuses on high-end equipment, both for internal use (through integration on its innovative vessels) and external sale. The delivery of spare parts for existing ships and increased priority given to the life-cycle approach of integrated vessels – including the transfer of knowledge to customers and training their crews – intensifies customer relationships and allows access to potential markets. IHC Merwede is also active in the rental market for offshore and construction equipment.

The crisis in the shipbuilding industry has led to greater rivalry in the niche segments, where orders are still being placed. This has resulted in increased price competition, especially in the lower end of the product range. To adapt to these new market conditions, IHC Merwede will concentrate on the following: placing further emphasis on high-end engineered vessels; engineering and building low-end products through cooperation agreements in low-cost shipyards; internationalisation; and redefining and standardising all of the company's systems, processes and methods through the One IHC Merwede programme in order to increase efficiency and reduce costs.

Contract risks

Contract risks are identified and evaluated by the legal department. External expert advice is sought for contracts governed by foreign law. The legal department works together with the treasury department to carry out a credit review before the company enters into major contracts.

IHC Merwede has a strict acceptance policy for political and payment risks. In principle, these are covered by credit insurance or a letter of credit, except in the case of existing customers with an excellent credit rating. IHC Merwede is also in continuous dialogue with Atradius Dutch State Business to look for tailor-made solutions to mitigate political and payment risks.

Interest rate and currency risk

All currency risks are managed in accordance with the Company's strict hedging policy. The amount of US dollar cash flow has considerably increased in 2013, due to higher activity in the offshore market. The other major foreign currencies are British pounds and Chinese renminbi. Most currency risks are hedged with foreign exchange contracts.

The Company 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.

Credit risk

The Company has strict acceptance and risk policies for credit risks. Risks are assessed using information from recognised institutions that provide credit information. Moreover, credit risks are covered by obtaining collateral, such as bank guarantees and confirmed letters of credit, credit insurance and advance payments. The Company has established a credit policy under which each new customer's creditworthiness is analysed before the Company's standard payment and delivery terms and conditions are offered. These procedures and the geographical diversity of the customer base reduce the credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations when they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due – under both normal and stressed conditions – without incurring unacceptable losses or risking damage to the Company's reputation.

Project risks

Project risk management is at the core of IHC Merwede's processes. The Company provides engineering, design and custom-built solutions in accordance with customer requirements. Experienced project management conducts and monitors risk analyses, from the proposal to completion, highlighting all aspects of risk and assuring adequate mitigation measures on all critical project risk issues.

During 2013, project management has adopted PRINCE2 standards in all IHC Merwede business units. Simultaneously, the project risk management and reporting were strengthened by the introduction of mandatory procedures throughout all of IHC Merwede. The focus is on the reduction of the variation in project results by proactive identification of significant technical, commercial and contractual risks. Reporting is done through project gate reviews and workshops.

Execution risks

Execution risk is controlled by monitoring the engineering, construction and commissioning of all equipment on a continuous basis. Monthly progress reports include comparisons with the original budget, actual revenue and incurred costs at the reporting date, and the estimated forecast of the project result at completion. All major contracts are reported to and discussed with the Board of Management. Work in progress is insured for damage.

Fiscal risks

Fiscal risks are managed on group level by the tax manager, who 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.

Furthermore, IHC Merwede is working with the Dutch tax authorities towards a new manner of monitoring (*horizontaal toezicht* in Dutch) taxes. Contrary to the past system of monitoring via ex-post audits (in relation to previous years), the new monitoring means that relevant tax events are being discussed during the year in which they occur. Such monitoring is only possible if IHC Merwede can demonstrate to the Dutch tax authorities that it is in control of all its tax-related processes. This requires a so-called 'tax control framework', which will be further developed during 2014 via the preparation of uniform tax procedures and defined tax control mechanisms.

Human resources

One of the main areas of focus supported by HR in 2013 has been One IHC Merwede. One of the outcomes of this has been the change in the organisation from a decentralised to a more centralised structure. Having started in 2012, the process of internalisation continued in 2013. This was supported with comparable terms and conditions for the expats, and there will be a concerted effort to further improve in this area in the coming year.

Report of the Board of Management

HR has also developed a uniform travel policy and centralised the booking of flight tickets and hotel accommodation in 2013. This initiative has led to a connection with International SOS to ensure that IHC Merwede's personnel are well protected in case of any medical requirements on their travels.

The harmonisation of the safety policy has led to a uniform gate policy. Since 1 March 2013, all external visitors have been registered in the same way across all of IHC Merwede's sites.

The training and development department has introduced an internal education site (intranet) where all employees can search for training to meet their individual development needs. In 2014, this site will be further developed in close cooperation with all of IHC Merwede's stakeholders.

In addition, a programme has been developed to educate middle management on the next step of their career paths. Part of this training programme is solution-based thought processes and how to cooperate effectively with internal and external customers, managers and colleagues. In the early part of 2014, around 15 employees will complete this training initiative.

HR also continued to pay attention to the sustainability of the workforce in 2013. It supported them to keep in good physical shape and, in case they fell ill, tailor-made solutions were offered so that they could recover in a professional way.

The company's order book will require flexibility among the workforce in 2014, just as it did in 2013. The process of hiring temporary employees was improved via the staffing desk in 2013. HR is now able, due to the professionalism of its systems and people, to meet the capacity requirements of its internal customers.

Looking ahead, the main targets for HR are: further support for One IHC Merwede; the alignment of all of IHC Merwede's terms and conditions; the development of adapted and state-of-the-art job descriptions in alignment with the roles described in the Company's processes; and further development and implementation of performance and career management.

While Dutch law allows for gender diversity – the requirement for large companies is for at least 30% of board positions to be occupied by women – the company does not satisfy this condition. This is due to the fact that the CFO was already in this function before 2012 and the choice had been made by the Supervisory Board to appoint the former Dredging division director as COO.

Corporate social responsibility

As a company that is acting globally, IHC Merwede is subject to international and national regulations on corporate social responsibility (CSR). IHC Merwede endorses the OECD guidelines for multinational companies. In practice, this means that it respects the rights of those who are affected by its business operations, enforces its suppliers to take responsibility on social and environmental issues, and is transparent on its social and environmental objectives. In addition to what is formally expected of IHC Merwede, it wishes to use its expertise and know-how to contribute to more sustainable technologies.

IHC Merwede's CSR strategy

The CSR strategy of IHC Merwede is built around three pillars: "sustainable entrepreneurship" to guarantee future profitability and the ability to comply with its CSR standard; "social responsibility" to protect all those employed by the IHC Merwede group, including its sub-contractors and foreign shipyards with which the Group collaborates; and "environmental accountability" to reduce the impact of products, services and internal production processes. With these three pillars, IHC Merwede aims to balance its responsibilities regarding financial, social and environmental aspects.

IHC Merwede's CSR strategy covers a wide range of relevant topics, including corporate governance, health and safety, education and training, carbon footprint, and sustainable process optimisation. However, special attention was given to its responsibilities regarding social and environmental aspects in the supply chain, corporate governance and anti-bribery, and sustainable product development in 2013. IHC Merwede will report on its non-financial results in its CSR report, according to the Global Reporting Initiative guidelines.

An ambitious environment

IHC Merwede operates in a challenging world. Not only do its customers expect the highest quality, but other stakeholders also set ambitious standards when it comes to CSR. There are now direct links between what financial parties ask and what public parties would like to see.

Financing has become a key element in a strong sales proposal, as is the knowledge that having a solid CSR policy is important for many stakeholders. IHC Merwede acknowledges the opportunities that rise from being transparent on what its CSR policy includes, how it is used in practice and how it can attribute to solving water and maritime infrastructure problems in developing countries with its knowledge and expertise.

A practical example is that many of IHC Merwede's export transactions are insured with the export credit agency, Atradius Dutch State Business. Since both the dredging and offshore industries have been marked as potentially risky sectors, practically every application has to be screened for environmental and social effects based upon the IFC Performance Standards. This procedure is part of the OECD guidelines.

IHC Merwede Foundation

Through her Foundation, IHC Merwede aims to contribute to a better global society by connecting the company's dedication and knowledge to people around the world in need of support. In its first operational year, a range of projects and initiatives has been supported by the IHC Merwede Foundation. These included smaller sponsorship activities – in which IHC Merwede employees were participating – and also larger initiatives, some of which received the commitment to a longer-term relationship from the Foundation – not only to contribute financially, but also to support a project to become a success by providing knowledge and dedication from IHC Merwede's employees.

In early 2013, the first partnership was established with Samen voor Zambia, a Hetty Denen Foundation initiative to provide educational programmes and the prospect of employment in the metal industry. The IHC Merwede Foundation warmly supports this initiative and delivered a financial contribution for the purchase of the basic furniture for the classroom. In 2014, the Foundation will contribute to the development of the educational programmes by sharing the knowledge and experience developed within the IHC Merwede Technical Education Centre.

The future

It is predicted that 2014 will be dominated by the demands made by the large order backlog on the organisation. All disciplines are working to capacity in executing the planned projects for this year. Extending the much-improved bottom line in the last quarter of 2013 – due to the new projects coming on stream – it is to be expected that 2014 will outperform 2013 in terms of revenue and profit. Although most projects have an innovative approach, the risk factor in the bulk of the work is average due to the repetition factor, making for an order portfolio with a reduced downside quotient.

To stay abreast of the competition that is aggressively focusing on IHC Merwede's position, the Company has to develop a big sales drive to consolidate its current revenue level for the coming years. Together with a sharpening of its human resources for quality and a more balanced ratio between in-house and hired staff, the future goal is to have a more compact organisation using a company-wide standard toolkit that is able to deal with the challenges of change in a versatile way. Delivering orders On Spec, Budget and In Time (OSBIT) for customers concurrent with upgrading the processes and toolbox will require the close monitoring of individual projects to avoid a domino effect from consequential failure dependencies.

Strategic re-orientation, following the initiatives that were developed as the core drivers in the last five years, will seek a business development approach to sales in concentrating IHC Merwede's efforts on markets having a higher expectancy of success. These factors comprise standardisation, economy of usage, 'offshorisation', the environment and sustainability. Economy of usage – translated as uptime of equipment – is a major factor in the quality of IHC Merwede's proposition and the need for improved availability is communicated in the business, sustained by a forward-looking service level of training, spare parts and maintenance. Economy of usage also defines having the right tool for the job, therefore avoiding spillage by working in a sustainable way.

'Offshorisation' stands for the extended influence on IHC Merwede's markets, and the need to manage and control unexpected occurrences. Society no longer accepts foreseeable occurrences having a negative impact on the environment or work execution, and as a consequence, safety and risk management will overturn business processes, equipment design and procedures.

Investment has been relatively high in the last couple of years due to the need for upgrading facilities and resources. The level will slowly be brought down as the addition to the rental fleet has almost been completed. R&D expenses will continue to be approximately 4% of revenue, noting that the distribution of this amount over the different sectors is likely to be different following the introduction of the new tool for assessing the return on investment of R&D. The number of permanent staff will not grow in accordance with the workload. Exchanging quantity for quality is imperative for safeguarding IHC Merwede's position in the future.

Sliedrecht, 10 March 2014

Board of Management
D.A.A.J.A.G. Vander Heyde, CFO
A. Roelse, COO

Abbreviated financial information 2013

Consolidated income statement

In thousands of euros	2013		2012*	
Revenue	984,471		894,942	
Other income	2,210		3,665	
Operating income		**986,681**		**898,607**
External costs	616,930		557,875	
Employee expenses	257,753		252,599	
Depreciation and impairment of property, plant and equipment	28,684		29,322	
Amortisation and impairment of intangible assets	10,011		6,762	
Other expenses	3,966		4,215	
Operating expenses		**917,344**		**850,773**
Result from operating activities		**69,337**		**47,834**
Finance income	2,603		3,702	
Finance expenses	-6,544		-3,243	
Net finance income		**-3,941**		**459**
Share of result of equity accounted investees (net of income tax)		-1,317		102
Profit before income tax		**64,079**		**48,395**
Income tax expense		-7,802		-11,499
Profit for the period		**56,277**		**36,896**
Profit attributable to:				
Owners of the company		54,369		34,708
Non-controlling interests		1,908		2,188
Profit for the period		**56,277**		**36,896**

* The comparative figures have been restated to conform with the current year's presentation.

Consolidated balance sheet

(Before appropriation of result)

In thousands of euros	31 Dec 2013		31 Dec 2012*	
Assets				
Property, plant and equipment	223,436		192,257	
Investment property	5,079		5,186	
Intangible assets and goodwill	51,417		53,515	
Investments in equity accounted investees	680		448	
Deferred tax assets	3,219		252	
Other non-current financial assets	71,748		47,324	
Non-current assets		**355,579**		**298,982**
Inventories	99,093		78,589	
Due from customers for work in progress	254,368		23,741	
Trade and other receivables	150,298		157,039	
Current tax receivables	570		12,819	
Cash and cash equivalents	223,921		179,856	
Assets held for sale	-		81,224	
Current assets		**728,250**		**533,268**
Total assets		**1,083,829**		**832,250**
Group equity				
Share capital	250		250	
Share premium reserve	68,136		68,136	
Reserves	188,445		262,791	
Unappropriated result	54,369		34,708	
Total equity attributable to equity holders of the Company		**311,200**		**365,885**
Non-controlling interests		4,195		4,517
Total Group equity		**315,395**		**370,402**
Liabilities				
Loans and borrowings	67,665		38,606	
Derivatives	7,020		8,316	
Deferred tax liabilities	70,630		57,386	
Provisions	15,602		14,918	
Other liabilities	8,055		10,233	
Total non-current liabilities		**168,972**		**129,459**
Trade and other payables	283,536		195,796	
Due to customers for work in progress	128,146		85,217	
Current portion of loans and borrowings	164,190		12,712	
Current tax liabilities	1,048		386	
Provisions	22,542		19,553	
Liabilities held for sale	-		18,725	
Total current liabilities		**599,462**		**332,389**
Total liabilities		**768,434**		**461,848**
Total Group equity and liabilities		**1,083,829**		**832,250**

* The comparative figures have been restated to conform with the current year's presentation.

Abbreviated financial information 2013

Consolidated statement of cash flows

In thousands of euros	2013	2012*
Profit for the period	56,277	36,896
Adjustments for:		
Depreciation, amortisation and impairment expenses	38,695	36,084
Revaluation of land	772	315
Loss/(gain) on sale of property, plant and equipment	1,005	-160
Share of result of equity accounted investees	1,317	-102
Net finance income	3,941	-459
Income tax expense	7,802	11,499
Changes in provisions	2,325	-6,831
	112,134	**77,242**
Interest received	3,288	4,394
Interest paid	-5,773	-1,327
Income tax paid	-1,024	3,470
Net cash flow from operating activities (excluding changes in working capital)	**108,625**	**83,779**
Changes in working capital (excluding cash and cash equivalents):		
- Acquisition of rental fleet	-13,102	-30,453
- Inventories	-1,771	15,950
- Due from customers for work in progress	-230,627	82,783
- Trade and other receivables (excluding derivatives and accrued interest)	22,652	909
- Due to customers for work in progress	41,920	-29,373
- Trade and other payables (excluding derivatives and accrued interest)	74,899	-12,973
- Other changes in working capital	25,098	-12,061
Changes in working capital	**-80,931**	**14,782**
Net cash flow from operating activities	**27,694**	**98,561**
Acquisitions of intangible assets and property, plant and equipment	-23,616	-26,291
Proceeds from divestments of property, plant and equipment	7,936	5,873
Acquisition of subsidiaries, net of cash acquired	-	-140
Investments in other non-current financial assets	-2,050	-24,256
Dividends received	128	419
Issue of loans and receivables	-	-830
Repayment of granted loans and receivables issued	-	3,918
Net cash flow used in investing activities	**-17,602**	**-41,307**
Additions to loans and borrowings	198,000	1,767
Repayment of loans and borrowings	-17,534	-72,827
Dividends paid	-148,654	-50,400
Dividends paid to minority interests	-2,199	-2,294
Net cash flow used in financing activities	**29,613**	**-123,754**
Net increase/(decrease) in cash and cash equivalents	**39,705**	**-66,500**
Cash and cash equivalents as at 1 January	179,856	249,962
Movements in net cash and cash equivalents	39,705	-66,500
Reclassification assets held for sale	4,062	-4,062
Effect of exchange rate fluctuations on cash held	298	456
Cash and cash equivalents as at 31 December	**223,921**	**179,856**

* The comparative figures have been restated to conform with the current year's presentation.

Notes to the abbreviated financial information

1. General

The abbreviated financial information is derived from the financial statements 2013, 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 2013.

For a better understanding of the Group's financial position, we emphasise 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 10 March 2014 was issued by KPMG Accountants N.V. The unabridged financial statements 2013 are available at the Company or at the Chamber of Commerce in Rotterdam.

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 2013.

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, measurement of warranty provisions, the measurement of recoverable amounts of cash-generating units containing goodwill, recoverability of development costs and valuation of inventories.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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 translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to 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 translation 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, work in progress, 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

Notes to the abbreviated financial information

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 recognised 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.

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.

Due from (to) customers for work in progress

Work in progress is 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 recognised for expected losses on work in progress as soon as they are foreseeable; if necessary, any profits already recognised are reversed. Costs include all expenditure 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 and capitalised borrowing costs. 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 work in progress, progress billings and advance payments is determined for each project and presented as due from customers for work in progress. For projects where the progress billings and advance payments exceed the value of work in progress, the balance is presented as due to customers for work in progress.

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. As soon as the outcome of a construction contract 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. 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 recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

3. Research and development expenses

Research and development expenses, net of grants received, amounted to €11.3 million (2012: €12.8 million) and are included in external costs and employee expenses.

4. Order book

The order book at year-end 2013 amounted to €1,743 million (year-end 2012: €964 million).

Independent auditor's report

To: the Board of Management of IHC Merwede Holding B.V.

The accompanying abbreviated financial information, which comprises the consolidated income statement for the year ended 31 December 2013, the consolidated balance sheet as at 31 December 2013, the consolidated statement of cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information, is derived from the audited financial statements of IHC Merwede Holding B.V. for the year ended 31 December 2013. We expressed an unqualified audit opinion on those financial statements in our report dated 10 March 2014. Those financial statements, and the abbreviated financial information, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The abbreviated financial information does not contain all the disclosures required by IFRS as adopted by the European Union and by part 9 of Book 2 of the Netherlands Civil Code. Reading the abbreviated financial information, therefore, is not a substitute for reading the audited financial statements of IHC Merwede Holding B.V.

Management's responsibility

Management is responsible for the preparation of the abbreviated financial information on the basis described in note 1.

Auditor's responsibility

Our responsibility is to express an opinion on the abbreviated financial information based on our procedures, which were conducted in accordance with Dutch law, including the Dutch Standard on Auditing 810 'Engagements to report on summary financial statements'.

Opinion

In our opinion, the abbreviated financial information derived from the audited financial statements of IHC Merwede Holding B.V. for the year ended 31 December 2013 are consistent, in all material respects, with those financial statements, on the basis described in note 1.

Rotterdam, 10 March 2014

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