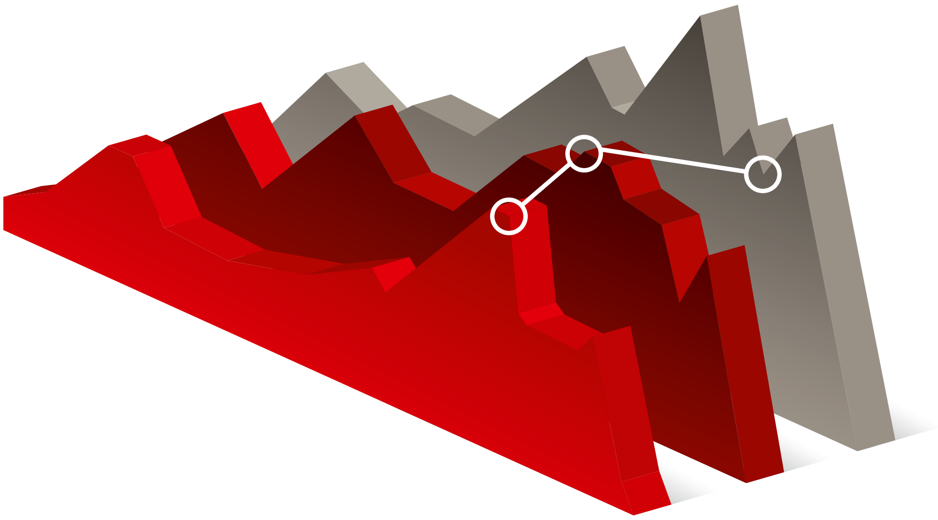
Annual Report
2014



The technology innovator.

Contents

Company profile

Royal IHC (IHC) 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 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 has over 3,200 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.

All shares of IHC Merwede Holding B.V. are held by IHC B.V. Shareholdership of IHC B.V. is divided as follows: Parkland N.V.: 62.10%, Stichting Administratiekantoor Management en Personeel IHC: 27.89%, Rabo Capital B.V.: 10.01%. Shareholders are long-term committed to IHC.

Key figures 2010-2014

Amounts in millions of euros, unless stated otherwise	**2014**	2013	2012	2011	2010
New orders	**582.9**	1,767.1	678.7	1,056.9	1,024.4
Revenue	**1,214.7**	984.5	894.9	1,049.8	1,007.8
Order portfolio as at 31 December	**1,165.5**	1,743.1	963.6	1,178.8	1,167.2
Profit for the period	**124.0**	56.3	36.9	103.2	100.7
Profit for the period attributable to owners of the Company	**123.0**	54.4	34.7	100.9	98.8
EBITDA	**191.9**	108.0	83.9	161.4	152.7
Group equity	**295.7**	315.4	370.4	371.6	340.6
Total assets	**1,189.3**	1,083.8	832.3	934.5	904.5
Group equity/total assets	**25%**	29%	45%	40%	38%
Group equity/capital employed	**85%**	65%	76%	82%	79%
Average number of employees (head count)	**3,263**	3,224	3,239	3,109	3,016

Report of the Supervisory Board

Introduction

2014 was a year of mixed economic developments. It began with some steady economic activity and recovery on a global basis. While this became more significant and evident in North America and the UK, growth in Europe remained fragile and declined to almost zero by the year-end as a result of the Ukraine crisis, unrest in the Middle East and the sharp decrease in crude oil prices (from over $100 US per barrel to less than half that by December).

This fall in oil prices had a dramatic effect on confidence across the entire offshore market during the last quarter of 2014. The major oil companies' investment programmes came to a halt and therefore directly affected the pipeline of potential orders for equipment and service providers, such as IHC.

In addition, investigations into alleged bribery scandals had an impact on Brazil, and to a lesser extent China, while Russia suffered from its weakening currency. On the positive side, the quantitative easing monetary policy recently adopted by the ECB weakened the euro versus the US dollar and had a positive impact IHC's export position.

2014 will go down as a strong year for IHC. Orders were delivered on schedule and therefore the financial results were positive. However, the order intake in 2014 suffered from previous economic developments and ended at only €583 million. As a result, the order book decreased from €1,743 million at the end of 2013 to €1,166 million by the end of 2014.

As mentioned above, the outlook for the offshore market, and specifically the capex investments, is looking bleak, while there is a cautious revival of activity in the dredging market. It is clear that the main challenge for 2015 will be the order intake in an increasingly competitive environment.

During 2014 IHC Merwede was awarded the prefix "Royal" by HM The King of The Netherlands and celebrated its 70th anniversary. Both events highlighted 2014 as a historic year for IHC Merwede Holding B.V. ("the Group").

In April 2014, Mr. Bram Roelse was appointed CEO, ending a search that started at the end of 2013. As Mr. Roelse previously had the role of COO, a new search for this position was initiated. The Supervisory Board expects to appoint a new COO to complete the Board of Management in 2015.

Supervision

At the end of March 2014, Mr. Goof Hamers stepped down as a member of the Supervisory Board. He was succeeded by Mr. Jan Van der Horst, who had already been part of the Board shortly after the change of shareholders in 2013. The Supervisory Board would like to thank Mr. Hamers for his long-standing contribution to the success of IHC, both as CEO and a member of the Supervisory Board.

During the financial year 2014, the Supervisory Board met six times, with the Board of Management also in attendance. Three meetings were held on site in The Netherlands and UK, while the other meetings were held at the company's headquarters.

In September 2014 a two-day session of the Supervisory Board meeting was entirely dedicated to the strategy and redesign of the Group. In-depth discussions regarding the strategy and organisational consequences took place in an atmosphere of constructive dialogue.

The Supervisory Board also met four times without the Board of Management to cover such subjects as the search for Management Board members, remuneration, management succession and internal auditing. The remuneration committee also met four times in advance of regular Supervisory Board meetings and reported to the Supervisory Board. At the end of 2014, an audit committee was installed within the Supervisory Board. It consists of Mr. C.J. De Bruin and Mr. C. Korevaar.

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

From time to time, business presentations were held by the respective directors before the Supervisory Board to elaborate on the development and strategy of their entities. A special Supervisory Board meeting was held at the premises of Engineering Business Ltd (EB) in the UK, during which special attention was given to the project and risk management of the most important projects at hand within the business unit. After that, the members of the Supervisory Board met informally with EB's management team. Next year the Supervisory Board intends to make a similar visit to other Group entities.

Alternating members of the Board attended some of the meetings between the Works Council and the Board of Management. The respectful and good labour relations between management and personnel are the result of the good cooperation of solution-oriented discussions between the two groups. The Supervisory Board would like to express its concern regarding the Council's present composition – being a critical and constructive sparring partner to management – requires a balanced representation of IHC's entire workforce in the Council.

Main topics

After the shareholding restructuring in 2013, the Supervisory Board asked the Board of Management to re-align the company's strategy with future challenges and the increasing pace of change in its markets. Some important aspects of the strategy encompass the balance between vessel and equipment activities, both in terms of market and customer focus as well as internal organisation to reduce the dependency on large capital goods. Much attention is also being paid to making the shift happen – in mindset as well as an activity base – towards becoming a true international Group. Last September the new strategy, IHC 2020, was approved by the Supervisory Board. The newly adopted mission statement sounds "Royal IHC designs, builds and maintains innovative equipment and vessels, working from sea level to ocean floor, for maritime service providers in offshore, dredging and mining".

To facilitate the adoption of the new strategy, the organisation of IHC is under transformation, from a divisional structure to a mainly functional organisation focusing on sales, production, mission equipment, life-cycle services and specialised offshore tools. The latter comprises of the business units Hydrohammer, Handling Systems, Sea Steel and Fundex, and these will be legally and financially ring-fenced in 2015 and continue under the name IHC IQIP.

The shift to a functional organisation is also supported by the One IHC programme, bringing all units under a single ICT/ERP environment and standardising all systems, procedures and methods across the whole Group. Special attention was given by the Supervisory Board to the development and progress of this important programme of change at every Board meeting. Non-core units Sealing Solutions and Tidal Energy were sold, as was the interest in Multi, a Belgian engineering office. The 50% minority shareholding of Imtech in IHC Systems was taken over, as well as the 5% minority share in IHC Handling Systems.

Just before the year-end, IHC acquired 100% of the shares in SAS Holding B.V. (a specialist offshore solutions supplier) and 70% of the shares in Brastec Technologies SA (a Brazilian company supplying equipment for the flexible and umbilical market). SAS Holding B.V. holds a 33% shareholding in AXTech Norway, which was also acquired. These acquisitions strengthen the international foothold of IHC in Norway and Brazil, and are clear visible steps in the further internationalisation of the Group, as highlighted in IHC 2020.

Based on the Group's requirements and the fast-changing ethics regarding good governance, the Supervisory Board closely monitored the implementation of the comprehensive compliance and good governance policy relating to all stakeholders of IHC.

Financial results

The Supervisory Board of IHC Merwede Holding B.V. hereby presents the Annual Report 2014. 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). They issued an unqualified independent auditor's report on the 2014 financial statements.

IHC Merwede Holding B.V.'s financial statements were authorised for publication by the Board of Management and approved by the Supervisory Board on 30 March 2015. The result attributable to the shareholders of the company for the 2014 financial year is €123 million, up from €54.4 million in 2013. Normalised for one-offs, such as surplus value on sale of participations, acquisition costs, results on structured transactions and impairments, the net results equalled €106.6 million.

Focus on the supply chain, tight cost control, lean production and improved internal business processes, together with full occupancy of the slipways and some repeat orders were the main drivers of the 2014 results. The balance sheet totals €1,189.3 million, with Group equity standing at €295.7 million. The latter was impacted by a mark-to-market on hedged currency positions of almost –€60 million.

In line with the long standing policy, the Board of Management proposes to distribute a dividend of 50% of the net result, ie €61.5 million to the shareholder IHC B.V., while adding the remaining 50% to the other reserves. This has been approved by the Supervisory Board.

Report of the Supervisory Board

Preview for 2015

IHC's environment is not likely to change for the better in the near future, due to oil price expectations and geopolitical developments. The development of the sales portfolio will therefore be on top of the Supervisory Board's agenda in 2015.

Furthermore, priority will be given to the implementation of the IHC 2020 strategy and the required organisational changes. The integration of the newly acquired companies will also be a recurring topic.

Special attention will also be paid to the further development of corporate social responsibility within IHC. This topic is quickly gaining importance within IHC's markets and it is also part of the Board's vision on good governance.

Conclusion

2014 was a year of two halves. On one hand, the good financial results demonstrate the level of control IHC has achieved in project execution. This is a sound basis to further implement the renewed strategy towards 2020. On the other hand, the economic environment deteriorated quickly during the last quarter of 2014 in some of IHC's core markets, which affected the order intake. As a result, the level of competition is intensifying and new projects and capex investments are being delayed by our customers. This puts even more emphasis on the swift action that is required to prepare IHC for the future.

The Supervisory Board expresses its appreciation to all IHC employees. They remain the true force of the company and the best guarantee for an enduring future. Thanks to their commitment and daily efforts, the company was able to achieve this fine result over 2014. The pride of the workforce to keep IHC ahead of the competition is the core to developing the innovative products that customers are looking for.

Sliedrecht, 30 March 2015

The Supervisory Board
J.C. ten Cate, Chairman
C.J. de Bruin
C. Korevaar
B.H.C. de Bruin-van Eijck
J.H.N.M. van der Horst

Report of the Board of Management

Introduction

The world is IHC's playing field which was reinstated both positive as negative in 2014. The economic outlook at the start of the year was bright, thanks to an optimistic view on the developments of monetary stabilisation and driven by the expectation of finally leaving the financial crisis behind. However the first weak signals – indicating otherwise – became evident when the major oil companies announced the reduction of their investments in new field exploration and development, which enabled them to free cash flow to guarantee dividend payouts.

External events over the summer put further strain on IHC's business environment. The global economy was and is being put under pressure by events in Ukraine and the Middle East. The USA's ambition to decrease its energy dependency unlocked its reservoir of shale oil and gas, which flooded the energy market. OPEC's normal defensive reaction to lower production volumes didn't happen, resulting in a 50% reduction in the price of a barrel of oil by the end of the year. This situation marked an indefinite postponement of investments in oil and gas-related projects, which are now awaiting a comeback of "normal reality".

General market developments

The year started with an extremely positive outlook thanks to a large order backlog in both of IHC's main markets, offshore and dredging. The sentiment about business opportunities was driven by the expectation rightly claimed by politicians and economic analysts that a turnaround towards stable growth in investment plans for all segments of the industry was evident. The main markets – offshore, dredging and wet mining – contained many promising realistic prospects on the horizon for tendering and assignment.

Slowly, however, it became clear through the first and second quarter that the offshore market was hesitant in keeping up to speed with the projects that IHC was focusing on. Two factors caused this hesitant attitude: the difficulty of the major oil companies in generating enough cash flow out of new projects to sustain necessary dividend levels; and the lack of clear economic stability in renewed growth worldwide, due to low consumer spending. The projects actually contracted were mainly speculative and came out of a closed business environment with a much smaller set opening in a highly competitive market. This situation deteriorated over the rest of the year, due to political instability and autonomy developments with a subsequent fall in oil prices. At the end of the year, the new-build offshore business came to a standstill, with everyone biding their time and preparing measures in the knowledge that the situation would not revert on short notice.

The dredging business received a huge boost when Egypt went ahead with the plan for the extension of the Suez Canal. Cutter capacity from the big dredging companies worldwide was commissioned and excavation started after the summer working towards the conclusion of this extremely large project in one year. The short duration of claimed capacity, however, does not warrant a new injection into the growth of the fleet over and above the replacement plans already underway.

Cash was very cheap in 2014, thanks to the US FED's quantitative easing programme, followed by the ECB's announcement of a similar programme at the end of the year. This was good for the stock market, where all this cheap money flowed, but the speculative long-term business of wet mining did not profit. Basic resources and special minerals were not in high demand because of average to low economic activity. The focus remained on strategic options, researching deep-water fields for future development through studies and field cruises. Getting into position by acquiring licenses – and keeping spend to a minimum – was the main activity. Apart from the powerhouse countries, it was remarkable to note that China was actually bringing significant investment to such projects. Environmental opposition towards new developments, eg in New Zealand, also became a large factor to overcome.

Financial

Revenue and result development

With an improved occupation of production capacity, revenues during the year increased by 23.5% to €1,214.7 million (2013: €984.5 million). External costs increased by 24.9% to €769.2 million (2013: €616.9 million). These expenses amounted to 63.3% of revenue, which is an increase of 0.6% compared to 2013 (62.7%). Employee costs increased by 7.8% to €277.8 million (2013: €257.8 million). Expressed as a percentage of revenue, employee costs decreased from 26.2% in 2013 to 22.9% in 2014.

The average cost per employee amounted to €63,714, an increase of 2.5% compared to 2013. Depreciation and impairment of property, plant and equipment increased (from €28.7 million in 2013 to €32.8 million in the year under review), caused by increased depreciation on mainly rental equipment, a partial impairment of €1.6 million on buildings and an impairment of €1.2 million on rental assets. Amortisation and impairment of intangible assets increased

Report of the Board of Management

from €10 million in 2013 to €10.9 million in 2014, due to increased amortisations caused by recent additions and an impairment of development costs.

The result from operating activities, plus the depreciation and impairment of property, plant and equipment, and amortisation and impairment of intangible assets (EBITDA) was €191.9 million (€108 million in 2013). This is an increase of 77.7% compared to the previous year, due to higher revenues, increased margins and results on the sale of group companies. The acquisitions of Brastec Technologies and SAS Offshore took place at the end of the year and they have not yet contributed to the revenues and results. The acquisitions of the remaining non-controlling interests in IHC Systems and IHC Handling Systems did not have impact on the revenues and led to a decrease in third-party results.

Order book

The order book as at 31 December 2014 amounted to €1,165.5 million – which is 33.1% lower than the order book on 31 December 2013 (€1,743.1 million). Nevertheless, the Group expects a high utilisation of permanent production capacity in 2015.

Sales in 2014 amounted to €582.9 million, a decrease of €1,184.2 million compared to 2013.

Cash flow

The following represents the cash flow in the past two years

In millions of euros:	2014	2013
Net cash flow from:		
Operating activities (excluding changes in working capital)	**157.1**	108.6
Changes in working capital	**-107.4**	-80.9
Investing activities	**-14.5**	-17.6
Financing activities	**-111.1**	29.6
Net increase / (decrease) in cash and cash equivalents	**-75.9**	**39.7**

Working capital

Working capital amounting to -€6.8 million, as at 31 December 2014, is less negative than the previous year (-€95.1 million). 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. Depending 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 implementation of central credit management contributes to this.

Investments

Investments in property, plant and equipment during 2014 can be broken down as follows

In millions of euros:	
Land, docks, slipways, dry docks, business premises, floating equipment	**2.3**
Plant and machinery	**4.4**
Rental equipment and other operating fixed assets	**19.0**
Other items	**1.5**
	27.2

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.

Balance sheet ratios

The condensed balance sheet as at 31 December 2014 is as follows

In millions of euros	31 Dec 2014	31 Dec 2013	Difference
Non-current assets	350.1	355.6	**-5.5**
Working capital (excluding cash and cash equivalents)	-6.8	-95.1	**88.3**
Cash and cash equivalents	149.2	223.9	**-74.7**
Net assets	492.5	484.4	**8.1**
Non-current liabilities	196.8	169.0	**27.8**
Group equity	295.7	315.4	**-19.7**
Financing	492.5	484.4	**8.1**

Group equity decreased by €19.7 million. This decrease is the balance of the profit for the 2014 financial year (€123 million) less the distributed dividend (totaling €57 million), a negative movement in the hedging reserve (€59.8 million after tax) related to hedge accounting on outstanding contracts and changes following amended fair values, currency differences and movements after acquisitions following regular accounting standards (€25.9 million). The solvency ratio as at 31 December 2014 was 24.9%, a decrease of 4.2% compared to 31 December 2013. The current ratio as at year-end 2014 was 1.3 (year-end 2013 = 1.2).

Financing

Since June 2011 the group has had €1,500 million in credit facilities, which are divided as follows

	Amount	Maturity date	Amortisation	Type	Drawn per 31-12-2014
Bank guarantees	900,000	30 May 2018	Not applicable	Committed	494,922
Project working capital	325,000	30 May 2016	Delivery vessel	Committed	105,000
Revolving credit facility	50,000	30 May 2018	Bullet	Committed	-
Term debt	50,000	30 May 2019	Bullet	Committed	50,000
Accordion facility	175,000	30 May 2018	Not applicable	Uncommitted	-
	1,500,000				**649,922**

Usage of the project working capital is limited to fund working capital for certain designated vessels. The borrowings are repaid pro rata for the delivery of the relevant vessels and the facility is (partly) cancelled. The cancelled amount becomes available again as an "uncommitted accordion facility" and subsequently can be re-instated.

In 2014 the Group agreed to extend the above-mentioned facilities by at least two years with two additional annual extension options. These facilities are provided by a consortium of financial institutions, consisting of ABN AMRO, DBS Bank Ltd, Delta Lloyd, Deutsche Bank, ING Bank, Rabobank and the Royal Bank of Scotland. In the context of this credit agreement, certain immovable property has been mortgaged and certain inventories, receivables, bank balances, other movable property and current assets have been pledged to the lenders. The commitments to the financial covenants have been met in full as at 31 December 2014.

In addition to above-mentioned credit facilities, the Group has the following other credit facilities:

(i) A €60 million guarantee facility with N.V. Nationale Borg-Maatschappij of which €23.4 million was outstanding at 31 December 2014.

(ii) A €7.2 million-term loan provided by a vendor finance provider in the form of a five-year annuity on a quarterly basis.

(iii) A €32.4 million-term loan provided by ING Bank and used to finance the shipyard located in Krimpen aan den IJssel. This financing is secured with a mortgage on the property without recourse to the rest of the group.

(iv) Loans for a total amount of €22.5 million were acquired with the acquisition of Brastec Technologies S.A. This includes a loan which was collateralized with an office building with a book value of €3.3 million and for which an agreement is reached to offset the loan in 2015 with the building. Guarantees have been given by both IHC Merwede Holding B.V. and a fund related to a minority shareholder for an amount of € 6.1 million each.

New investments will be financed mainly with existing credit facilities.

Report of the Board of Management

Strategy

After the finalisation of the last strategic period in 2013 – with the conclusion of the transformation of the shareholder situation – the need for changed reassessment of the strategy under new management and market conditions was recognised. Senior management, together with a selected sounding board of high potentials, worked over the first half of the year to define a revised strategy towards 2020. After constructive discussions with the Supervisory Board and Works Council, this plan was accepted as the way forward for the coming years.

In line with the ONE IHC programme, the 2020 strategy called for a focus on "outside-in" instead of "inside-out". The ONE IHC programme is designed to create a uniform process and ICT systems environment. This sets a platform from which the creative energies of IHC's employees concentrate more exclusively on the customers' requirements, instead of the company's needs in executing projects and business accounting.

The five building blocks of the 2020 strategy are: customer driven, operational efficiency, internationalisation, innovation and employer of choice. Underlying these building blocks was the need to migrate in the upcoming period towards the development of business for the opex side of the customer base. This will lower the future dependency on the capex economic cycles and connected inefficiencies in levelling resource availability.
Furthermore, putting the customer first means building a strong portfolio that appeals to customers, both on an integrated vessel level as well as for separate equipment and components. This calls for strengthening vessel-building activities by rationalising existing shipbuilding activities, assessing alternative construction approaches and using the international supply chain in a stand-alone offering.

Local for local commercially, as well as production and service, need to be integrated in mandated international units that are tailored towards the local business culture. On top of this, broadening the portfolio with respect to customers, products and services is of the utmost importance. From sea level to ocean floor, IHC needs to broaden its scope by differentiating the portfolio and answering the questions raised by tomorrow's market demands.

Innovation is crucial to achieve this, but should be focused on generating innovative output that sells. Much more than in the past, new portfolio initiatives will be measured against the direct marketability of the idea and the acceptance of performance output and uptime guarantees. For this, IHC needs high-quality employees that apply a flexible approach, geared to challenging current practice and raising the standard of performance output. To be attractive for these employees, the working environment needs to be a stimulating factor, striving to bring out the best of people as the employer of choice.

Mirroring the above strategic direction, the organisational structure was reassessed to be more functional as a foundation for operational efficiency and bringing opex-orientated business to the ExCo level of influence. Combining what belongs together was an important design criterion. The direction of the development is geared towards concentrating IHC's shipbuilding business at the Kinderdijk and Krimpen yards, mothballing Hardinxveld (in terms of IHC's activities) and revamping Sliedrecht into an offshore tools hub for the combination of Hydrohammer, Handling Systems and Seasteel. These three companies will be integrated with Fundex to form a ring-fenced legal and financial unit. This will make them autonomous in the creation of growth, albeit using the same ICT platforms as the rest of the company and collaborating closely with other entities regarding commerce and supply chain management.

Functional responsibilities for marketing, sales and shipbuilding follow the market trend of the "offshorisation" of the dredging market. The split in the market is less about offshore versus dredging, and more about regional and account division. The structuring of IHC's activities follows these movements.

The growth of the opex side of the business is reflected in the formation of a service group, in which rental will play an important part and the combination of all equipment companies will be under one management. Effectively these actions will help IHC to drive the change from a typical Dutch-based shipbuilding company "behind the dykes" in Holland, towards a full-service maritime company that is active from sea level to ocean floor, operating internationally out of a local-for-local perspective.

Risk management

2014 showed that volatile economic dynamics persist and the markets in which IHC is active are characterised by a multiple and above average risk profile. It is therefore to the essential that these risks are managed, and to a large extent mitigated, via stringent procedures for project, contract, technical and financial risk management.

Accepting certain risks is a prerequisite for achieving operational and financial objectives. The objective of IHC's risk management and internal control framework is to identify and effectively manage risks to which the business is exposed. The risk management and internal control framework is currently in the process of being revised from a central Corporate Risk Management function to ensure that it is in balance with IHC's risk profile. Although such systems can never provide absolute assurance, they do contribute to a more effective and transparent organisation. The adequacy and effectiveness of the framework are regularly reviewed.

The Board of Directors, under the supervision of the Supervisory Board, has overall responsibility for the risk management and control framework within the company. The Chief Financial Officer acts as formal representative of this responsibility and is advised by the Corporate Risk Manager and other related staff functions.

Risk management – for both threats and opportunities – is completed via a process of risk identification, assessment, planning adequate responses and implementing effective monitoring.

With the strategic focus now more on equipment, the exposure distribution shifts slightly towards equipment-related risks. However, in general the types of risks inherent within the company's business have not altered substantially.

Market risks
This is the sixth consecutive year of downturn in global shipbuilding. Overall, vessel prices are still at rock bottom, but the cost of production has continued to increase, affecting sector margins. Globally, only a small number of shipbuilding orders are being placed, and these are primarily granted to dominant yards that possess superior brand, technology and financial strength.

The order intake remains irregular due to the nature of the company's business, focusing on high-end integrated goods with a large capital value. Smart balancing of outsourced work and a flexible workforce allow IHC to respond adequately to peaks and dips in the workload.

Balancing the product and service portfolio from capex dominance towards a better equilibrium between capex and opex-related orders is important to soften the irregularity of order intake. This will result in optimising capacity and stabilising the revenue base. Increased focus on life-cycle support, services, spare parts and rental models for equipment has been earmarked in the new strategy to this effect, and is aimed at lower opex for customers and prolonging the asset lifespan of IHC's products.

Contract risks
Increasing product complexity, and a heftier focus on project preparation, called for the implementation of a risk governance tool into the sales process for substantially large orders. Before a binding offer is sent out, a formal contract risk assessment is completed, with the aim of lowering unwanted execution risks and making explicit the accepted risks of the most important topics.

The risks in the actual contract are identified and evaluated by the legal department. When internal expertise falls short, 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 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 is also in continuous dialogue with export credit agencies 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. This is reviewed and updated annually. The amount of US dollar cash flow remains high, due to the high level of order execution for offshore customers. The other major foreign currencies are British pounds and Chinese renminbi. Most foreign currency is 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, which are being assessed using information from recognised institutions that provide credit information. In addition, credit risks are covered by obtaining collateral, such as bank guarantees and confirmed letters of credit, credit insurance covers 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 covers the difficulty of meeting 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

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due – under both normal and stressed conditions – without incurring unacceptable losses or risking damage to the company's reputation.

Project risks
The products that IHC delivers to its customers are managed predominantly on a project basis. During 2014 a uniform project management methodology was implemented across the company. Based on PRINCE2, the methodology has project risk management as one of the major project controls.

Procedures were implemented for systematic risk analysis of higher risk orders (a formal set of criteria to decide if an order is to be managed as a project – risk exposure being one of the criteria – has been instated) to assess potential risks during the proposal phase to avoid pursuing projects with an unacceptably high risk profile. In order to support project management with monitoring project risks, Active Risk Manager was chosen as a uniform risk tool and is being rolled out throughout all IHC units as from the last quarter of 2014.

The focus remains on the reduction of the variation in project results by proactive identification of significant technical, commercial and contractual risks, and finding timely, effective responses to reduce threats and enhance opportunities.

Execution risks
Execution risk is controlled by monitoring the engineering, construction and commissioning of all equipment on a continual basis. 2014 saw the implementation of a uniform monthly progress report, which includes 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 Executive Committee and important milestones to a larger audience of internal stakeholders. Work in progress is insured for damage.

Fiscal risks
Fiscal risks are managed at 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.

IHC made considerable steps towards horizontal monitoring during 2014. After having been informed of One IHC and specifically the implementation of a new ERP system, the Dutch tax authorities expressed a positive general attitude towards IHC gaining control of its tax-related processes. A monitoring plan is actually under discussion with the tax authorities. In 2015 it is foreseen that IHC and the Dutch tax authorities will formally enter into a tax covenant.

Human resources

2014 can be characterised as a year of continuous support for the harmonisation of the way IHC works, and the terms and conditions in order to support the increasingly centralised structure. This meant positive corporation with the Works Council on several subjects. An example of this cooperation is the request for approval sent to the Works Council for one uniform job ranking system to simplify and standardise all the job profiles and connected pay scales.

Also, the newly implemented organisational structure connected with the IHC 2020 Strategy has been discussed intensively with the Works Council.

In 2014 IHC supported the alienation of its Sealing Solutions business (Lagersmit). It has also assisted in the acquisition of the majority shareholding in IHC Systems. At the end of the year, it supported the acquisition of Brastec and SAS Offshore.

From a training and educational point of view, IHC focused on activities for securing sustainable employability. Together with external providers, it has investigated the possibilities of increasing sustainable employability for all employees in the near future. Furthermore, it was involved in developing and executing the training component of One Project Management.

HR is heavily involved in the Employer of Choice project – from good to great! As one of the strategic building blocks, EoC (Employer of Choice) focuses on IHC becoming an even greater company to work for. It has everything to do with employees and as such connects to all of the other building blocks.

In order to realise the IHC 2020 objectives, IHC needs to be an employer of first choice for target groups of employees that it would want to engage. By giving extra attention to designated groups, IHC will be able to attract and retain the required number and quality of employees necessary.

IHC will develop its position as an EoC by executing the following strategic topics:

21st Century HR: Update and modernisation of labour conditions, in line with requirements of the 21st Century.

Leadership: Managers at all levels taking the lead in accordance with the leadership style and characteristics required for taking IHC to the next level.

Talent management: Retaining well-qualified employees requires management to have a clear vision on career paths for their employees, as well as how to develop each person's talents.

Image: IHC might be the best-kept secret in terms of employers in the Rotterdam area – it wants to strengthen and communicate a strong image.

International position and approach: Attracting qualified personnel is not just a Dutch issue. If the span of attention is expanded for example to Europe or Asia, IHC will be able to recruit foreign staff to come to The Netherlands or execute activities on location.

As a first step early in 2015, IHC will execute an external and internal survey in order to define the gap with the present situation.

IHC has taken note of the law requiring a more balanced representation of men and women on the Board of Management. Under this law, at least 30% of the positions must be held by women and 30% must be held by men. When making future nominations and appointments, the Board of Management will take into account the statutory requirements for a balanced representation of men and women.

Corporate Social Responsibility

Due to worldwide trends, such as a growing population, more demand for raw materials and increasing temperatures, the urge for sustainable energy and material resources is stronger than ever. The challenges that come with these potential threats, in combination with legislation and increasing expectations of external stakeholders, are important drivers to incorporate a CSR strategy that fits the organisation's daily business.

As a supplier for the dredging, offshore and mining industries, IHC faces the challenge to transform the threat to its products' licenses to operate into opportunities for its customers. New standards and a changing playing field open doors for highly qualitative, innovative and sustainable product design, while the total cost of ownership is taken into account. However, the consequence of operating in an international environment is that western legislation and standards could potentially lead to an unequal international playing field. In a world in which cost price is still the decisive factor, it is a challenge to find the right balance between both sides of the medal.

Political standards tend to focus on transparency and unambiguous control, followed by a social debate that asks for a more compulsory CSR approach. An example is found in the field of export credit assurance, where practically all applications linked to the dredging and offshore industries are screened for social and environmental effects.

IHC's CSR strategy
IHC's CSR strategy aims to balance the company's responsibilities regarding financial, social and environmental aspects, based on the three pillars of sustainable entrepreneurship, social responsibility and environmental accountability. In 2014, a dialogue with external stakeholders to verify the internal CSR policy, including the material aspects and communication standards, has been developed. In past years, IHC's CSR policy had a strong internal focus. In order to include the opinions of external stakeholders, structured stakeholder dialogues were organised to verify the internal approach. Answers and feedback will help to close the gap between IHC's CSR policy and the expectations of the external stakeholders.

In the past year, relevant topics on the CSR agenda included chain responsibility, good governance, education and training, and health and safety. Continuous attention is given to sustainable product development and innovation to ensure that IHC products comply with environmental legislation, both today and in the future. Finally, the energy consumption and carbon footprint of the internal production processes are a matter of priority. IHC's reports are in accordance with the Global Reporting Initiative guidelines on its non-financial results in its CSR report.

IHC Merwede Foundation
The IHC Merwede Foundation was established in 2012 as a direct consequence of the company's CSR strategy. Through the Foundation, IHC aims to put the knowledge and passion of its employees to good use for the benefit of adults and children, for whom it could make a world of difference. The objective of the Foundation is to contribute to social, cultural and community-supporting activities with a sustainable character.

Several national and international initiatives, on both a large and small scale, received the support of the IHC Merwede Foundation in 2014. Partnerships with projects, such as "Samen voor Zambia" and "the Winddrinker" were continued with both financial and in-kind contributions, and a wide variety of smaller initiatives also received financial support.

The future

The market in 2015 will be dominated by a low level of activity of new EPC projects (Engineer, Procure and Construct) for the oil and gas offshore industry. The strategic initiatives have

Report of the Board of Management

to be implemented faster than we hoped for, as they are a direct necessity in response to commercial developments. If the choices prove to be right, then the challenge will be to speed up the process.

The fewer number of projects in the new-build arena are won only by a strong cost-driven attitude, fit-for-use design, alternative solutions and strong project management. Furthermore, the search for an IHC-controlled foreign yard in a low-cost internationally oriented location cannot be postponed as an end result of the strategy implementation, but needs to be brought forward to strengthen IHC's commercial proposition at the earliest opportunity.

For 2015 there will be a full utilisation in the first half year whereafter new orderintake is required to maintain full occupancy of all slipways and to keep the entire workforce busy. The best opportunities lie in the field of stock equipment and standard vessels with the mainstay of new projects originating in the dredging and maritime construction business (eg renewables) and the opex-driven oil and gas activities.

New investments focus on direct business opportunities to broaden IHC's portfolio in customers and products. M&A targets will be analysed in terms of filling the blank spots in the portfolio from sea level to ocean floor. New product propositions are being developed in joint venture with business partners for maximum control towards successful introductions. Research and development will be assessed against the new standard of payback time, and time-to-market using the FRITS methodology. Investments will remain on a high level.

Safety, health, environment and quality (SHEQ) will be major cornerstones in executing IHC's business, using a top-down approach with a focus on improving safety issues and quality control. All of the above programmes are supported by the first roll-outs of the suite of ICT applications for ERP, CAD/CAM, PDM and related tools.

Backed by a profit-generating back-log, the company faces challenging market conditions in the upcoming period. However, through the experience of having met these battles successfully in the past and the fighting spirit of IHC's employees to deliver a high level of performance, the Board of Management has the confidence that the time is right for the changes as designed.

Sliedrecht, 30 March 2015

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

Abbreviated financial information 2014

Abbreviated financial information 2014

Consolidated income statement

In thousands of euros	2014		2013	
Revenue	1,214,701		984,471	
Other income	25,381		2,210	
Operating income		**1,240,082**		**986,681**
External costs	769,161		616,930	
Employee expenses	277,845		257,753	
Depreciation and impairment of property, plant and equipment	32,797		28,684	
Amortisation and impairment of intangible assets	10,862		10,011	
Other expenses	1,192		3,966	
Operating expenses		**1,091,857**		**917,344**
Result from operating activities		**148,225**		**69,337**
Finance income	4,845		2,603	
Finance expenses	-5,296		-6,544	
Net finance expense		**-451**		**-3,941**
Share of result of equity accounted investees (net of income tax)		501		-1,317
Profit before income tax		**148,275**		**64,079**
Income tax expense		-24,287		-7,802
Profit for the period		**123,988**		**56,277**
Profit attributable to:				
Owners of the Company		123,025		54,369
Non-controlling interests		963		1,908
Profit for the period		**123,988**		**56,277**

Consolidated balance sheet
(Before appropriation of result)

In thousands of euros	31 Dec 2014		31 Dec 2013	
Assets				
Property, plant and equipment	214,042		223,436	
Investment property	9,518		5,079	
Intangible assets and goodwill	99,654		51,417	
Investments in equity accounted investees	2,829		680	
Deferred tax assets	3,620		3,219	
Other non-current financial assets	20,471		71,748	
Non-current assets		**350,134**		**355,579**
Inventories	104,161		99,093	
Due from customers for work in progress	326,290		254,368	
Trade and other receivables	258,512		150,298	
Current tax receivables	985		570	
Cash and cash equivalents	149,212		223,921	
Current assets		**839,160**		**728,250**
Total assets		**1,189,294**		**1,083,829**
Group equity				
Share capital	250		250	
Share premium reserve	68,136		68,136	
Reserves	129,725		188,445	
Unappropriated result	96,025		54,369	
Total equity attributable to equity holders of the Company		**294,136**		**311,200**
Non-controlling interests		1,585		4,195
Total Group equity		**295,721**		**315,395**
Liabilities				
Loans and borrowings	88,779		67,665	
Derivatives	30,655		7,020	
Deferred tax liabilities	51,703		70,630	
Provisions	16,637		15,602	
Other liabilities	9,065		8,055	
Total non-current liabilities		**196,839**		**168,972**
Trade and other payables	374,457		283,536	
Due to customers for work in progress	159,210		128,146	
Current portion of loans and borrowings	128,652		164,190	
Current tax liabilities	12,379		1,048	
Provisions	22,036		22,542	
Total current liabilities		**696,734**		**599,462**
Total liabilities		**893,573**		**768,434**
Total Group equity and liabilities		**1,189,294**		**1,083,829**

Abbreviated financial information 2014

Consolidated statement of cash flows

In thousands of euros	2014	2013
Profit for the period	123,988	56,277
Adjustments for:		
Depreciation, amortisation and impairment expenses	43,659	38,695
Revaluation of land	-243	772
Loss/(gain) on sale of property, plant and equipment	-124	1,005
Loss/(gain) on investment property	-393	-
Share of result of equity accounted investees	-501	1,317
Gain on sale of participations	-21,633	-
Net finance income	451	3,941
Income tax expense	24,287	7,802
Changes in provisions	-3,548	2,325
	165,943	**112,134**
Interest (paid) / received	-595	-2,485
Income tax paid	-8,264	-1,024
Net cash flow from operating activities (excluding changes in working capital)	**157,084**	**108,625**
Changes in working capital (excluding cash and cash equivalents):		
- Acquisition of rental fleet	-18,460	-13,102
- Inventories	-3,541	-1,771
- Due from customers for work in progress	-63,059	-230,627
- Trade and other receivables (excluding derivatives and accrued interest)	-90,125	22,652
- Due to customers for work in progress	20,721	41,920
- Trade and other payables (excluding derivatives and accrued interest)	15,202	74,899
- Other changes in working capital	31,910	25,098
Changes in working capital	**-107,352**	**-80,931**
Net cash flow from operating activities	**49,732**	**27,694**
Acquisitions of intangible assets and property, plant and equipment	-28,995	-23,616
Proceeds from divestments of property, plant and equipment	3,702	7,936
Acquisition of subsidiaries, net of cash acquired	-14,397	-
Proceeds from disposals of subsidiaries, net of cash disposed	24,018	-
Proceeds from disposals of equity accounted investees	1,100	-
Investments in other non-current financial assets	-	-2,050
Dividends received	154	128
Issue of loans and receivables	-34	-
Net cash flow used in investing activities	**-14,452**	**-17,602**
Acquisition of non-controlling interests	-16,748	-
Additions to loans and borrowings	122,808	198,000
Repayment of loans and borrowings	-158,330	-17,534
Dividends paid	-57,000	-148,654
Dividends paid to minority interests	-1,890	-2,199
Net cash flow used in financing activities	**-111,160**	**29,613**
Net increase / (decrease) in cash and cash equivalents	**-75,880**	**39,705**
Cash and cash equivalents as at 1 January	223,921	179,856
Movements in net cash and cash equivalents	-75,880	39,705
Reclassification assets held for sale	-	4,062
Effect of exchange rate fluctuations on cash held	1,171	298
Cash and cash equivalents as at 31 December	**149,212**	**223,921**

Notes to the abbreviated financial information

1. General

The abbreviated financial information is derived from the financial statements 2014, 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 2014.

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 30 March 2015 was issued by KPMG Accountants N.V. The unabridged financial statements 2014 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 2014.

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.

Changes in accounting policies

The Group has adopted the following new standards with a date of initial application of 1 January 2014:
- IFRS 10 Consolidated financial statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of interests in other entities

The above changes did not have a material impact on the Group's financial position, comprehensive income and cash-flows.

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, valuation of inventories and acquisition of subsidiaries.

Basis of consolidation

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

Foreign currencies

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

Derivatives

The Group holds derivative financial instruments to decrease its exposure to foreign currency risks and interest rate risks. Derivatives are measured at fair value and changes therein are recognised in the consolidated income statement, unless hedge accounting is applied.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in the hedging reserve in equity. When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. The portion of the gain or loss on an instrument used to hedge

Notes to the abbreviated financial information

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 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. The stage of completion is generally assessed on the basis of the cost incurred of the work performed in relation to the expected total costs of the project. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

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

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

Rental income from property, plant and equipment is 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 €11.4 million (2013: €11.3 million) and are included in external costs and employee expenses.

4. Order book

The order book at year-end 2014 amounted to €1,166 million (year-end 2013: €1,743 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 2014, the consolidated balance sheet as at 31 December 2014, 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, are derived from the audited financial statements of IHC Merwede Holding B.V. for the year ended 31 December 2014. We expressed an unqualified audit opinion on those financial statements in our report dated 30 March 2015. Those financial statements, and the summary financial statements, 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 2014 are consistent, in all material respects, with those financial statements, on the basis described in note 1.

Rotterdam, 30 March 2015

KPMG Accountants N.V.
L.H. Barg RA

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The Netherlands
Sliedrecht

Regional offices

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The Netherlands
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Alphen aan den Rijn
Apeldoorn
Delfgauw
Dordrecht
Goes
Hardinxveld-Giessendam
Kinderdijk
Raamsdonksveer
Sliedrecht

France
Verberie

Germany
Bremen

United Kingdom
Blandford Forum

ASIA
P.R. of China
Beijing
Shanghai
Tianjin

SOUTH EAST ASIA
Rep. of Singapore
Singapore

ASIA
India
Mumbai

AUSTRALIA
Sydney

MIDDLE EAST
United Arab Emirates
Dubai

Nigeria
Lagos

NORTH AMERICA
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Houston, TX
Wayne, NJ

SOUTH AMERICA
Brazil
Rio de Janeiro

Engineering & Production

EUROPE
The Netherlands
Alphen aan den Rijn
Hardinxveld-Giessendam
Kinderdijk
Krimpen aan den IJssel
Raamsdonksveer
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Croatia
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Slovakia
Komarno

AFRICA
South Africa
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