



IHC|CALAND

A N N U A L R E P O R T 2 0 0 3

Technology Creating Value

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IHC Caland's mission is to optimise value for its clients and shareholders by anticipating and satisfying its clients' requirements with minimum cost advanced technology solutions. The Group's aim is to be consistently on the forefront of market oriented technology development in its business areas and to maintain and reinforce its leading market positions in the world.



Corporate profile

IHC Caland N.V.

IHC Caland designs, builds and operates equipment, vessels and complete systems for the offshore oil and gas industry, and the dredging and maritime sector. IHC Caland is a Group with six principal subsidiaries, operating at present under the two divisions – offshore oil and gas and dredgerbuilding industry. In most of its niche markets, the Group is a world market leader. IHC Caland has operations in 29 countries, and currently employs over four thousand dedicated staff. It is the intention in 2004 to split off the dredgerbuilding activities, either by a sale or by a separate stock exchange listing. This will allow Management to focus its attention entirely on strategic objectives and growth opportunities in the offshore oil and gas industry.

Offshore oil and gas activities

Offshore activities mainly involve the design, supply and installation offshore of floating systems for the production, storage and transshipment of crude oil and gas. These comprise Floating Production, Storage and Offloading systems (FPSO's), Floating Storage and Offloading systems (FSO's), Tension Leg Platforms (TLP's) and Floating Production Units (FPU's). The Group also builds and operates FPSO's and FSO's for its own account. These are leased to oil companies on the basis of long-term contracts. With thirteen such units in operation, three under construction, and one on stand-by on 1 January 2004, the Group is the largest player in this market.

Also included in the product line are all facilities and systems used to moor crude oil and gas carriers for the purpose of loading or offloading, and mooring systems to keep floating facilities on station. Besides these, many other products are designed, from drillships, crane

vessels and pipelaying barges to jack-up and semi-submersible drilling rigs. Another steady activity is the provision of specialised services for the maintenance, repair and installation of systems.

Dredgerbuilding activities

The Group's yards are mainly focused on dredgerbuilding. IHC Caland's world market share in custom-built and standard types of dredging equipment is over 50%. The history of these business activities goes back more than 300 years, and they involve a wide range of hardware and services for the full range of dredging activities.

The dredgerbuilding activities serve niche markets where demand is for custom-built, one-off designed complex ships with a high degree of added value, and the yards have all key technology in house. On top of this, the Group has built an extensive network of external suppliers and subcontractors to optimise design and construction in all projects.

In addition, the Group's shipyards sometimes build specialised vessels, such as Ro-Pax ferries, offshore support and river cruise vessels.

The dredgerbuilding division also includes a number of foundation activities which dovetail technologically with the Group's know-how.

Strategy and organisation

In respect of both the offshore and the dredgerbuilding activities, there is a set of centrally agreed financial and strategic conditions. Within these limits, each subsidiary markets its products and services independently, and under its own identity. At the same time, the subsidiaries within each activity make extensive use of each others' core skills and common market knowledge, and network of clients,

suppliers and strategic project partners. The corporate culture is characterised by market-oriented innovation. IHC Caland is a trendsetter in the development of new cost-saving solutions which optimally respond to clients' changing needs. In order to protect and expand its leading market position, IHC Caland devotes great attention to research and development, as well as to the management of financial and technical risks. The Group owns a large number of patents.

Added value

For clients, the supply of high quality maritime technology, creating maximum value, is fundamental in the strategy of IHC Caland. Flexibility and efficiency in combining its own knowledge and skills with those of partners in projects and systems are essential.

For shareholders, IHC Caland pursues a long-term return which is substantially higher than its cost of capital. Although certain sectors where it operates have a cyclical character, long-term contracts for lease of the Group's F(P)SO's and service contracts contribute to a reasonably stable and predictable return.

For employees, IHC Caland seeks to be an attractive employer, offering wide opportunities for professional and personal advancement. The maintenance of safe and healthy working conditions and the observance of strict safety and environmental standards have the highest priority.

Stock exchange listing

The shares of IHC Caland are listed on the Euronext Amsterdam Stock Exchange. The shares are included in the Next 150 index, and in the AEX index.



Sanha LPG FPSO

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This report is also published in the Dutch language.

Only the Dutch language edition of the Annual Accounts will be submitted for approval by the General Meeting of Shareholders.

Glossary

A technical glossary was included with the Annual Report 2002. The complete glossary will be included on a bi-annual basis, with the latest version available on the Company's website.

Snapshot of 2003 / Overview of 2004

Item	(US\$ mln.)	2002	2003	Movement	%	Comment
Net profit		77.4	46.6	(30.8)	(39.8)	van der Giessen/turnkey problems
Per share (US\$)		2.44	1.45	(0.99)	(40.6)	van der Giessen/turnkey problems
EBIT		82.3	64.4	(17.9)	(21.7)	van der Giessen/turnkey problem
EBITDA		180.2	219.2	39.0	21.6	Increasing depreciation
Enterprise value (EV)*		2,457.1	2,819.8	362.7	14.8	Market/FPSO fleet funding
EV : EBITDA		13.6	12.9	(0.7)	(5.1)	Inflated by low profits
Turnover		929.5	1,848.7	919.2	98.9	Mainly offshore turnkey
EBIT : Turnover (%)		8.9	3.5	(5.4)		van der Giessen/turnkey problems
Cash flow		175.3	201.4	26.1	14.9	Increasing depreciation
Per share (US\$)		5.53	6.27	0.74	13.3	Increasing depreciation
Net cash, securities		212.4	167.3	(45.1)	(21.3)	Healthy level
Capital expenditure		701.9	530.0	(171.9)	(24.5)	Lease fleet growth
Equity		679.9	710.5	30.6	4.5	Profit shortfall/high dividend
Capital employed		1,686.3	2,005.2	319.0	18.9	Growing lease fleet
ROCE (%)		8.2	5.5	(2.7)		Investment in FPSO's/low profit
Net debt : Equity (%)		115	150	35		Growing lease fleet
EBITDA interest cover**		10.7	5.4	(5.3)	(49.5)	Growing debt levels
Net debt : EBITDA**		3.6	3.8	0.2	6.5	Growing lease fleet/low profit
New orders						
– Offshore		1,568.8	990.6	(578.2)	(36.9)	Disappointing market
– Dredger/shipbuilding		289.6	401.7	112.1	38.7	Significantly up on 2002
Backlog						
– Offshore		4,320.7	4,034.0	(286.7)	(6.6)	Down because of low order intake
– Dredger/shipbuilding		753.7	726.1	(27.6)	(3.7)	Stable
Share price 31/12 (€)		50.30	43.00	(7.30)	(14.5)	Underperformed AEX by 19%
AEX-index		322.7	337.0	14.3	4.4	
Market capitalisation		1,675.4	1,752.7	77.3	4.6	
Proposed dividend (US\$)		1.44	1.40	(0.04)	(2.4)	50% of pre-'extraordinaries'

* Enterprise value is year-end market capitalisation, plus net debt.

** Excluding 'extraordinaries'.





OVERVIEW OF 2004

Financial

The F(P)SO lease and operate fleet will continue to be the primary driver of profitability and cash flow. The year begins with ten FPSO's and three FSO's in operation, and after two start-ups and one redelivery, will end with eleven FPSO's and three FSO's.

Turnkey deliveries will be lower than in 2003, again with modest profits, partly due to large subcontract elements.

The Group's dredgerbuilding activities are projected to return to profitability, and to be split off during the year. The closure of van der Giessen-de Noord will be completed.

The level of over/underrecovery of indirect costs will very much depend on the timing of new order intake.

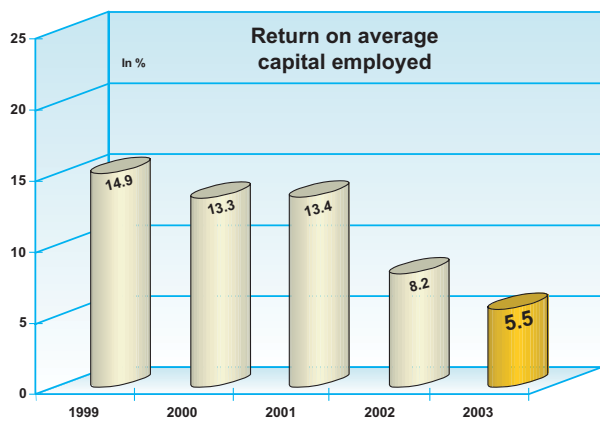
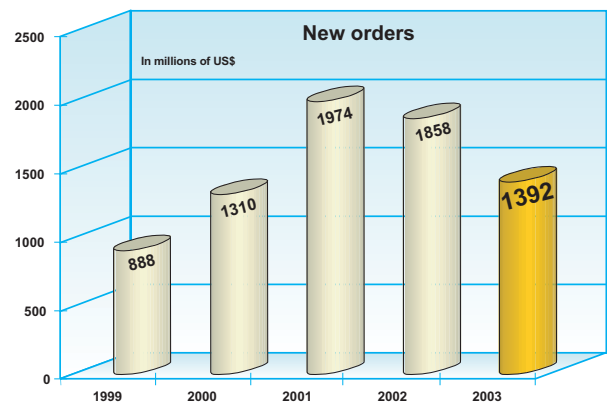
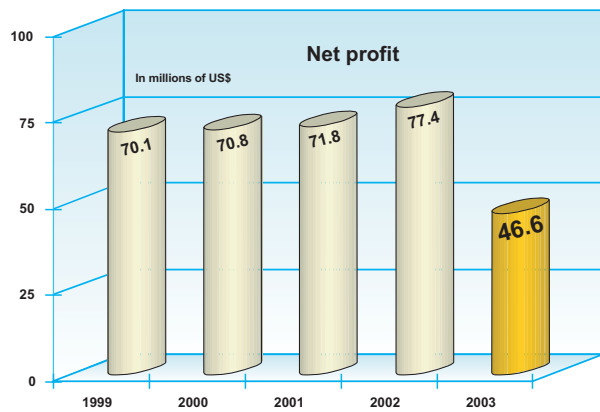
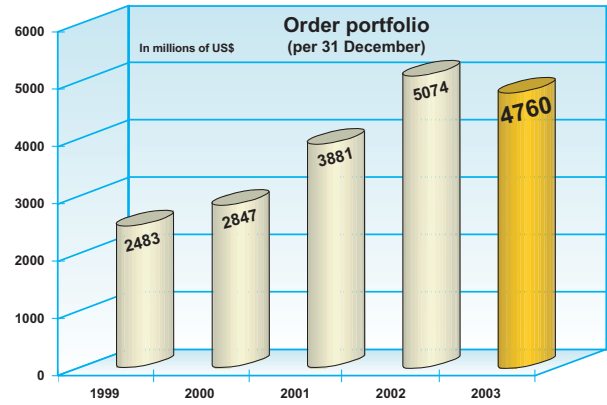
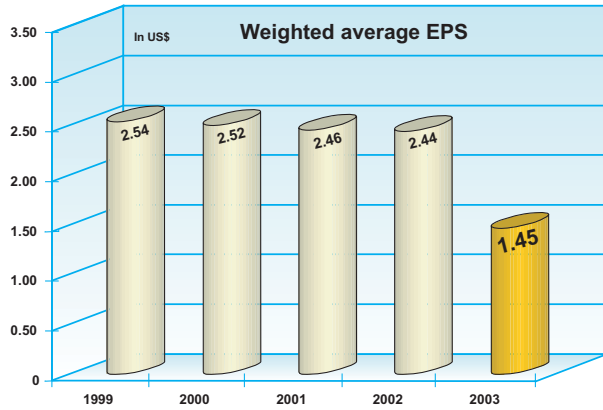
Due to uncertainties regarding the manner and value of the disposal of shipbuilding, and the timing of new orders in the offshore division, no profit forecast will be given at present.

Market conditions

A significant number of F(P)SO lease and operate contracts are expected in the market, initially from independent and state oil companies, and later from the majors. The market for the supply of facilities, services and spare parts also looks promising.

In the dredgerbuilding business, the state-owned corporations should offer considerable opportunities, but the West European 'big four' will initially be slow to invest.

Five years key graphics



Shareholder information

The AEX index

2003 was the first year in which IHC Caland was a member of the prestigious AEX index.

Predictably, membership had a significant effect on the average daily liquidity of the Company's share, which increased year-on-year by around 60% to 170,000. At year-end 2003, the Company ranked 21st out of the 24 then current participants in the index, with a weighting of 0.57% (at start: 0.44%).

Share price development

The share price fell during the year by 14.5% from € 50.30 to € 43.00, thereby underperforming the AEX by 19%, compared with an outperformance in 2002 of 30%. This was mainly due to the impact on the result for the year of the cost of closure of the van der Giessen-de Noord shipyard and the October profit warning. For the same reasons, the Company's share price underperformed most of its peers over the year. In US dollar however, the share price went up by 4.6% from US\$ 52.77 to US\$ 54.22.

Based on the year-end closing price, the proposed dividend of US\$ 1.40 per share gives a yield of 2.6% per share (2002: 3%).

US dollar reporting

For the first time, the Company is reporting its financial results in US dollars. This is already a logical choice of currency due to the predominant role of the US dollar in the Group's business, and this will be even more the case once the Group's Euro-based shipbuilding activities have been split off.

As already advised, in future the annual dividend will be calculated in US dollars. For so long as the Company's share is quoted in Euros, the dividend will be payable in Euros, converted from US dollars at the European Central Bank reference exchange rate of the day prior to the date on which the share is quoted ex-dividend, i.e. at the reference rate of Monday 17 May 2004. Due to problems with the Dutch dividend payment system, the Company's preference to pay the dividend in US dollars, with an Euro equivalent payable at the shareholder's option, is not possible.

Number of outstanding ordinary shares

The total number of ordinary shares in IHC Caland showed the following movements during the year 2003:

Balance 1 January 2003	31,868,318
Stock dividend	434,662
Options exercised	21,450
Balance 31 December 2003	<u>32,324,430</u>

Shareholders

The Company's shares are currently almost entirely in the hands of institutional investors, of whom the large majority are Anglo-American.

As required under the Major Holdings in Listed Companies Disclosure Act, in February 2004 K Capital of Boston, USA, disclosed an interest of 5.49% in the capital of IHC Caland, while Capital Income Builders of Los Angeles, USA disclosed an interest of 5.08% in November 2003.

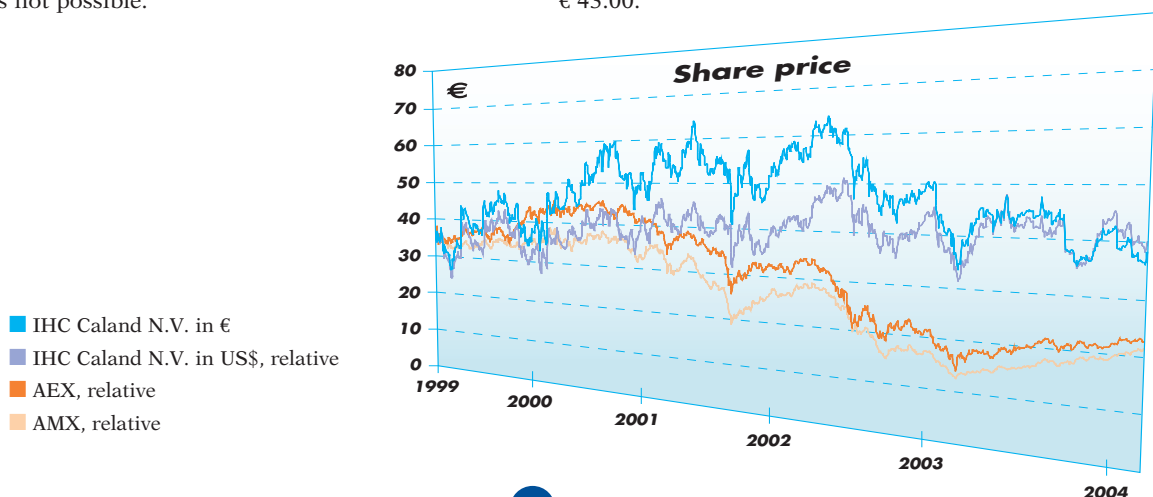
Employees of the Group own approximately 200,000 shares in IHC Caland through an Employee Share Ownership Plan (ESOP).

Financial

Full information regarding the number of shares in issue and various statistics per share can be found on page 91. Up to date information on the IHC Caland share can be found on the Company's website at: www.ihccaland.nl

	Turnover by volume	% share capital	Highest share price €	Lowest share price €
1999	29,200,395	106.23	49.20	26.40
2000	24,208,898	86.82	61.40	31.00
2001	27,342,047	93.68	65.60	40.60
2002	26,892,853	83.64	64.95	41.32
2003	42,956,586	133.59	52.25	33.53

Average daily liquidity in 2003 amounted to around 170,000 shares. The average closing share price for the year was € 43.01, and the year-end closing price was € 43.00.



Report of the Supervisory Board

We hereby present to you the Annual Accounts for the year 2003, to be discussed and approved in the Annual General Meeting of Shareholders on Friday, 14 May 2004. The Annual Accounts have been audited by the external auditors, KPMG Accountants N.V., and their findings have been discussed with the Supervisory Board in the presence of the Board of Management. The auditors have expressed an unqualified opinion on the Annual Accounts.

A proposal is made by the Board of Management in the Annual Accounts in respect of distribution of profit, including a cash dividend of US\$ 1.40 per ordinary share. At the choice of the shareholder, the dividend can also be received in shares.

The Supervisory Board is in agreement with this proposal, which will be made a separate agenda point for the shareholders meeting, following the approval of the Annual Accounts.

In the Annual General Meeting of Shareholders we will ask you to approve the Annual Accounts, and the proposal in respect of appropriation of profit. Thereafter we will ask you to grant discharge to the Board of Management for the exercise of their functions, and the Supervisory Board for the supervision they have performed in the year 2003.

2003

2003 was a year with some serious problems for IHC Caland. These problems were particularly evident in the dredger/specialised shipbuilding division, where we were confronted with sharply negative results. In the specialised shipbuilding area, which mainly takes place at van der Giessen-de Noord, the organisation already had to be slimmed down in 2002 in view of the difficult market conditions caused by strong competition from e.g. the Far East. When it became clear in the course of the year that it was not possible to obtain new orders at an acceptable price, the decision was made to close the yard. In respect of the yards which specialise in the design and construction of dredgers, there was a negative surprise, which could not be compensated for by better results elsewhere. An analysis indicates that this disappointment was the consequence of an over-optimistic estimate of a project, which involved a high degree of innovation and scaling up. The policy of IHC Caland is strongly focused towards continuous renewal of its products, and the Group does not hesitate to tackle major innovations. This is the strength of IHC Caland in the dredgerbuilding market, but it brings extraordinary risks as well. Experience and procedures are in place to evaluate and price such risks. In this way the chances of financial disappointments can be reduced, but it does not give a guarantee that no negative surprises will occur. Also in the offshore division, there was a minor (in percentage terms) cost overrun on a turnkey project, due

to inadequate project management in the final phase of the project.

The existing risk management procedures were thoroughly discussed in a special meeting of the Supervisory Board with the Board of Management, and proposals were made by Management in order to further reduce the possibility of negative surprises. These proposals were approved by us, and relate to an improvement of risk evaluation in the bidding process and in project management. At the same time, attention is also given to improving the information system whereby the Board of Management can be advised on a more timely basis of the financial consequences of problems with projects.

A very high level of activity took place in the field of offshore oil and gas, with the design and construction of five FPSO's and the Matterhorn TLP. It goes without saying that the worldwide operation of the lease fleet requires also a lot of attention. Atlantia Offshore was under-occupied, due to the absence of new orders for the relatively new product – the TLP. The acquisition of Atlantia was in anticipation of technical developments in the sector of the offshore where we are active. These developments are very important in order to remain attractive to the clients. It appears however that more time and attention is required for the marketing of this product.

The structure of the Company was regularly discussed with the Board of Management. It is clear that in respect of the offshore activities, a considerable growth can be anticipated for the future, which will require the full attention of Management, while for the dredger/specialised shipbuilding activities, a more flat activity level can be expected in coming years, after the capacity reduction of this year. The dredger/specialised shipbuilding activities thus become relatively less relevant to the whole, while – as was clear last year – the downside risks remain. Above all, the synergy between the two businesses is becoming less, due to the direction of the technical developments of both activities. Based on these facts, a decision to split off the shipbuilding activities was made. It can be expected that this split-off will take place in the second half of 2004.

Corporate Governance

The members of the Supervisory Board and the Board of Management have received extensive information in the course of the year about the work performed by the Commission for Corporate Governance. The opportunity given by the committee to make comments was also taken advantage of. These comments were limited in content, given the fact that the Company, as a member of the 'Vereniging van Effecten Uitgevende Ondernemingen' (VEUO), has aligned itself with the remarks which the VEUO has made in respect of the draft code.

The code is now final, and will be implemented within a predefined time schedule. A temporary Committee has been formed, consisting of two members of the Supervisory Board and two members of the Board of Management, in order to oversee the timely implementation of the code. A separate section is dedicated to the corporate governance structure and the implementation of the corporate governance code in this Annual Report, on page 39.

Until now, the financial reports of the Board of Management were discussed in detail in a meeting with the entire Supervisory Board. In view of the growth of the business, and the requirements of the corporate governance code, it has been decided to establish an Audit Committee. Effective January 2004, this Audit Committee will study the financial reporting and the relevant administration, organisation and control systems, prior to the meeting of the Supervisory Board. The Committee consists of the following three members of the Supervisory Board: Mr. A.G. Jacobs (Chairman), Mr. J.D.R.A. Bax and Mr. H.C. Rothermund. The Supervisory Board has also decided to establish an Appointments and Remuneration Committee. This Committee consists of the following two members of the Board: Mr. A.P.H. van Baardewijk (Chairman) and Mr. A.G. Jacobs. Proposals for appointment and remuneration of members of the Board of Management were formerly also handled by the Chairman and Vice-Chairman of the Supervisory Board. The Supervisory Board has always considered one of its most important tasks the appointment of the right persons with experience or affinity with the sector where the Company is active. Accordingly the Supervisory Board believes that its Chairman should also be the Chairman of this Committee.

Activities of the Supervisory Board

In 2003, the Supervisory Board and the Board of Management met together six times. Subjects discussed include the economic, political and business developments in the world, and the Group's strategy in the medium and long term.

As usual, a detailed Operating Plan is discussed at the beginning of the year. This includes the forecast for turnover, the level of expected orders by the different operating companies, the expected financial results, the cash flow and the plans for investment. In the following meetings, on the basis of the report of the Board of Management and the financial report, an evaluation is made of whether the targets can be reached, and what measures the Management has taken in case of important deviations from the plan. The problem here is the irregular intake of large orders, which has a significant influence on the capacity utilisation of the Group and the financial results. Proposals to bid for large projects are also discussed. In addition, personnel

management, training, pension affairs, and systems related to the management of quality, safety and environmental protection are also on the agenda.

Presentations are regularly made in the meetings by the Board of Management and the management of the operating companies on such subjects as the market, the competition, the organisation, investments, financial accounting, information and control systems, the development and execution of special projects, and research and technical developments in the sector.

The Chairman of the Supervisory Board has regular contact with the President of the Board of Management, often involving the Vice-Chairman of the Supervisory Board. To ensure familiarity with the activities of the operating companies, several meetings of the Supervisory Board are held on the premises of operating companies, thereby allowing ideas to be exchanged over the developments in the business with the management staff and personnel. In the year under review, visits were made to IHC Holland in Kinderdijk and to SBM in Monaco.

A committee from the Supervisory Board has given special attention to the balance sheet and financing questions. Another committee has discussed the risk evaluation of the FPSO lease fleet with the Board of Management. Finally, particular attention is given to the level of care of the Company's operation regarding the observance of the OECD guidelines in respect of our FSO off the coast of Myanmar.

The Board met several times without the presence of the Board of Management. The agenda included the functioning and the composition of the Supervisory Board, and of the Board of Management.

Composition of the Supervisory Board

The Supervisory Board is of the opinion that its composition satisfies the required diversity of knowledge and experience to allow it to properly fulfil its tasks. In fulfilling its tasks, the interests of the company are paramount, and thereby the interests of all stakeholders are served. The Supervisory Board is convinced that the Board of Management has exactly the same role to perform, and that it makes enormous efforts to achieve the required result. There is an open and direct communication between the Supervisory Board and the Board of Management, whereby advice is given, but it goes without saying that also critical issues are discussed.

Changes in the Board of Management

In 2003, Mr. G. Docherty, Managing Director and Chief Financial Officer, made known his desire for personal reasons to retire before reaching the normal pensionable age of 62. He will retire as Managing Director at the end

of the Annual General Meeting of Shareholders on 14 May 2004.

Mr. Docherty has been employed with the Group in various functions for 27 years. He has been Finance Director since 1987, and member of the Statutory Board since 1994. In addition to his activities in respect of the overall responsibility for the financial affairs of the Company, he has made a major contribution to the swift growth of the Group's FPSO lease fleet. Over the years, he built up an unprecedented expertise in the realisation of many complex project financings in respect of the lease fleet. This expertise, combined with a total integrity earned him the solid confidence both of the Supervisory Board and his colleagues, but above all of the financial community. In combination with his proverbial Scottish thriftiness, this formed the perfect combination for the successful contribution which Mr. Docherty made to the growth of IHC Caland. The Supervisory Board very much regrets the decision which Mr. Docherty has made, and would like to express its great appreciation for the contribution that he has made to the success of the company during a period of 27 years.

The departure of Mr. Docherty has no financial consequences for the Company. Mr. Docherty will be succeeded by Mr. M.A.S. Miles, presently controller of the SBM group, a subsidiary of IHC Caland. Mr. Miles (39) joined the Group ten years ago, and has successfully fulfilled different positions of increasing financial responsibility. He studied economics, and is a qualified chartered accountant. He will be appointed as a non-statutory director to be a member of the Board of Management with the function of Chief Financial Officer.

Changes in the Supervisory Board

As already advised last year, Mr. D.J.C.N. Goguel-Nyegaard will step down as a member of the Supervisory Board in order to provide a better spread of ages in the Supervisory Board. The Supervisory Board would like to express its appreciation for the contribution of Mr. Goguel-Nyegaard to the work of the Supervisory Board and to the Company since his appointment in 1999. Provided there is no objection from the Annual General Meeting of Shareholders, or the relevant works councils, the Board will appoint Mr. L.J. Ligthart as Supervisory Board member of the Company. Further information about the appointment of Mr. Ligthart is in the agenda and the notes to the agenda for the Annual Meeting of Shareholders.

In addition, notice is given that Mr. van Baardewijk, Chairman of the Board since 2003, will retire by rotation after the Annual General Shareholders' Meeting of 2005. As Mr. van Baardewijk will then have completed three terms each of four years as a Member of the Supervisory Board, he will not be available for reappointment.

Reports on Appointment and Remuneration

The corporate governance code requires that a remuneration report should be produced annually,

wherein details are given of the manner in which the remuneration policy for the Board of Management has been implemented in the previous year, and an overview of the remuneration policy proposed by the Supervisory Board for the next financial year and the year thereafter. The remuneration policy should be submitted for approval to the Annual General Meeting of Shareholders. The code requires the remuneration report to be prepared for the first time in respect of the year 2004, so that the remuneration policy should be proposed for approval to the Annual General Meeting of Shareholders for the first time in 2005. The Supervisory Board has considered whether to put the remuneration policy already on the agenda this year, and to produce a remuneration report which satisfies the requirements of best practice in the code. The Supervisory Board has decided not to do this, as part of the remuneration policy requires further definition and discussion. This concerns the rules for the award of share options, and specifically the performance criteria for the award of these options, and a decision regarding the question of whether options should be awarded without conditions. The Supervisory Board is of the opinion that the remuneration policy should be proposed to the shareholders in its totality and in a final written form, and believes that the preparation time in 2004 is inadequate for this. In anticipation of the formulation of the remuneration policy and the preparation of a remuneration report in next year's Annual Report, it can already be advised that the remuneration structure for the members of the Board of Management has been revised effective 2003. Proposals for this revision were prepared by the Chairman and Vice-Chairman of the Supervisory Board after consultations with advisors in respect of employment conditions. The remuneration consists of a fixed and a variable element, and the variable element consists of a bonus and the award of share options.

In conclusion

The Supervisory Board wishes to express its appreciation for the efforts of the Board of Management of IHC Caland and the managing boards and all employees of the operating companies. The difficult economic conditions, especially in the specialised shipbuilding, required a lot of attention, efforts and flexibility. It was particularly difficult to accept that after 183 years in business, the shipyard van der Giessen-de Noord had to be closed, with the loss of a large number of jobs. We would like to thank these employees for their contribution to the company over the years.

Schiedam, 26 March 2004

Supervisory Board

A.P.H. van Baardewijk, Chairman

A.G. Jacobs, Vice-Chairman

J.D.R.A. Bax

D.J.C.N. Goguel-Nyegaard

R.H. Matzke

H.C. Rothermund

INFORMATION REGARDING THE SUPERVISORY BOARD

Background information on the individual members of the Supervisory Board

A.P.H. van Baardewijk – Nationality: Dutch (1936)
A former Chairman of the Board of Management of Royal Volker Wessels Stevin NV
Supervisory directorships:
Member of the Supervisory Board of Royal Volker Wessels Stevin NV
Chairman of the Supervisory Board of Van Oord NV

First appointment: 1993.
Current term of office: 2001-2005.

J.D.R.A. Bax – Nationality: Dutch (1936)
A former President and Chief Executive Officer of IHC Caland N.V.
Supervisory directorships:
Chairman of the Supervisory Board of TBI Holdings BV
Chairman of the Supervisory Board of Oranjewoud Beheer BV
Chairman of the Supervisory Board of Mammoet Holding BV
Chairman of the Supervisory Board of Smit Internationale NV
Chairman of the Supervisory Board of Heerema Fabrication Group
Chairman of the Supervisory Board of Koninklijke Vopak NV
Chairman of the Supervisory Board of Corio NV
Chairman of the Supervisory Board of the Netherlands Pilotage Association
Chairman of the Supervisory Board of Intec
Member of the Supervisory Board of AON Group Nederland BV
Member of the Supervisory Board of Koninklijke Frans Maas Groep NV
Member of the Supervisory Board of Handelsveem Beheer BV

First appointment: 1999.
Current term of office: 2003-2007.

D.J.C.N. Goguel-Nyegaard – Nationality: French (1935)
A former Senior Vice-President of Elf Aquitaine.

First appointment: 1999.
Current term of office: 2003-2004.

A.G. Jacobs – Nationality: Dutch (1936)
A former Chairman of the Executive Board of ING Group N.V.
Supervisory directorships:
Chairman of the Supervisory Board of Joh. Enschede BV
Chairman of the Supervisory Board of Imtech NV
Chairman of the Supervisory Board of Royal Dutch Petroleum Company
Chairman of the Supervisory Board of NV Verenigd Bezit VNU
Vice-Chairman of the Supervisory Board of Buhrmann NV
Member of the Supervisory Board of ING Group NV

First appointment: 1998.
Current term of office: 2002-2006.

R.H. Matzke – Nationality: American (1937)
A former Vice-Chairman of ChevronTexaco
Supervisory directorships:
President of NESW Solutions – Global Consultants
Member of the Board of LUKoil Oil Company
Member of the Board of Petroleum Helicopters Inc.
Member of the Advisory Board of the Centre for Strategic and International Studies
Trustee of the Council on Foreign Relations
Co-Chairman of the American-Iranian Council
Member of the Board of the National Committee on United States-China Relations
Member of the Board of Trustees of Eurasia Foundation
Member of the Russian-American Chamber of Commerce

First appointment: 2002.
Current term of office: 2002-2006.

H.C. Rothermund – Nationality: Swiss (1943)
A former Managing Director of Shell EP International BV
Supervisory directorships:
Vice-Chairman of the Supervisory Board of Rohoel AG
Member of the Board of CH4 Energy Ltd.

First appointment: 2003.
Current term of office: 2003-2007.

Report of the Board of Management

FOREWORD

The year 2003 was a difficult one for IHC Caland. First of all, a decision was made to close van der Giessen-de Noord, at a post-tax cost of US\$ 45 million, and then one-time problems with a couple of innovative large turnkey projects led to the October profit warning. While the Group realised major improvements in its organisation in anticipation of an expected recovery of its main markets in 2004, the profit for 2003 fell to US\$ 46.6 million from US\$ 77.4 million in 2002.

In 2003, the markets in almost all the areas where the Group is active slowed down, leading to a lower than expected order intake. Nonetheless our largest subsidiary Single Buoy Moorings (SBM), focussing especially on the lease and operation of oil and gas FPSO's and FSO's, performed well. The revenues from the lease and operate fleet continued to grow during the year, with two large new units coming into operation for ExxonMobil, produced within a record time. Our three-centre FPSO capability (Monaco, Houston, Schiedam) was completed. There is of course a risk implicit in building capacity to this extent, but we expect the FPSO market to offer large opportunities in the medium to long term, and we should be fully prepared.

In offshore activities, our project proposal development capacity has been expanded in 2003, with a very strong emphasis on restoring and increasing cost-effectiveness. Over the last two or three years, the Group has been stretched with a very high workload, and certain very demanding clients. The slowdown in the second half of 2003 has allowed an aggressive refocusing on costs and efficiency, to effectively position the Group for the demanding markets ahead.

Split off of dredgerbuilding

A major disappointment in 2003 was the recognition that even the slimmed-down van der Giessen-de Noord could not survive, due to increasingly poor market conditions, and aggressive competition. When the closure of van der Giessen became inevitable, Management decided to review the overall role of shipbuilding within the Group. Their conclusion was that in the interest of clearer focus, and recognising the growing share of the offshore activities within the Group, it was appropriate to split off the Group's shipbuilding activities.

The remaining yards are very much focused on

dredgerbuilding, especially IHC Holland, which has an enormous knowledge base of dredging and dredging automation technology. The split-off by sale or separate stock exchange listing, is scheduled in the third quarter of 2004. The medium and long-term prospects for dredgerbuilding are good. Increasing worldwide needs for new infrastructure and the steadily growing demand for maintenance dredging, are the major drivers.

Performance

The SBM group generated an excellent result for the year, underpinned by the continually growing income and cash flow from the FPSO/FSO lease fleet. There was also overrecovery of indirect costs, due to the very high activity levels involved in the construction of five lease and operate FPSO's, and other complex components, such as turrets. Order intake was however disappointing, with several potential large FPSO lease and operate contracts being postponed, or in one case, cancelled. The service activity, encompassing buoy fabrication, repair, overhauls, offshore contracting and spares went from strength to strength, contributing around 10% of the SBM group's bottom line.

Atlantia Offshore had a disappointing year, with no new orders won (although there were in fact no projects in its market), and a projected profit on its Matterhorn TLP project for Total moving to a small loss. The prospects for 2004 look better.

In the shipbuilding activities, the closure of van der Giessen-de Noord was put in motion. To date it appears likely that this can be achieved within the provision made. The other two shipyards both finished the year in the red – for Merwede Shipyard for the first time since its acquisition by the Group in 1993, and for IHC Holland for the first time since 1986. Both losses were due to project-specific problems.

Strong fundamentals for offshore technology

The increasing worldwide demand for oil and gas will encourage oil companies to continue replacement and expansion of production. A large part of the world's oil and gas reserves are located in deep sea areas. Oil majors may temporarily focus on large onshore projects, such as last year in Russia and neighbouring countries, but a need to diversify sources of oil, together with obligations to drill and produce offshore concessions will lead to increasing demand for offshore exploration and transportation technology.

We expect a recovery of exploration activity during 2004.

Growth in seaborne LNG

The growth of the need for energy, both in industrialised countries and in emerging economies, combined with environmental and legislative factors is making increased LNG production a reality. In certain locations, including the USA and Japan, there is insufficient gas available by pipeline from nearby gas fields to meet the needs of consumers. This gap can be filled by seaborne LNG.

Recent orders for new-built LNG carriers herald the imminent increase in the worldwide trade of this product. In-shore and near-shore terminals for LNG import presently existing in the USA and other parts of the world will not be able to handle this projected growth. To pull together the work being carried out in this sector in different parts of the Group and to match most efficiently the needs of our customers, a separate Gas Business Unit has been established. Page 29 details the products currently under development.

Growing opportunities for TLP concept

We believe market opportunities for our monocolumn Tension Leg Platform, developed by our subsidiary Atlantia Offshore, will grow in the near term as the deepwater oil and gas sector matures. The large deepwater developments typically start with a main facility producing from the largest reservoir. A number of these are now being constructed and installed, particularly in West Africa. Once production starts, oil operators then concentrate on secondary reserves and when distance permits, look for tie-back solutions. This is precisely when Atlantia technology will play a role with its proven turnkey capability for a cost effective product. There are a number of signs indicating that this stage is coming up in the near term.

Strategic initiatives 2004

As already mentioned, one major strategic initiative in 2004 will be the split-off of shipbuilding. Despite the historical links which bound the shipbuilding and offshore activities together, we have decided that the time has come to separate. This will allow both a sharper focus on shipbuilding, which was in danger of being submerged by the offshore, and a clearer perception of IHC Caland i.e. as a pure offshore services company. At the time of the split-off, Mr. van Dooremalen will step down as President of IHC Caland and be replaced by Mr. Keller. Mr. van Dooremalen will become President of the dredgerbuilding group. ABN AMRO Bank will take the lead in the split-off exercise.

The Group will continue to develop specific strategic objectives, including:

- continuing growth of the lease and operate FPSO fleet;
- continuing to develop projects with strategic partners. At least two projects will be pursued in 2004 with important new partners;
- developing and refine the generic FPSO concept for both the sale and lease market;
- increasing investment in research and development;
- focus on projects in the gas sector.

In addition, as indicated in last year's Annual Report, the Group now feels competent, both in terms of resources and know-how, to tackle the ultra large projects which it had previously avoided. During the year, a serious (though unsuccessful) bid was made on a performance specification basis for one such very large project, and at least one similar project will be tackled in 2004. Such a project will be bid on a lumpsum turnkey price, based on a performance specification.

Promising technology

The Group's companies continue to invest in research and development of safe, new or improved, and cost efficient technology.

LNG technology remains a high focus of attention. A number of specific projects are currently being studied, both in respect of LNG mooring and offloading technology, and for the Group's Floating Storage and Regasification Unit (FSRU) which would be used to reconvert LNG to gas offshore. Both products show considerable promise, but the acceptance of new technology often proceeds at a slow pace. Nonetheless, as mentioned above, the existing infrastructure for LNG importation is inadequate, which should definitely create opportunities in the short term.

Another example of slow acceptance of new technology relates to the Group's FPDSO-TLD, which extends the Group's FPSO capability to include drilling and dry tree completion. The initial conclusion is that the market is not yet ready for this technology, although one day it should find applications. The FPSO itself took a long time to be accepted, with the first one being built in 1977, and ten years later, a total of only three were in service.

Atlantia Offshore continues with development work on its SeaStar® TLP, to increase payload, simplify installation, and prove its ability to operate in the deepest waters.

They are also cooperating with GustoMSC-OceanDesign (GMOD) on a deepwater semi-submersible production platform, for which the consortium was awarded a FEED study by a Gulf of Mexico client.

Finally, the Group is optimistic to find a first commercial application for its Gravity Actuated Pipe (GAP®) concept, for subsurface transfer of liquids over large distances.

Financial

The cost of closing van der Giessen-de Noord, together with losses on two major projects in 2003 have significantly influenced the Group's financial situation. The decision by ExxonMobil to continue the lease of the Serpentina FPSO and not to purchase the unit at present, while beneficial in the long run, also has some short-term consequences.

Nonetheless, provided the assumptions in the Group's 2004 Operating Plan, especially those related to the timing and value of new orders inflow, are reasonably correct, the Group does not expect to require an equity issue in 2004. However, substantial investments will require to be made in respect of new FPSO lease and operate contracts which the Group hopes to obtain, and, depending on the number and timing, some type of additional funding cannot be entirely ruled out.

The Group's net debt to equity ratio at year-end 2003 is acceptable at 1.50:1, and all the Group's banking covenants are met. The covenants should continue to be met, provided the Group's business assumptions going forward are correct.

The Group is already taking measures to protect its financial position by e.g. bidding with partners on new FPSO lease and operate contracts, and actively pursuing turnkey supply contracts.

For the first time, the Group is reporting its financial results for 2003 in US dollars, as being the predominant currency in its business activities.

Employees

At year-end 2003, the Group had 4148 employees, consisting of 46 nationalities operating in 29 countries. Regrettably, the closure of van der Giessen-de Noord led to the loss of around 400 jobs. Although the closure was handled with scrupulous attention to the employees' rights, and a substantial number of employees have already found new employment, we deeply regret the necessity to close the yard, after 183 years in business.

To the remaining employees, we wish to express our appreciation for their hard work and support.

Overall, a year with unsatisfactory results and major changes, but also a year in which the Group improved its competitiveness to benefit from the expected market recovery in 2004 and from healthy medium and long-term market developments.

THE BOARD OF MANAGEMENT



D.J. van der Zee
Director
(1948, Dutch)

M.A.S. Miles
Chief Financial Officer designate
(1964, British)

F. Blanchelande
Director
(1949, French)

G. Docherty
Managing Director,
Finance
(1948, British)

J.J.C.M. van Dooremalen
President and Chief Executive Officer
(1944, Dutch)

D.H. Keller
Managing Director, Offshore
(1946, French)

OUTLOOK 2004

In the oil and gas sector, after a soft market and low order intake in 2003, the perspectives for the new year seem reassuring. We expect a much improved order intake in 2004. However, due to the uncertainties surrounding the split-off of shipbuilding, and the timing of new orders in the offshore division, at present no profit forecast for 2004 will be given.

It is a fact of life in this industry that demand is irregular, and one needs to analyse the cause for demand falling before future predictions will have any credibility. Over a period of several years, the oil price has remained at a high level, well above the conservative US\$ 17/bbl basis, generally used to evaluate field economics. E&P budgets steadily increased by an estimated 4% for 2004 compared to an increase of 9% for 2003 and 3.5% for 2002. This should have generated a high demand for offshore development facilities, as was expected early in the year 2003. However, during the year, most deepwater developments, particularly in West Africa, which were the Group's targets, have been cancelled or postponed. The main reason is that major oil companies have switched their immediate capital expenditure priorities to large developments such as Russia, the Caspian Sea and capital intensive worldwide LNG projects. This is seen as the main cause of the low order intake for the year.

Nonetheless, during 2004 we expect an increasing demand from the oil majors after mid-year, since there is already a strong indication of development plans starting up, particularly in the deep offshore.

For the dredgerbuilding activities significant activity is expected from the state-owned dredging corporations in countries such as China and India. On the other hand the development of investments by the West European dredging contractors is still affected by the continuing Indonesian/Singapore political problems regarding sand extraction in the region and the recent take-over of Ballast Ham Dredging by Van Oord.

The Kuito FPSO after installation of Phase 2 topsides



It remains the intention to split off the shipbuilding division in 2004. Now that the shipbuilding division financial results have been finalised, the planning is to immediately look for a buyer (April 2004). In order to avoid a potential conflict of interest, it has been agreed that once the Information Memorandum in respect of the sale has been put into the market, Mr. van Dooremalen will no longer be involved in the sales process on behalf of IHC Caland. The sale will instead be handled by the other members of the Board of Management. Should the selling exercise prove to be unsuccessful, the original plan to obtain a separate listing for a combined IHC Holland and Merwede Shipyard will be implemented, resulting in a projected separation in the third quarter of 2004.



The 4750m³ trailing suction hopper dredger 'Volvox Olympia'

With the closure of van der Giessen-de Noord, the Group is basically exiting the specialised shipbuilding market, although, especially at Merwede Shipyard, such vessels may be bid from time to time to fill gaps in capacity.

Offshore oil and gas activities

Contrary to 2003, there are several promising projects in the market, mainly in deepwater and the Group expects a much-improved order intake in 2004. In the absence of major surprises affecting those projects now expected, the offshore division will deliver good results.

The slow down in the past year can be seen as just a phase in the irregular nature of the offshore market. There is a large number of opportunities on the horizon that should fill the Group's capacity early enough and result in a satisfactory year-end portfolio. Furthermore, the Group is structured to mitigate the negative effects of the irregular market in three main areas:

- the continuous, secured volume of activity and revenues from the large fleet of owned and leased FPSO's (in excess of US\$ 1.5 million per day at the end of 2004);

- the focus on parts and services which is a stable business;
- the flexible structure of the engineering and project management organisation which is designed to cope with workload variations and which incorporates an average of 25% of temporary staff.

FPSO's

During the year 2003, the Group has made a big effort to improve its competitiveness in two key areas: the accuracy of estimating, and cost efficiency in project execution. Both suffered due to the exceptional workload in all departments during a two year period of intense activity.

As already mentioned, at the start of 2004, no immediate change is expected that would improve the demand from the majors. Opportunities will arise, but not before the later part of the year. However, a number of projects are expected to materialise around mid year from less traditional customers in countries which are keen to develop recent discoveries made in deepwater, and also

from state owned corporations such as Petrobras (Brazil), Pemex (Mexico) and Petronas (Malaysia) producing their national resources.

In addition, the publicly declared success of ExxonMobil with their 'Generic FPSO' strategy is encouraging other companies to take a similar approach. Based on the strong reference obtained through the ExxonMobil projects, the Group will be on the front row of candidate contractors when such projects materialise, most likely in the second half of the year.

Sales of facilities and components

A high demand for sales of large facilities is anticipated in 2004. It is expected that a good portfolio of turnkey supplies can be built, restoring a better balance of revenues between sales and lease business, which is one of the Group's targets.

As a silver lining on the Gulf of Mexico cloud, Atlantia Offshore was successful in qualifying for the engineering phase of a semi-submersible facility on an ultra

The Marlim Sul FPSO nearing completion at Keppel shipyard, Singapore



deepwater field in this area. This in addition to the Kikeh prospect for Malaysia should mark the end of a depressed period in this company's markets. The Group is optimistic to obtain at least one project with a TLP used as a satellite to an FPSO – one of the main reasons to acquire Atlantia Offshore in 2001.

Two, possibly three deepwater mooring terminals will also come to the market during the year, as well as a very large turret for Petrobras' P53 FPSO.

After sales & services

The parts and services sector provided excellent results during 2003, and earned the expressed satisfaction of clients such as Shell and ExxonMobil. For 2004 we also expect good results. A positive aspect of this lower visibility business is that it is not as irregular as the large capital intensive developments, and therefore represents a good, reliable revenue stream.

Dredgerbuilding activities

The dredgerbuilding division will return to profitability, assuming the market develops as expected.

In the market segment of predominantly state-owned dredging corporations, a healthy level of demand is expected in the range of 5000 – 18000m³ hopper dredgers

as well as custom-built cutter suction dredgers and standard cutter suction dredgers of the Beaver series. As most of our clients in this market segment are based in more or less US dollar-denominated or related countries, we expect budget constraints in view of the appreciating Euro. Furthermore, it should be realised that timing problems might also occur in view of the unpredictable nature of the tendering processes.

The demand for new equipment from the Dutch and Belgian contractors is expected to be very moderate. This is due to their very high investment levels during the last decade, in combination with the uncertainties which still exist with respect to the availability of Indonesian sand for the large Singapore land reclamation projects. It should not be expected that a solution for this problem can be found before the second half of the year. In this market segment the emphasis will lie on renovation and upgrading projects for existing dredgers especially in the field of instrumentation and automation systems.

Following the 2003 year-end order from the Belgian contractor DEME for a very large self-propelled cutter suction dredger, we could expect additional interest from other contractors of the 'big four' (Royal Boskalis Westminster, Van Oord, J. de Nul, DEME) for this new generation of mega cutter suction dredgers. A further

The 27000kW self-propelled cutter suction dredger 'J.F.J. de Nul'



breakthrough in technology could accelerate these decisions.

The marine sand and gravel market is expected to come alive again in view of new mining concessions which will be granted this year on the UK continental shelf. The geographic locations and water depths are such that existing equipment is less suitable for economic extraction of the construction material with the result that investment in some new larger seagoing sand and gravel dredgers is expected.

Other specialised shipbuilding

After the decision to close the van der Giessen-de Noord shipyard, the remaining specialised shipbuilding capacity of the Group is very limited. Insofar as this capacity has to be used for non-dredgerbuilding building slots, the Group will concentrate on one of a kind, high value-added vessels with complicated technology, where competition from Far Eastern shipyards is almost non-existent. Short delivery times can become an attractive incentive for shipowners to order in Europe as most of the Far Eastern shipyards are fully booked with delivery slots only for 2006/2007. The market for inland river cruise vessels will also offer some interesting opportunities.

Financial

Two new FPSO units were added to the fleet in 2003, namely the Serpentina FPSO and Xikomba FPSO, both for ExxonMobil. Just after the new year, the Okono FPSO for Agip Nigeria also went into operation. The latter two units were in joint ventures, Xikomba with Sonangol, the Angolan state oil company, and Okono with the Italian offshore contractor Saipem. The Kuito FPSO also had an important upgrade of its process facilities. These units will all contribute to profits and cash flow for a full year in 2004.

Also in 2003, two units came out of service. These are the Nkossa FSO (sold into ExxonMobil's Yoho project), and the FSO XV (available). This means that the fleet at the start of 2004 remains stable at thirteen units in operation. However the mix has changed, from eight FPSO's and five FSO's to ten FPSO's and three FSO's. The new units have much higher values and much higher revenues than those they replaced, but the older units, being fully depreciated, also made an important contribution to the profit.

As predicted last year, two units which were scheduled to come off hire in 2003 received contract extensions. The contract for the Okha FSO for Shell Sakhalin was extended by two years until year-end 2005, and the contract for the Aquila FPSO for Agip was extended by 1½ years until March 2005.

In addition to the Okono FPSO replacing the Jamestown FPSO early January, one new unit is scheduled to come into service in 2004, the Marlim Sul FPSO for Petrobras.

Start-up date is scheduled for June 2004. This means that the Group will close 2004 with eleven FPSO's and three FSO's in operation. In addition one small FPSO and one FSO are presently available for service.

On the turnkey side of the business, deliveries will be lower than 2003, and still include large portions of subcontracted scope, affecting the margins.

Deliveries from the pure dredgerbuilding activities, i.e. excluding the specialised shipbuilding of van der Giessen-de Noord, will be about the same level as total shipbuilding deliveries in 2003. The two 16000m³ dredgers for Royal Boskalis Westminster represent a significant part of 2004 deliveries. The closure of van der Giessen-de Noord is expected to be fully completed by mid 2004.

Forecast investments

Between US\$ 300 and 400 million is forecast to be invested in fixed assets in 2004, mainly in FPSO's for lease. Significant investment will continue on the Marlim Sul FPSO for Petrobras, and the 50% owned LPG FPSO for Chevron's Sanha field, off Angola, while some residual investment will be required for the Xikomba FPSO (50%) and the Okono FPSO (50%) which entered service in November 2003 and January 2004 respectively. Start up investment is projected for at least two additional FPSO's, for which contracts still have to be obtained.

It is important to note during this period of close scrutiny of the Group's balance sheet and gearing, that acquisition of a new FPSO lease contract does not immediately involve heavy capital outlays. In the typical case of e.g. an eighteen month delivery, the first six months will be taken up with (relatively) low cost engineering, after which expensive hardware expenditure starts, spread fairly evenly over the remaining twelve months.

Investments in research and development are projected to increase further in 2004, especially in respect of LNG-related systems. The increasing demand for this technology is driven by the growing worldwide need for energy combined with environmental and legislative factors.

Number of employees

Total personnel numbers are expected to fall from around 4150 to around 4000. This is almost entirely due to the closure of van der Giessen-de Noord. The start up of the Marlim Sul FPSO will involve a small increase in offshore division personnel, and reinforcement may be required for the Houston operation if the order intake warrants it.

DEVELOPMENTS 2003

OFFSHORE OIL AND GAS ACTIVITIES

With the exception of Atlantia Offshore, all IHC Caland offshore companies were fully occupied during 2003. Net profits of the offshore division were relatively stable at around US\$ 100 million. New orders fell by 37% to US\$ 991 million, and year-end backlog was also down (by 7%) to US\$ 4.0 billion. 82% of this (US\$ 3.3 billion) relates to the non-discounted value of the revenues from the Group's lease fleet.

In 2003, the offshore division of the Group has performed well in the traditional business sector. However, the results are affected by the lack of work resulting from the depressed market in the Atlantia Offshore product line of deepwater tension leg facilities, and some difficulties in the completion of the Matterhorn TLP project, as announced in October.

Meanwhile, there has been a generally disappointing order intake resulting in a lower portfolio than at the end of the previous year. The causes of this disappointing intake are explained earlier in this Report, and so is the basis for the good degree of optimism for the near future.

One of the salient positive elements of this year, is the timely and successful delivery and start up of three more large FPSO's that were built during a period of record high occupation. The publicly expressed satisfaction of ExxonMobil about the performance of the three Generic FPSO's is particularly remarkable. Coming from one of the most demanding clients, this represents a reference in the market and confirms that the Group has reached a high level of quality and reliability in the execution of such large projects. At the start of 2004 the three units were producing a total of 300,000 barrels of oil per day.

Okha FSO during the first days of the winter season offshore Sakhalin; charter now extended through 2005



The offshore division has now been further integrated, with the implementation of Corporate Engineering Standards, and the systems and controls have been harmonised between the Group companies. The Group should therefore be able to tackle efficiently the high demand expected during 2004. In Houston, the three affiliates SBM-IMODCO, Atlantia Offshore and GustoMSC-OceanDesign (GMOD) have moved into the same building, generating cost savings and synergy. The core capacity of the Group in project execution has been substantially increased over the past two years, particularly in project management.

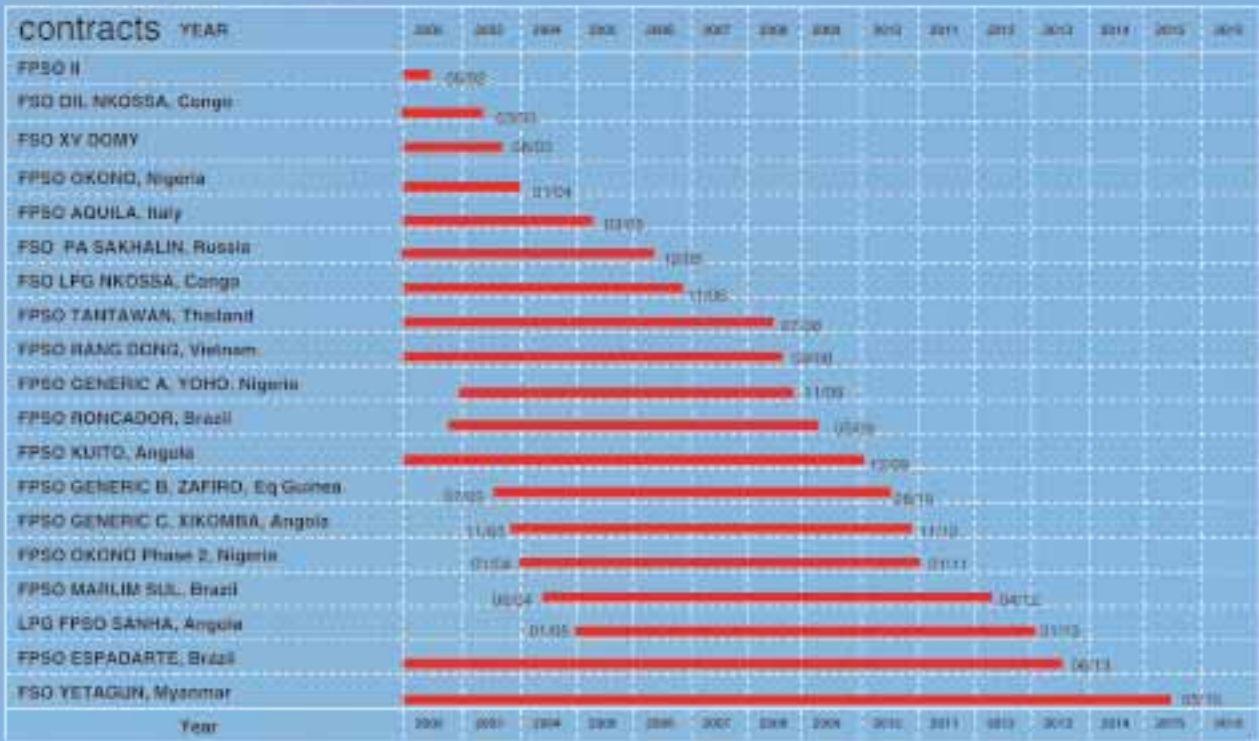


The Bunga Kentas FPSO for MISC (Malaysia), moored by an external turret delivered by SBM group

FPSO's and FSO's on lease and operate basis

In addition to the two units that started production in 2003, the construction of the remaining three in portfolio continues with no particular concerns. The Okono FPSO was installed and commenced production early January. The Petrobras Marlim Sul FPSO, a unit similar in size and complexity to the previously installed Roncador FPSO, is on schedule in spite of an extremely short delivery time. She sailed away from Keppel Shipyard in Singapore in the first half of March and will start production on time in June 2004. The Sanha LPG FPSO is moving ahead. The unit will leave the IHI Kure shipyard in July 2004 and be installed offshore Angola by the end of the year. The system, which is complex and large in terms of production capacity and gas storage, represents a worldwide first, as it is the first time that a new built facility combines the fractionation process of butane/propane, liquefaction, segregated storage and export. It will represent a milestone in the offshore gas industry. The project is being executed in close cooperation with the client ChevronTexaco, under a contract obtained by Sonasing, the joint venture between Sonangol and SBM which will own and operate the facility.

The following chart shows the **minimum** remaining lease periods for the units in the Group's FPSO/FSO fleet



The Xikomba FPSO upon its installation on ExxonMobil's block 15, Angola



The Serpentina FPSO in production offshore Equatorial Guinea

The revenues generated by the existing fleet of F(P)SO's are steady and in line with projected targets. The business of leased F(P)SO's in the Group is driven by strict principles derived from the risk management policy presented in this Report.

There are also certain commercial features worth explaining. The Group's growth is mainly generated from the lease and operate segment of the business. In order to mitigate the financing and balance sheet constraints which this implies at Group level, SBM group does, and will continue to endeavour to take all possible measures such as executing projects with suitable partners, utilising supplier construction financing as is the case with the Sanha new-built FPSO, and above all to obtain favourable terms and conditions in the upcoming contracts.

Some of the early charter contracts will soon come to the end of their initial lease periods. It is important to highlight that:

- the Group has a conservative policy of depreciation, so that by the end of the initial period, the whole or a large part of the investment will have been amortised. When the charter continues, therefore, in spite of a (contractual) reduction of the lease rates, the returns on capital invested tend to improve. So far, except for one unit, all contracts have been extended beyond the initial period;
- when the charter does not continue, the unit becomes available for relocation, and the low book value should allow the Group to position itself favourably on further projects while also in principle providing an opportunity for improved returns. This was for example the case with the Nkossa I oil FSO, which was sold into an ExxonMobil project when it came off contract.

By maintaining a conservative policy in respect of depreciation of its assets, and also implementing a serious asset management programme to keep the units

in good shape for the long-term, the Group creates long-term shareholder value, and maintains high visibility of a major part of its future earnings.

Sometimes lease contracts are pursued together with partners. The partners are then responsible for a pre-defined part of the project. They also acquire a certain percentage of the ownership. Reasons for having equity partners on board include: (1) getting access to certain specific expertise not available within the Group, (2) getting access to a tanker under construction in order to meet the required delivery time schedule, (3) mitigating business risks, especially for units where the initial lease contract is relatively short, and (4) taking mutual advantage of a client's preference for a particular company, which does not itself have the necessary competence to supply and install a complete FPSO.

Sales of facilities, components and services

The year 2003 has seen the successful delivery of several large and complex projects on a turnkey (EPCI) basis. They were all delivered on time and to the clients' satisfaction.

One of the main modules being lifted on board the Kuito FPSO offshore as part of Phase 2 development



The most important were the Matterhorn SeaStar® TLP, the Amenam new-built FSO Unity for Total, and the Shell EA mooring system. Technology sales by IHC Gusto Engineering and Marine Structure Consultants (MSC) were successful in respect of engineering and components supply for the most advanced drilling rigs, and for specialised equipment such as Mayflower's offshore wind turbine installation vessel.

In the traditional business of CALM terminal technology, the Group maintained a good position with a market share of fifty percent of the systems constructed or delivered worldwide during the year, while in the more recent development of deepwater mooring and loading terminals, IHC Caland is the supplier for four out of the five large CALM systems under construction in 2003 worldwide.

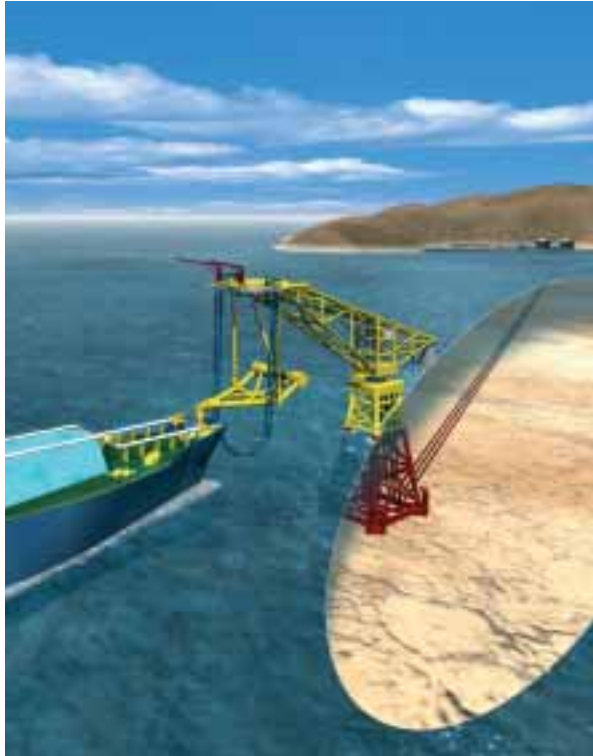
The gas exploitation/transfer market

With the Sanha LPG FPSO in the process of being successfully completed, the Group has reinforced its position as one of the leading companies in the supply of gas exploitation facilities. This contract creates a benchmark in the LPG segment, where it is expected that demand will grow in the coming years.

The demand for natural gas has increased considerably in the industrialised regions. This creates the need for LNG exploitation, transportation and transfer facilities to supply the regions which do not have sufficient natural gas sources at pipeline distance from their import points (North America, South East Asia). This 'Gas to Market' technology continues to be the objective of a large part of the Group's R&D effort since it represents a near term business opportunity, as opposed to the need for gas floating production (liquefaction) facilities, which will come much later with the exploitation of large, stranded gas reservoirs.

The objectives of IHC Caland in the LNG market are:

- to supply key, specialised components such as Soft Yoke Mooring and Offloading systems (SYMO®), turrets, swivels and mooring systems for floating LPG and LNG plants. It is most likely that the construction of LNG-plants will be managed by the oil majors themselves, as they represent multi-billion dollars facilities;
- to design and construct LPG and LNG FPSO's, and LNG Floating Storage and Regasification Units (FSRU's). Here the Group will target the complete supply of the facility, possibly on a lease basis, as the contract value is similar to that of a mid-size oil FPSO. If turnkey supply is not required, the supply of key components will be pursued;
- to supply mooring and transfer systems for loading and unloading terminals – always on a lump sum, turnkey basis.



An artist's view of an offshore LNG berthing and offloading terminal

In order to create the right focus on this sector which is most important for the future of the SBM group, a Gas Business Development Unit has been created. It reports to the highest level in the Company and has the mission to find opportunities, and turn them into business. In this developing sector, new technology and marketing strategies will play the determining roles. IHC Caland is geared up to be strong in both areas.

Competition

In the market of FPSO's on a lease and operate basis, competitors include almost systematically Modec of Japan, Bluewater of the Netherlands, and Prosafe of Norway. Bergesen Group of Norway is an occasional player in this market. For the simpler systems, the competition continues to consist mainly of tanker owners, keen to find a life extension opportunity for their fleet.

In the market of FPSO's and FSO's on a sales basis, in order to maintain control of project management, cost and revenues, IHC Caland will only pursue turnkey contracts when execution is on a lumpsum turnkey basis, and based on a performance specification. For the turnkey supply of large FPSO's on a sales basis, the competitive arena comprises essentially European contractors such as Saipem and Technip, and Korean shipyards. In Brazil, the local content requirement creates an uncertain environment still difficult to define.

In the market for our SeaStar® monocolumn TLP, the competition includes Modec of Japan and ABB with the multicolumn TLP concept, and Technip and McDermott with the Spar concept. IHC Caland is confident of the competitiveness of the monocolumn SeaStar® concept.

In the market of mooring technology, the competition is mainly Bluewater, Sofec of the USA, and APL of Norway.

DREDGER/SPECIALISED SHIPBUILDING ACTIVITIES

During 2003, both the dredgerbuilding activities as well as the specialised shipbuilding activities performed far below expectations. In the dredgerbuilding activities this was mainly due to problems in the execution of one large order. In the specialised shipbuilding activities the problem was of a more structural nature, causing us to terminate these activities at what is the largest yard in the Group, with a subsequent decision to close the yard and sell the premises. The net result of the combined dredger/specialised shipbuilding activities fell to a loss of US\$ 9.6 million before a one time US\$ 45 million charge for the closure of van der Giessen-de Noord. New orders were received to an extent of US\$ 402 million (2002: US\$ 290 million) and the backlog at the end of 2003 stood at US\$ 726 million (2002: US\$ 754 million).

The market for dredging equipment was less buoyant during the year than in previous years. Demand from the state-owned dredging corporations, predominantly situated in emerging countries, was moderate but satisfactory, especially in view of the number of projects which were initiated during the year which will lead to order intake in the near future. However, the lasting problems with the availability of sand from the Indonesian territorial waters for the large Singapore land reclamation projects is causing hesitation regarding new investments with the Dutch and Belgian contractors who are the main parties executing these projects.

Long-term prospects for the dredgerbuilding market remain positive in view of the expected growth of world GDP. World economic growth causes an increase in seaborne trade at a rate of twice the GDP growth, which in turn results in an increased demand for dredging capacity. Demand for new-built equipment is partly generated from the required increase in capacity of the fleet as well as the need to replace existing outdated capacity.

The foundation division was successfully involved in a number of piling projects for offshore windmill farms. We expect to benefit from a considerable growth of this market in the future.

The market for specialised shipbuilding capacity was again very weak, resulting in a total lack of orders for our shipyard van der Giessen-de Noord. As no follow-up orders, ensuring a continued use of their capacity, could be booked, a decision to close the yard and terminate the activities was inevitable. As earlier reported, the Group had to take a one-time provision of US\$ 45 million in connection with this closure. The Group wishes to express its appreciation for the constructive and professional attitude of the main parties involved

(clients, personnel, unions, works council) during the painful process of the closure.

Dredgerbuilding activities

Orders and deliveries

Our expectation that the order from J. de Nul for a 27000kW self-propelled cutter suction dredger which was placed in December 2000 would be followed by another such unit became reality. The Belgian contractor DEME ordered a 26100kW self-propelled cutter suction dredger for delivery in the summer of 2005. Other orders worth mentioning include a 1000m³ hopper dredger for Iran, a grab dredger for Morocco and a cutter suction dredger of 8000kW for a Chinese client, to be assembled at a Chinese yard.

With orders for fifteen standard cutter suction dredgers of our well known 'Beaver series', we reached a very acceptable level. Most of the orders in this category were placed by 'state-owned' or smaller private contractors in emerging countries such as China, India, Malaysia and Russia.



IHC Beaver cutter suction dredger equipped with an IHC cutter for Nigeria

The design and construction of the 27000kW self-propelled cutter suction dredger for J. de Nul, Belgium, proved to be a major technological challenge. With 35% more installed horse power than any other dredger of this type, this is by far the biggest in the world. The vessel was delivered at the end of 2003, with a few remaining punch list items cleared in January/February 2004. From a technological point of view the dredger is considered to be a great success, but it needs to be said that major cost overruns occurred during the execution of this project as a result of underestimating the effects of such an increase in scale (size) during the bidding stage of this order, which we had to accept at a lump sum fixed price.

For the new order of the 26100kW cutter suction dredger for DEME, all findings and experience gained during the execution of the 'J.F.J. de Nul' have been incorporated.

Other important deliveries consisted of a 2800m³ seagoing sand and gravel dredger for the contractor Krul & Zonen, the 3500m³ trailing suction hopper dredger for a Chinese customer, and a 4750m³ trailing suction hopper dredger for a Dutch client. Furthermore three deepwater pump installations were delivered to their owners for installation on existing dredgers. In the range of Beaver dredgers, sixteen dredgers were delivered, often combined with auxiliary craft from IHC Holland-owned Delta Shipyard.

Service centres

The service centres set up around the world in countries such as China, Nigeria and Singapore have facilitated the start-up of newly delivered dredgers in these areas, and have as well boosted the demand for paid field services and for spare parts. They have proven to be essential in the context of the Group's full service concept for our products throughout their lifetime.



The 3500m³ trailing suction hopper dredger 'Tong Tan' for China

The dredging market segments

IHC Caland's world market share in dredgerbuilding is over 50%. The Group has strong market positions and leading hardware concepts including cost reducing and advanced technology in all dredging market segments. The Group supplies custom-built and standard dredging equipment to clients operating in the following four market segments:

- capital dredging, for the creation of new wet infrastructure, such as approach channels and harbours, but even more importantly dredging of sand to build new dry infrastructure, such as airports,

container terminals, industrial sites, and extensions of cities. Since the introduction of the jumbo dredgers, the creation of new land through dredging is often cheaper than the cost of developing existing land;

- maintenance dredging, to remove siltation in rivers and estuaries in order to maintain sufficient navigating depth. Irrespective of the pace of growth in the world economy and the resulting variations in the number of cargo ships entering a port, ports and harbours have to maintain the required minimum navigation depth. As the number of ports and harbours which are in use worldwide is increasing, this market shows a gradual but steady growth. Coastline development such as beach replenishment and associated dredging work can also be considered to be maintenance dredging. In view of the expected rise of the sea level (as a result of climate change), this market can also be anticipated to grow;
- dredging sand and gravel as a commodity for the construction sector. The market for marine sand and gravel will grow as the number of mining permits for inland pits are being limited for environmental reasons;
- dredging of mineral sands for the mining industry, (alluvial mining), at sea and inland, and sometimes also in artificially created lakes.

Client base developments

The Dutch and Belgian contractors serve about 70% of the free accessible world market, but are also confronted with closed or semi-closed markets. Since the mid-nineties, the Dutch and Belgian contractors concentrated their investments to a large extent in the category of jumbo dredgers with a hopper volume of 18000m³ and above, for the execution of large land reclamation projects. Demand from this client base has shifted towards the self-propelled seagoing heavy duty cutter suction dredgers and to small and medium sized hopper dredgers and technologically advanced components such as for very deep dredging and dredging in extremely hard soils.

During 2003, these contractors continued to be confronted with a serious set back in the execution of the large land reclamation work they are carrying out in Singapore. This work virtually came to a halt as the contractors were no longer allowed to use the sand from Indonesian and Malaysian territorial waters. The jumbo dredgers which were employed on this job were diverted to other dredging jobs in the area.

State-owned and private local dredging corporations generally dominate the dredging works in markets which are (semi-)closed to foreign contractors. Examples of such restricted markets can be found in the USA (Jones Act, Dredging Act), China and to some extent India. In many of these markets economic growth is expected to be considerable. These countries have embarked on long-term programmes to improve and expand their

infrastructure, including new ports and waterways. Their existing dredging fleets are both insufficient in capacity, and in certain areas too outdated to carry out the necessary work. IHC Caland therefore expects a healthy demand from this market segment. In the long run it is to be expected that the number of restricted markets will diminish as more countries enter the World Trade Organisation, requiring them to gradually open their markets to outside competition. This will effect a shift in our client base, but is expected to have no overall effect on the dredgerbuilding activities of IHC Caland.

Competition

The major competitors for the larger custom-built equipment in the dredgerbuilding activities of the Group are IZAR (Spain), VOSTA LMG Dredging Technology (the Netherlands) for engineering services and component packages only, Mitsubishi Heavy Industries (Japan), and to a somewhat lesser extent Damen Shipyards (the Netherlands).

IHC Hydrohammer – Last pile at the Wafa coastal plant, Libya



The main competitors in the range of standard dredgers are Damen Shipyards, VOSTA LMG Dredging Technology, Baltimore Dredgers (former Ellicott Machine Corporation, USA), Hydroland (France), Italdraga (Italy) and Neumann (Australia).

Foundation equipment

With the exception of IHC Hydrohammer, which had a somewhat disappointing year, the other non-dredgerbuilding activities such as IHC Handling Systems, Hytop and Lagersmit contributed positively to the results. We successfully entered into the market for offshore windmill farms. With our know-how in foundation technology we will be able to further develop our activities in this market, which is expected to grow substantially over the next ten years.

For the tunnelling activities of IHC Holland the decision of the Dutch government and the city of The Hague not to award the contract for the construction of the 'St. Hubertustunnel' to a consortium in which IHC Tunnelling Systems participated, came as a great disappointment. As no other serious projects to test the new 'Industriële Tunnelbouw Methode' (ITM) method are or will be available in the near future, it was decided to terminate the tunnelling activities within IHC Holland. As all preparatory work performed in 2003 for the 'St. Hubertustunnel' project was paid for by the client and as all R&D costs were already expensed in earlier years, this decision had no direct impact on the results.

Specialised shipbuilding activities

Our specialised shipyard van der Giessen-de Noord needed to survive in its own specific areas of Ro-Pax ferries and offshore support vessels, as no further demand for jumbo dredgers was to be expected in the foreseeable future. The problems in the execution of two large Ro-Pax ferries, which already started in 2002, continued to hurt the financial position of the yard during 2003 resulting in a very weak financial position at the end of the year. As a result of the very weak demand in van der Giessen-de Noord's market segments, the yard failed to book new orders, resulting in an almost empty orderbook after the delivery of the last ferry. With increased competition especially from Far Eastern yards, in combination with an appreciating Euro and expected limited demand in the years to come, the Group was – much to its regret – left with no other choice than to close the shipyard and to terminate its activities. As previously announced, a one-time provision of US\$ 45 million had to be taken, partly to cover the costs of a social plan to lay off the remaining work force, and to provide for the risk of losses on disposal of the yard's assets, and other associated closure costs.

At the end of the year, only a small group of employees

were active in the yard in order to finish the last vessel in the orderbook. This was delivered in the third week of January 2004. In the meantime an agreement in principle has been reached to sell the premises.

After the closure of van der Giessen-de Noord, the remaining specialised shipbuilding capacity in the Group is very limited. This will be used only in case the dredgerbuilding market would not provide for sufficient occupation of the two remaining dredgerbuilding yards in the Group. Nonetheless, the market for river cruise vessels for European shipowners will offer serious opportunities, since competition in this category is usually limited to European shipyards.

Competition

Competition in the specialised shipbuilding market is coming from both Far Eastern and European shipyards. As stated earlier, the competitive position of European shipyards has deteriorated due to the appreciating Euro. During 2003, the European Commission allowed the member states to apply a subsidy to their shipyards of 6% of the contract value of a ship in case of competition with South Korean shipyards. This is called the Temporary Defence Mechanism (TDM). It only applies to container ships, product tankers and LNG carriers. As the Group's yards are not actively pursuing the construction of these ship types, the availability of this TDM has very limited impact on the Group's activities.

The 5400m³ suction hopper dredger 'Pallietier' for DEME, Belgium



RESEARCH AND DEVELOPMENT

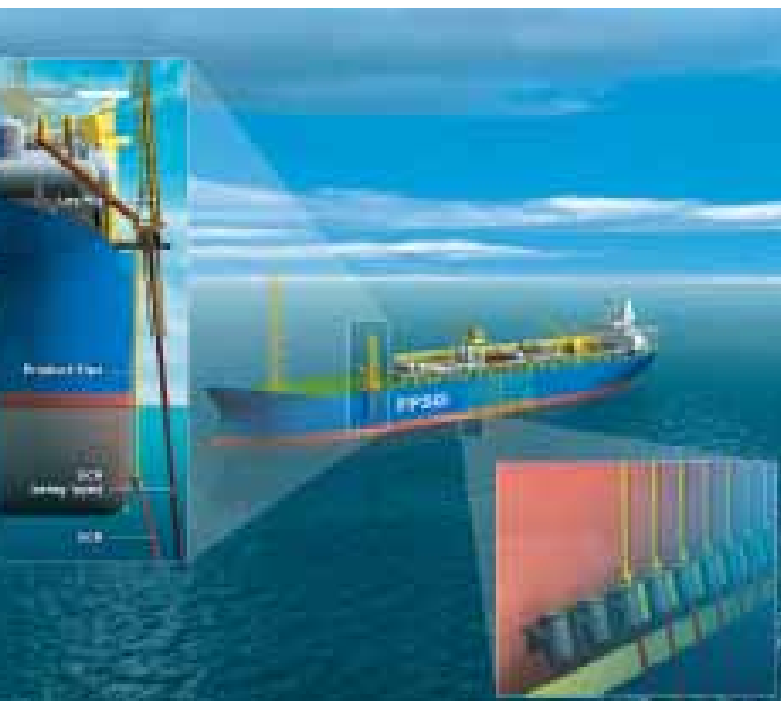
Offshore oil and gas activities

IHC Caland's offshore division is active in the development of new systems and components to enable safe and economical energy recovery from offshore areas. The major focus of the present R&D effort is on deepwater floating production and LNG delivery systems.

Actual direct R&D investments totalled US\$ 8.4 million in 2003. This does not include the part of such costs paid by clients, nor the considerable development work which is performed in the course of project execution.

Our technology continually pushes back the frontiers of oil and gas production, storage and offloading, enabling economic floating developments in deep, harsh or ice prone offshore areas.

SCR Installation from Floater



A list of some current key R&D activities includes:

- Deepwater systems:
 - Steel risers;
 - Installation methods;
 - Mid-water pipes;
 - Anchoring;
 - TLP depth extension.
- LNG transfer and storage systems:
 - Floating storage and regasification;
 - Ship-to-ship and ship-to-shore transfer;
 - Cryogenic fluid swivel.

Examples of achievements in some of these areas are described below:

Steel Catenary Riser (SCR)

In ultra deepwater, riser systems become a technical challenge and a major part of the field development costs. Large external pressures in these great depths cause flexible solutions to run into weight and cost problems. These same depths however enable steel pipe configurations to maintain curvatures that cause little bending and thus make them suitable for deepwater SCR use.

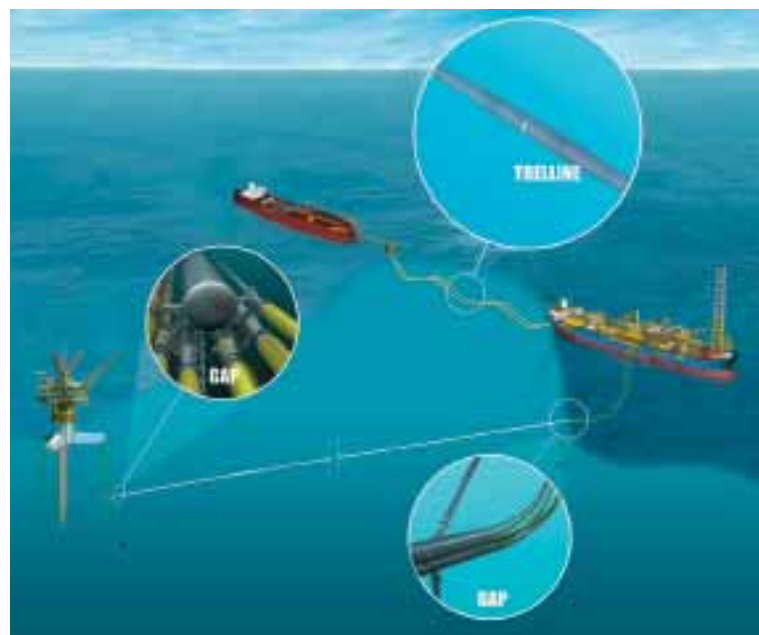
The FPSO with its large displacement is ideally suited to carry a large number of these deepwater SCR's. A concern raised by this SCR use with FPSO's is bending fatigue, and this was studied for a major oil company last year. The study concluded that the SCR would survive a 25-year life in this use when suspended from an FPSO based on a VLCC (large oil tanker) in mild to moderate environments.

Having proved the suitability of SCR's for this use and realising that a major component of SCR costs is their installation, a further internal R&D study is underway to reduce these costs by placing steel riser installation means on the FPSO. The study will identify all equipment and interfaces required to install the SCR's from the FPSO or any production floater, utilising a riser lay and pullout method.

Mid-water pipe systems

Because of flow assurance problems caused by low seawater temperatures along pipelines on the seabottom for fluid transfer between floating systems in deepwater, it is more efficient to perform fluid transfer at minimal

Mid-water fluid transfer systems for deep water



depth using mid-water pipeline systems. Two such systems having distinct, different uses are being developed: the Trelline for large diameter flexible lines used in the transfer of stabilised crude from FPSO's to export buoys, and the Gravity Actuated Pipe (GAP®) for the transfer of multiple live produced fluids between Dry Tree Units (DTU's) and an FPSO used for processing of the hydrocarbon production.

The Trelline is a joint development between Trelleborg and SBM of a large diameter bonded hose capable of withstanding much higher internal and external pressure and tension than standard submarine loading hoses. These requirements are necessary for the hose to be used in this mid-water transfer duty. After prolonged testing in 2003 proved the Trelline could withstand these extreme requirements, it has received the API 17K certification by Bureau Veritas. The Trelline has numerous advantages over alternative steel or unbonded flexible solutions. These include the fact that the hose does not suffer from bending fatigue, is available in large diameters and can be installed without the use of expensive lay vessels.

The GAP® consists of a neutrally buoyant bundle of steel pipes supported and tensioned at a near surface depth by chains and weights attached to floating systems. The floating systems transfer production fluids through the pipe bundle via vertical flexible lines. This near surface transfer greatly reduces flow assurance problems of hydrates and waxing that would occur with a seabottom-based SCR piping system. The GAP's neutrally buoyant bundle also greatly reduces the load placed on the floater when compared to SCR use, which is quite important when designing TLP tie-ins. Studies for transfer from two to thirty kilometres have shown the GAP® to be a reliable application in any deepwater production area of the world.

Due to the advantages described above, the Group is optimistic to obtain orders for both the Trelline and the GAP® in the near future.

Installation means

For deepwater installation for our products, i.e. FPSO's and TLP's, IHC Caland has designed a new installation vessel, for which construction is scheduled to start in 2004. Special tools and work methods have also been developed for deepwater piling and installation of sub-sea trees and manifolds, and flow lines installation.

LNG Floating Storage and Regasification Unit (FSRU)

In anticipation of the LNG demand growth, the need for import infrastructure is now becoming crucial. Onshore fixed facilities have long-lead delivery times and are undesirable from a neighbourhood stand point. For these reasons, offshore FSRU systems have been developed to

handle the projected import overflow. The FSRU's for areas like the USA would be located offshore at depths suitable for the easy approach, side-by-side berthing, offloading and departure of LNG import carriers. These FSRU's will be permanently turret moored and have suitable berthing and mid-ship loading arm arrangements for carrier mooring and offloading into FSRU LNG storage tanks. A topside mounted regasification system will draw LNG from these storage tanks, re-gasify and flow a required amount of gas down flexible risers to a seafloor-located sub-sea pipeline delivering gas to a shore based pipeline grid.

FSRU with side-by-side moored shuttle carrier



One advantage of these FSRU's, apart from economical reasons, is improved import carrier turnaround and safety, as the risk of accidents due to LNG carrier movements in harbours and harm to onshore populated areas resulting from accidental LNG release are eliminated.

Dredger/specialised shipbuilding activities

All R&D activities undertaken within the dredger/specialised shipbuilding activities aim at maintaining technological leadership in its field. For this purpose, considerable direct R&D budgets are made available. In 2003 this amounted to US\$ 7.8 million. This budget does not include the very substantial amounts which are paid for by the clients in the course of the execution of innovative orders.

R&D in dredgerbuilding aims at an ever better understanding of the dredging process itself, as well as product

development. The efforts are focused on providing our clients with means and equipment either to become cost leader in their selected markets or to enable them to carry out their dredging operations beyond existing limits (e.g. water depth, soil conditions). The deep dredging installation for the hopper dredger 'Vasco da Gama' enabling dredging at 155 metres water depth which was delivered in March last year is a prime example of this. The research into the dredging process is carried out at the IHC Holland research institute MTI. More fundamental aspects of the dredging process are often investigated in close cooperation with the only existing faculty of Dredging Technology in the world at the Delft Technical University. The specific product development activities are carried out within the various business units. R&D projects are also executed in collaboration with customers. The feedback of the experience with the dredging equipment during the actual dredging process is an important information source for product development. The main R&D activities in 2003 were related to the 27000kW self-propelled cutter suction dredger 'J.F.J. de Nul' and to improving wear resistance prediction of dredging components.

27000kW self-propelled cutter suction dredger

The increase of scale of this dredger of 35% in comparison with any other dredger of this type proved to be also a major challenge in the field of R&D. The sheer increase in the weights of major parts or components such as the cutter ladder and spud carriage as well as the application of the newest available software and hardware for the automation systems of this mega dredger required numerous innovative solutions to be applied. This experience contributed substantially to the conclusion of a contract for a second dredger of this type.

Improved wear resistance prediction

In 2003 wear prediction models were validated and introduced for dredge pumps and pipelines based on databases available from IHC Holland files which were partly based on full-scale measurements and partly on databases from a large contractor who became a partner in this project. Results were encouraging with an improvement in the quality of prediction of the wearing process. This enables IHC Holland to further fine-tune its models to predict full lifetime exploitation costs for the dredgers it offers, and will in time provide the customer with tools to plan the timely replacement of its wearing parts in a more orderly manner.

Deep sea piling hammer

In the activities of IHC Hydrohammer the development of a deep sea piling hammer for the anchoring of large fixed and floating facilities made very good progress. This was performed in partnership with the SBM group. The principle on which this new type of hammer is based, is such that application virtually independent of

water depths is assured. The so-called 'Pyrodriver' was successfully used in a full scale test in the fall of 2003.



Application of IHC Hydrohammer's 'Pyrodriver'

New excavator monitor line

IHC Systems, the business unit within IHC Holland which is responsible for all dredger related instrumentation and automation systems, has introduced a new generation of excavator monitoring systems. New software architecture combined with state of the art hardware has further expanded the functionality of the product with a number of geographical mapping applications. Integration of the functions of excavation control and survey monitoring minimises the need for interfacing during operational work.

Reduced fuel consumption for hopper dredgers

Computational Fluid Dynamics (CFD) models were used to reduce wash, propeller cavitation and frictional and wave resistance of dredgers. As dredgers are by definition almost always operating in shallow waters (reduced water depths), these models were fine-tuned especially for these operating conditions. The theory was then applied to orders delivered in 2003 and in full scale tests the theoretical assumptions were verified. The results of these full scale tests confirmed the estimated wash and fuel consumption reduction of dredgers also while operating in shallow waters.

BUSINESS DRIVERS AND COMPETITIVE POSITION

Business drivers

Offshore

- Instability in Middle East encourages exploration elsewhere, especially the South Atlantic;
- Huge hydrocarbon discoveries in deep and ultra deepwater offshore;
- Movement towards floating offshore LNG plants;
- New cost-effective technical solutions for producing oil and gas, in increasingly deeper water;
- Oil company requirement to replace production;
- Increased international E&P spending by oil companies, especially in deepwater;
- Relatively high oil price predicted in medium term;
- Continuing demand for oil transportation, loading and offloading;
- Opening of Gulf of Mexico to FPSO's/FSO's;
- Zero flaring policy driving offshore gas technology;
- Increased market for LPG and LNG transport/storage and import facilities;
- Dry completion option in deepwater.

Dredger/shipbuilding

- Major land reclamation projects, driven by new low-cost technology;
- Increasing world seaborne trade – new and deeper harbours required;
- Growing market for maintenance dredging;
- Replacement of ageing dredger units;
- New concessions for offshore marine sand and gravel mining;
- Recovering demand for river cruise vessels.

Competitive disadvantages (to be overcome)

Offshore

- Limited home market for offshore division (now growing in USA);
- Difficult to keep competitive edge on low end of product line;
- High Euro cost of Europe-based engineers.

Dredger/shipbuilding

- Production facilities in high labour cost countries;
- Stronger Euro.

Competitive Edge

Offshore

- Flexibility in execution – three engineering centres – all construction outsourced;
- Extensive toolbox for deepwater developments, mainly with patented technology;
- In-house competence to supply, install and operate complete, complex FPSO's;
- 'Fit-for-purpose' FPSO concept, based on operating experience with thirteen units;
- Patented technology in-house on LNG components;
- Track record – on time and generally in budget;
- Financial strength and financing skills;
- Strategic partnerships with e.g. Sonangol, MISC, Saipem, Mitsubishi;
- Mergers and failures reducing the number of major competitors.

Dredger/shipbuilding

- Key technology in-house;
- Strong home market in dredgerbuilding;
- Niche player in a number of markets;
- 'Fit-for-purpose' design, based on 300 years of experience;
- Choice of three modern construction yards gives short delivery times;
- Full life cycle product support activities.

Threats

Offshore

- Increasing competition, including from the Korean shipyards for large turnkey FPSO projects;
- Eventual move to more modern tonnage for FPSO's/FSO's;
- Increasing construction prices due to high workload in ship-/fabrication yards;
- Overload on balance sheet due to expanding lease fleet;
- Huge E&P investments in Russia and neighbouring countries.

Dredger/shipbuilding

- Excessive/hidden subsidies for competitors;
- Increased pressure for local construction in emerging countries.



*Atlantia Offshore –
Matterhorn
SeaStar® TLP
as installed
on Total's field in
the Gulf of Mexico*

RISK AND CONTROL

Detailed attention to the management of all risks associated with the Group's international, custom-built, high capital value offshore oil production and dredgerbuilding businesses is critical to the Group's continuing success. Our report on risk management is somewhat modified this year, but this message remains the same.

For many years, the Group has systematically reported on its approach to the management of risk. The subject was already focussed on in the report of the Peters Committee in 1997, and has again recently been highlighted in the Corporate Governance Code of the Tabaksblat Committee.

In our opinion, good governance requires:

- existence of an adequate risk and control system;
- performance of periodic risk analysis;
- establishing a system of monitoring and reporting;
- transparency regarding the adequacy and effectiveness of such risk and control system towards stakeholders.

To take the last point first, there are many examples of transparency regarding the Group's risk and control systems. For example, FPSO lessees require to be convinced of the adequacy and effectiveness of these systems before leasing a unit. Our employees working offshore also need to be secure in this area. Management regards its overall responsibility in respect of such transparency to be in respect of the Group's Supervisory Board, who represent all the Company's stakeholders. The section which follows states clearly the system of regular reporting to the Supervisory Board in respect of major projects, treasury exposures and other risks.

The first three principles of good governance mentioned above are collectively covered in the description of the Group's systems for management of risk described below.

I Project Specific Risk

(A) Construction contracts

Technical risk

Due to the Group's tradition of providing custom-built solutions to clients' requirements, technical risk is a major concern.

This is addressed by:

- use of the Group's enormous resource of technical and other know-how, patents etc.;
- strict adherence to our rigorous Quality Assurance and Quality Control Procedures;
- review by and compliance with the requirements of the relevant Classification Society.

Budget risk

The cost of the technical solution identified for the client is calculated by a highly skilled cost estimating department. Before submission to the client, the detailed calculation is reviewed, item by item, by all appropriate departmental heads, and various levels of management, depending on the value of the project.

Execution risk (including offshore installation)

These risks are addressed in the same way as the technical risks referred to above. The consequences of problems in execution are always insured, although losses arising from a faulty design cannot be insured.

The financial viability of major subcontractors is always independently verified.

Payment risk

Except in the case of first class customers, all payments due in respect of supply contracts should be covered by Letters of Credit. For the dredger/shipbuilding activities, there is also the alternative that payments are insured with Atradius Dutch State Business N.V.

(B) FPSO/FSO lease and operation

The Group often builds FPSO's and FSO's for its own fleet, to be leased to and operated for oil company clients. The risk management in the construction of the units is identical to that described under 'Construction contracts' (above). The lease and operation of the units brings a new set of risks:

FPSO/FSO operation risk

- pollution risk

There have in fact been no important pollution incidents involving FPSO's or FSO's anywhere in the world. Within the IHC Caland Group, management of pollution risk is addressed in three ways:

- internal policy to maintain the general integrity of the fleet;
 - strict operating procedures and preventive maintenance programme;
 - careful selection and intensive training of high quality personnel and direct employment of all positions of responsibility aboard the units;
 - Safety Environment Protection (SEP) accreditation by the classification society DNV and compliance with Integrated Safety Management (ISM) requirements;
- indemnification by client (above a limited threshold);
- pollution insurance for the maximum available from a P&I club.

- performance and payment risk

There is also the day to day operating risk whereby compensation rates will not be paid or only partially paid by clients, if units do not perform as per the contract requirements. In this respect it is reassuring to note that

as of 31 December 2003, the Group has operated around ninety-one vessel years for FPSO's/FSO's, with a total operating downtime of less than 1%, well below the average contractual downtime allowance.

- asbestos

The Group has a duty of care to protect personnel within its operations from the potential health hazards associated with asbestos by the use of a strict policy on board its FPSO's/FSO's:

- existing units in operation have an asbestos register where any and all asbestos material is identified for type classification and with its location recorded;
- any work affecting the recorded asbestos material is to be executed by a licensed asbestos removal contractor;
- units being converted to FPSO's are now asbestos free, i.e. all known asbestos has been removed during the conversion period. If asbestos material is identified during operation, an asbestos register is created and the above policy applies;
- a code of practice covering asbestos management, integrating the DOT Merchant Shipping Notice M 1478 'Asbestos Health Hazard and Precautions' and the UK Statutory Instrument Number 2675 'Control of Asbestos at Work Regulations', is applicable to all persons on board the Group's FPSO's and FSO's.

FPSO/FSO lease financial risk

When making a proposal to lease an FPSO or FSO to a client, four main risk factors require to be evaluated:

- client risk;
- reservoir risk;
- country risk;
- residual value risk.

If the client is a substantial company capable of guaranteeing full payment under the lease, then the reservoir and country risks are less relevant. If however the client is not sufficiently strong to guarantee full lease payments, the Group will in all cases look for limited recourse project finance in order to transfer reservoir and country risks to the international banking world where they belong.

In addition, each FPSO or FSO contract is performed through a special purpose company established for the project. In this way the various risks associated with a project are isolated and separated from other areas of the Group's business.

Finally, residual value risk relates to the portion of the unit which is not amortised after the initial guaranteed lease period is over. Deciding on the level to be accepted involves taking a view on e.g. the likelihood of the lease continuing, the reusability of the units etc. In general, the Group tends to err on the side of caution when establishing this key parameter.

The Group has built for its own fleet a total of eighteen FPSO's and FSO's. Until today, the contracts of ten from the eighteen have been extended, by periods from one to nine years. Most of the remaining units have not yet reached the end of their original charters. This provides considerable comfort in respect of residual values.

Periodic risk analyses

As can be seen from the above, risk analysis is a continuous process. The process is also sometimes reinforced by e.g. an audit of one Group company's project by experts from another Group company or even from a specialist third party.

Another very important control is in the case of financing of lease FPSO's where the lenders insist on having a detailed technical review performed by an independent expert of their choice.

System of monitoring and reporting

Every project under construction and every FPSO/FSO lease and operate contract is reported on monthly to the board of the appropriate subsidiary company. The report incorporates the original budgets, client-approved change orders, and costs incurred to date, together with any important positive or negative variances incurred or identified as likely to be incurred, with explanations. Each subsidiary company board contains at least one member of the Board of Management of IHC Caland, who is responsible to ensure that important variances are brought to the attention of the full Board of Management. Any very important negative variances will immediately be brought to the attention of the Supervisory Board of IHC Caland. Once per quarter, the major running projects of the Group are reviewed in writing for the Supervisory Board of IHC Caland.

II Structural Risk

Irregular order intake

This is one business risk which is impossible to fully eliminate in the capital goods business. By covering a wide spectrum of products, from spare parts (which are always in demand) to large FPSO's, IHC Caland tries to mitigate this risk, but the situation remains one of the chicken and the egg i.e. the Group needs to have large resources available to bid credibly for multiple large projects, but if the projects do not come, or are delayed, there is a major exposure in high staffing levels.

On the other hand, the offshore oil division outsources all construction, thereby retaining maximum flexibility. It also leverages off its key permanent employees, by using high levels of temporary staff to handle peaks in workload.

In the shipbuilding activities, mainly consisting of dredgerbuilding, the Group does have a manufacturing capability of three modern shipyards in the Netherlands. Here too, temporary labour is frequently used, and the policy is to limit the permanently employed manhour

capacity to a maximum of 70% of the total hours required to complete the average order book.

Nonetheless, the strong Euro, and the development of shipyards in developing (client) countries such as China will certainly increase pressure to build in the client's backyard. Management is attentive to these developments, and continues to focus on ever-improving technology to maintain its leading positions in dredger-building and associated markets.

Imbalance between supply and lease contracts

Supply contracts are attractive both in that they generate profit immediately upon delivery, and also in that construction is mainly outsourced, which eliminates the need for expensive facilities which tie up capital. Furthermore, progress payments generally ensure at least a neutral cash flow, thereby eliminating the need for additional working capital.

In the case of lease and operate FPSO's, there are no progress payments, and very large amounts of capital are tied up. Nonetheless, when they come onstream, lease contracts contribute immediately to cash flow. The thirteen units presently in operation provide a very substantial and visible underpinning to future long-term earnings and cash flow.

Recently, the Group has been much more successful in obtaining new lease and operate contracts than supply. As mentioned, this puts pressure on the balance sheet, but provides excellent visibility of earnings and cash flow.

It is virtually impossible to influence the client's choice between supply and lease. The only way to achieve a balance is at the bidding stage, assuming there are sufficient projects of each kind in the market. In this respect, the Group's ability to bid on a supply basis for the very large new-built FPSO projects should help to redress the balance.

III Treasury risk

The offshore division has considerable exposure to financial market risk, mainly relating to currencies and interest rates. The functional currency of the offshore division and reporting currency of IHC Caland is US dollars, and almost all offshore revenues are in US dollars. There are significant cost elements and some investments in Euros and other non-US dollar currencies leading to potential exposures on operating costs and equity.

The lease business is particularly capital intensive and substantially financed with floating rate debt giving rise to substantial interest rate exposures.

The policy of the Group is to hedge all significant currency and interest rate exposures, and fixed rate

instruments are used to cover most of these risks. Long-term lease contracts with fixed revenue streams make up a major part of the Group's revenue, and profit volatility is reduced by hedging interest rate exposure. The hedging of currency and interest rate risk does not eliminate long-term economic exposure but helps reduce short-term profit volatility. On the negative side, the market value risk on financial instruments and in particular interest rate swaps is significant and the desire to reduce risk has a price. Counter party risk is minimised by entering into hedging contracts only with banks rated 'A' or better. Treasury exposures are reviewed on an ongoing basis. Project exposures are hedged at the outset and monitored on a monthly basis. Hedges are updated as changes in the exposures are recognised. Treasury reports monthly to the Board of Management of IHC Caland and quarterly to the Supervisory Board. The Group does not engage in any speculative activities and only undertakes hedging in respect of confirmed exposures using mostly fixed rate instruments. Derivatives are used infrequently and are never sold.

As a departure from the previous policy of full hedging and in anticipation of the expected de-merger of the dredgerbuilding activities, the Euro-based equity and profit from activities in the Netherlands have not been hedged to the new reporting currency of IHC Caland. These items are not considered material in the context of the Group. However volatility in the Euro/US dollar exchange rate will result in some volatility in the Group's reported profit and equity. This subject is developed further in the Financial review section (see page 42).

IV Other risks

The events in America on 9/11, and elsewhere, bring into question the very existence and continuity of companies. The offshore group, through its Quality Assurance department, is in the process of completing a Disaster Recovery Plan, which will be finalised in 2004 for the three main centres of the offshore Group – Monaco, Houston and Schiedam. This will cover back-up operating locations, communication systems and information systems.

Protection of data, both its physical existence and against unauthorised access, is already well advanced, both in the offshore and in the dredgerbuilding divisions. The introduction of a Group-wide intranet in the offshore activities also provides a very important data back-up facility, as increasingly data is duplicated in each of the offshore Group's three centres.

HEALTH, SAFETY AND PROTECTION OF THE ENVIRONMENT (HSE)

General

IHC Caland's policies and practices in respect of HSE are continuously being developed to complement and support our business activities. The control of Health, Safety and Environment has been integrated into a single management system. It is a prerequisite that all personnel actively implement an individual and collective commitment to the highest standards of health, safety and the protection of the environment. This statement applies to all of the Group's activities, from concept selection, through detailed design, commissioning, offshore installation and operation. All personnel are accountable for these key areas, both in the execution of their work activities and in their relations with business partners and clients.

Onshore and offshore oil and gas activities

Health and safety

In 2003 the reporting criterion for HSE was changed to comply with the American OSHA standard. This provides consistency across the Group's geographical business locations.

In the oil and gas activities, the Safety Management System for onshore design, construction work and offshore installation activities in 2003 identified six Lost Time Accidents (LTA's) i.e. accidents requiring more than one day away from work, for 2.93 million manhours expended. This good performance has been achieved as a direct result of the management-led safety initiatives, which are being implemented during construction and installation activities. Efforts are being made via safety workshops and lessons learned to ensure an even better performance for 2004.

Our goal of improving the safety performance of our sub-contractors during 2003 has been achieved as data available demonstrates that the incident frequency is generally better on SBM-managed work than for each yard as a whole. It is our intention to focus resources and ensure this trend continues.

The FPSO/FSO offshore operational HSE statistics are seven Lost Time Accidents (LTA's) from 3.5 million manhours worked fleet-wide.

The statistics are not fully comparable with 2002 due to the change in definition of LTA from an accident requiring three days away from work to an accident requiring one day away from work. Nonetheless, the statistics are very satisfactory.

Safety training is an essential part of maintaining a safe working environment. A structured system has been

developed to identify the need for HSE related training such as first aid, fire fighting and basic offshore survival training and other specialist courses.

Protection of the environment

In respect of protection of the environment, the offshore division maintains a strict emphasis on a clean and pollution-free offshore operation. All emissions to the sea or the atmosphere are evaluated during the Safety Case process to ensure they exceed in cleanliness all relevant international and coastal state requirements, e.g. water produced along with oil and gas is processed and its cleanliness continuously monitored before being returned to the sea. In addition, the emphasis on utilisation of associated gas has a very positive environmental effect as it eliminates the need for gas flaring.

Dredger/specialised shipbuilding activities

Health and safety

During the year, 0.24% (2002: 0.23%) of the available production manhours were lost due to accidents. No fatalities were recorded.

Health and safety requirements are important issues during construction of vessels. At the yards, strict discipline is adhered to in the handling and disposal of hazardous products. Major efforts are made to create and maintain a safe and healthy working environment, based on the requirements of the Netherlands labour conditions law. This law requires companies of a certain size to establish formal labour conditions policies. Based on these policies, a detailed annual plan is drawn up to improve specific labour conditions or working circumstances. The annual plan is based on the findings of regular inspections of the labour conditions, both in offices, construction halls and machine shops. Formulation of the plan and execution thereof is supervised by an external expert of the Department of Health and Safety, as required by law and by the works councils. The standards to be complied with are clearly spelt out in the relevant company manuals.

Protection of the environment

The environmental impact of vessels built by the Group is evaluated on a 'cradle to grave' basis. First of all, when designing a vessel, special care is given to the possible environmental impact during the construction phase. Thereafter, attention is focused on the permissible emission levels of its engines during its lifetime, and finally the choice of materials is influenced by the environmental and health impact of the eventual scrapping of the vessel.

HUMAN RESOURCES

General

IHC Caland seeks to be an attractive employer, offering wide opportunities for professional and personal advancement. The maintenance of safe and healthy working conditions, the observance of strict safety and environmental standards, and a fair and balanced system of remuneration have the highest priority.

Number of employees

At the end of 2003, the Group had a total of 4148 employees, compared to 4338 in 2002, of which 1838 employees were in the offshore division, compared to 1542 in 2002, and 2289 employees in dredger/specialised shipbuilding, compared to 2775 in 2002. The figure for dredger/specialised shipbuilding includes 315 employees of van der Giessen-de Noord, who are serving their contractual notice period. Our employees represent 46 nationalities, spread over 29 countries.

Labour markets

In the offshore division, the labour market softened somewhat in 2003, leading to greater than expected mobility of labour. This allowed the Group's offshore division to attract a significant number of additional high quality engineering personnel. On the other hand, as the Group was very busy with a high workload, it hardly lost any quality personnel.

The graduate intern programme is continuing, and as it becomes more established, it is able to attract an increasingly high level of participants.

In the dredger/specialised shipbuilding division, the market remains weak, although there appears to be a lack of experienced middle management in certain disciplines such as piping. The 'greying' of the workforce remains an issue, only partly resolved by in-house schools for young recruits, together with international recruitment.

Integration and harmonisation

One of the major challenges in the offshore division is to harmonise the standards and methods used in its three key locations in Monaco, Houston and Schiedam. An important objective is to have the same skill set in the same job position around the world, to facilitate efficient and fair interchangeability. A major step forward was made in this respect in 2003 with the initiation of the creation of mutually agreed sets of job position competences for each position in the offshore group. The existence of such a system will allow easy interchangeability of labour, but equally important, will allow better individual career planning, as the skills required for any higher position will be clearly identified, and training can be precisely focused to fill any gaps in an employee's skill set.

Absenteeism

Absenteeism in the offshore activities fell to 1.5% instead of 1.6% in 2002. In view of the decision to close van der Giessen-de Noord, the figure of absenteeism in dredger/specialised shipbuilding is now composed of the data from IHC Holland and Merwede Shipyard, which amounted to 5% (2002: including van der Giessen-de Noord 5.8%).

Remuneration

To the extent possible, the Group endeavours to accommodate the present trend towards flexibility in working conditions and compensation packages.

The Group has a comprehensive compensation package including (depending on the employee's level) salary, bonus, stock options and other fringe benefits. In addition, there is an employee share ownership plan with the purpose of encouraging all employees to own shares in IHC Caland, thereby improving motivation and involvement in the Group.

Training in offshore

Technical, managerial, and other training courses have long been a feature of daily life for the employees in the offshore division. To ensure the optimum focus especially of the technical training, the personnel function was recently reinforced by the addition of a very experienced engineer, in a full time function as Training Manager.

Training of local nationals also continues to have a high priority in the Group. Following the SBM group initiative to support the ESSA training Centre in Luanda, Angola, as explained in last year's Annual Report, another important programme has been initiated for the education and training of the Angolan employees of Sonasing, the Sonangol/SBM joint venture.

After an overall competence and assessment review of these employees performed mid 2003, an education and training programme has been implemented. The programme started with English courses conducted in the ESSA training center, and continues with basic education and technical courses in a South African technical college. The full programme runs over a period of three years for the successful candidates. Any employee who fails his specific programme, restarts the process at the competence assessment review stage, and is orientated differently, depending on the result of this review. This training programme covered 58 employees of Sonasing in 2003 and is expected to cover 104 in 2004.

The Group will soon have three FPSO's operating in Angola, and this programme is essential for lasting, and integrated success of the partnership.

Training in dredger/specialised shipbuilding

The shipyards have special in-house training centres to train new and existing personnel in the skills needed in

the various departments. This is valid for almost all levels of required skills and competence. At management levels the Management School of IHC Holland (founded 1999) may serve as an example. More than two hundred IHC Holland staff have attended one or more training modules. Experience proves that personal effectiveness has increased.

The award of the 'Timmersprijs' to Mr. Oscar ten Heggeler, one of the engineers at IHC Holland Parts & Services, for his innovative work in predicting and measuring the dynamic behaviour of suction pipes of trailing suction hopper dredgers, is proof of the fact that attention to education and development pays off. The 'Timmersprijs' is awarded annually for outstanding innovative design work.

As every year, the 'Vereniging Nederlandse Scheepsbouw Industrie' (VNSI) 'Ter Hart' prize is given to students within the maritime education field, who have shown (among other qualities) motivation and skills, or have finished their training with exceptional results. Mr. Yury Verbeeth, an employee in the production department of Merwede Shipyard may be called a golden prize winner indeed, in view of his exceptionally high marks.

Labour in developing countries

As the Group continues to expand its operations all around the world, the recruitment, training and promotion of local employees becomes an increasingly high priority. Not only does it make good business sense, but it is a way to give something valuable back to the countries where we are doing business. An earlier paragraph describes an important new programme in Angola, and this is just one from several.

Mr. Thaw Da Htay, the Yetagun FSO Maintenance Superintendent



Mr. Thaw Da Htay joined the Group in 2001 and was appointed in 2003 as Maintenance Superintendent of the Yetagun FSO, operating for Petronas. Mr. Thaw Da Htay originally from Yangon, Myanmar, has a background as Chief Engineer, working on trading tankers since 1985. On the Yetagun FSO, where the crew is now 85% composed of local nationals, he is in charge of operating the tanker engine room and coordinating all repairs and maintenance works.

van der Giessen-de Noord

No company likes to lay off large numbers of loyal employees, and it was with great regret that IHC Caland decided that it had no choice but to close the van der Giessen-de Noord shipyard, and make all of its employees redundant. Where possible, alternative employment was offered in another of the Group's shipyards, and the remaining employees received very fair severance packages. At the date of writing this Report, 40 of the 400 employees laid off have taken advantage of early retirement programmes and around 150 had found new employment. The Group wishes them all well and thanks them sincerely for their loyal service.

CORPORATE GOVERNANCE

Corporate governance structure

The Company is a 'naamloze vennootschap' incorporated under Dutch law with its statutory seat in Rotterdam and its seat of Management in Schiedam. Adoption of the so called 'structuurregime' which means that certain rights of the General Meeting of Shareholders are exercised by the Supervisory Board, is mandatory for the Company.

The authorised share capital is divided in ordinary shares and preference shares. Only ordinary shares have so far been issued. The ordinary shares are listed at the stock exchange of Euronext Amsterdam as part of the AEX index. The preference shares will only be issued as an anti-takeover protection measure, as explained later in this section.

The Company has many direct and indirect subsidiary companies in and outside the Netherlands, of which the most important ones are mentioned in this Annual Report.

The Company has a Board of Management with three statutory members and two other members. The Board of Management is responsible for the operations.

The Company also has a Supervisory Board, consisting of six persons. In 2003 an Audit Committee was established.

The recommendations that the Peters Committee has made in the past on corporate governance have all been implemented in the corporate governance structure of the Company. Besides that, the Company follows the development and change in views on corporate governance carefully and adapts its policy and structure to these changing viewpoints if this is considered appropriate. This is a continuing process.

Impact Dutch Corporate Governance Code

The Supervisory Board and the Board of Management have in a joint meeting evaluated the corporate governance structure of the company in the light of the Dutch Corporate Governance Code ('the Code'), as formulated by the Tabaksblat Committee and published on 9 December 2003.

The Company agrees with the principles as they have been formulated in the Code insofar as these principles are applicable to the Company.

The Company has no fundamental objections against the Code's best practice provisions.

Certain of the Code's provisions can however only be implemented once appropriate changes in Dutch law have been effected, while other provisions are not

currently applicable to the Company. The Company has therefore established a timetable to ensure that by the end of 2004 the relevant provisions are applied.

The actions taken during 2004 will be made public, and such information will be progressively added to the Company's website.

The best practice provisions which are not initially applied, or which are not relevant to the Company, will also be identified and the specific circumstances explained.

The conduct of the Supervisory Board and the Board of Management will be in accordance with the best practice provisions from the beginning of 2004, but in some instances further measures will be necessary (for instance the setting up and making rules for the key committees). Some provisions have already been applied in preparing the agenda for the General Meeting of Shareholders in 2004.

Protection policy

The Group remains firmly opposed to a take-over by a third party when in its opinion the ultimate aim of such take-over is to dismantle or unbundle the activities of IHC Caland, or otherwise to act against the best interests of IHC Caland including its shareholders, employees and other stakeholders.

In order to allow sufficient time for an appraisal of an unsolicited public offer for the shares of the Company or any other attempt to take over the Company, Management has, with the cooperation of the shareholders, made use of the possibilities open to a company under Dutch law and in the Dutch business sphere.

In connection with this, a foundation has been formed with the objective of using the voting power on any preference shares in the Company which it may hold at any time, in the best interests of the Company and the business conducted by the Company. This foundation will perform its role, and take all actions required, at its sole discretion. In the exercise of its functions it will however be guided by the interests of the Company and the business enterprises connected with it, and all other stakeholders, including shareholders and employees.

The foundation 'Stichting tot Beheer van Preferente Aandelen in IHC Caland N.V.' ('the Foundation') is managed by a Board, the composition of which is intended to ensure that an independent judgement may be made as to the interests of the Company. To ensure this, a number of experienced and reputable present and former senior executives of multinational companies were invited to join this Board.



MSC – Maersk Explorer during commissioning in the Caspian Sea

The members of the Foundation meet regularly with the Management of the Company to be updated about the business and interests of the Company.

The Board of the Foundation consists of Mr. N. Buis, a former CEO of Smit Internationale NV, Mr. P.J. Groenenboom, a former CEO of Imtech NV, Mr. J.C.M. Hovers, a former CEO of Stork NV and of Océ NV, and Mr. H.A. van Karnebeek, a former Vice-Chairman of the Board of Management of Akzo.

The Managing Directors, with the approval of the Supervisory Board, have granted a call option to the Foundation to acquire a number of preference shares in the Company's share capital, equal to one half of all ordinary shares outstanding immediately prior to the exercise of the option, enabling it effectively to perform its functions as it, at its sole discretion and responsibility, deems useful or desirable. The option was granted on 30 March 1989. (An identical put option in favour of the Foundation, granted to the Managing Directors on the same date, has since been cancelled.)

In accordance with the by-laws of the Company, Management of IHC Caland has advised shareholders of the reasons for granting this option in the Extraordinary General Meeting of Shareholders of 28 April 1989.

In the joint opinion of the Supervisory Board, the Board of Management of IHC Caland and the members of the Board of Management of the above Foundation, the 'Stichting tot Beheer van Preferente Aandelen in IHC Caland N.V.' is independent from IHC Caland as defined in the 'Fondsenreglement' of the Euronext Amsterdam Stock Exchange.

Code of Conduct

IHC Caland has a code of conduct, which was published in May 2000. This document lays out the Company's view of its responsibilities to its stakeholders (customers, capital providers, employees and suppliers) and also to society and the environment. It forms the basis for the Company's daily performance of its business, and the Company is actively accountable for compliance with this code.

Myanmar Project

For contractual reasons which have already been clearly explained, the company continues to own and operate an FSO offshore Myanmar. Scrupulous attention is given to the protection of the local employees' rights, and to their training and promotion. At present the FSO Yetagun is 85% operated by nationals of Myanmar. The promotion of these nationals is a major success, and this trend will continue.

Onshore Myanmar, IHC Caland is giving financial support to two programmes under the umbrella of the United Nations organisation UNAIDS:

- a HIV awareness programme at the Maritime Institute of Yangon. This education programme, which has been supported by IHC Caland for the last two years, has been given to 5511 seafarers out of a total population of 69,575 seafarers within the last two years;
- a HIV awareness programme presented to employees of Yangon garment factories, mainly populated by young females. This programme, which has been supported by IHC Caland since mid-year 2003, will complete the education of 5000 workers in 2004.

In 2003, IHC Caland has committed to the SA8000 norms in terms of social accountability in its Myanmar operation. This commitment implies in particular the continuous and traceable checking in Myanmar of IHC Caland suppliers and sub suppliers in relation to forced labour and child labour.

During 2003, Management of the Company, accompanied by representatives of the Dutch trade unions, visited the Myanmar Ambassador to the United Kingdom in London.

They strongly emphasised the importance to the Company that the government of Myanmar should respect the stated objectives of various international bodies in respect of human rights, child labour etc. The Ambassador undertook to pass the Company's concerns on to his government.

IHC Caland achieved a net profit for 2003 of US\$ 46.6 million. This result is in line with the October press release, and includes an after-tax charge of US\$ 45 million in respect of the closure of van der Giessen-de Noord.

Three Group companies contributed positively to the net result – SBM group and NKI Group, who exceeded their profit target, and IHC Gusto Engineering/Marine Structure Consultants (MSC) who achieved a modest profit.

The overall order intake was lower than expected, as a result of all markets in which the Group is active being slow.

Net turnover was high, due to a high volume of turnkey deliveries.

Operating profit (EBIT) margin decreased to 3.5% compared to 8.9% in 2002, as a consequence of overall lower margins on turnkey projects, some of which included large subcontracted elements and some of which were delivered with a loss. The costs of closure of van der Giessen-de Noord also played an important role. For the same reasons, plus higher interest charges, the net profit margin decreased to 2.5% from 8.3% in 2002.

Assets and (to a lesser extent) Capital Employed increased still further, due to the continuing investment in the FPSO/FSO lease fleet. Three large FPSO's were completed during the year or just after year-end, in addition to a significant upgrade of the Kuito FPSO, and construction continues on one further FPSO and an LPG FPSO. The total investment in fixed assets in 2003 amounted to US\$ 530 million, which is lower than in 2002 (US\$ 702 million) mainly due to the fact that there were fewer units under construction.

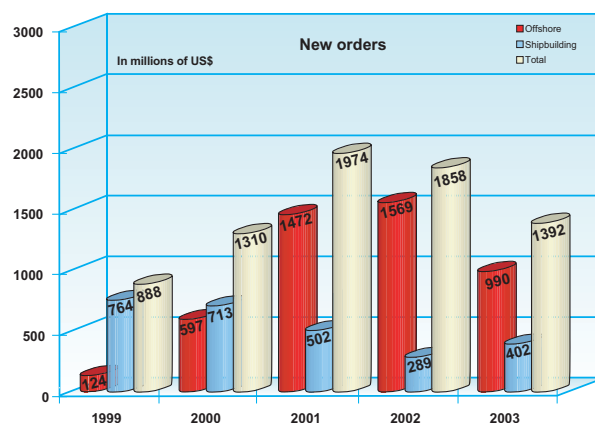
A good profit level for the whole Group depends on a balanced order book throughout the Group, and total levels of order backlog do not rule out the possibility that there may be underrecovery in individual business units or parts thereof.

Segmental information in respect of the two core businesses of the Group is provided in the detailed financial analysis which follows. Some companies operate in both businesses, but the split used still provides a very adequate approximation. Turnover by geographical area is included in the Notes to the Consolidated profit and loss account (see page 76).

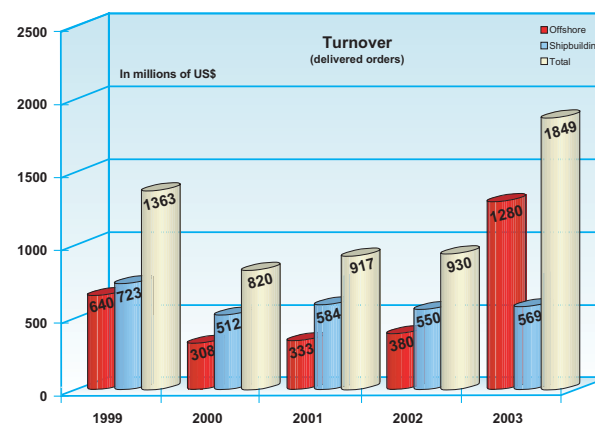
Offshore oil activities comprise the SBM group, SBM-IMODCO, Atlantia Offshore, IHC Gusto Engineering,

Marine Structure Consultants (MSC) and GustoMSC-OceanDesign. Dredger/shipbuilding activities include IHC Holland, Merwede Shipyard, van der Giessen-de Noord, with NKI (airport interior outfitting, and signage) also being included, but without a material impact on the total figures.

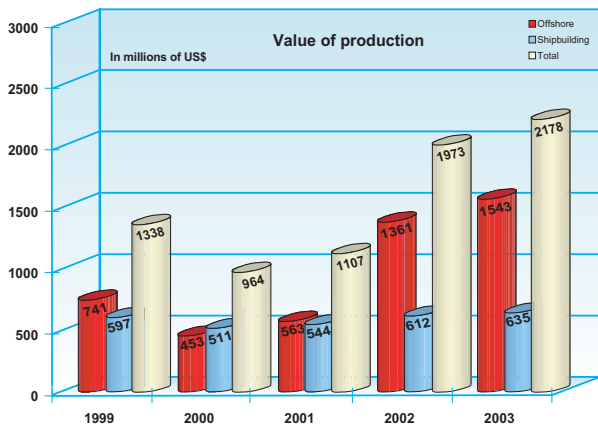
Order portfolio



Total new booked orders for 2003 amounted to US\$ 1392 million, which is lower than in recent years. In the offshore division, where a number of projects have been delayed by the major oil companies, the Group secured one new lease and operate contract, less than the number awarded in 2002 or 2001. The dredger/shipbuilding division, excluding van der Giessen-de Noord, which did not obtain any orders, as a result of which the yard had to be closed down, had a quite reasonable order intake at a level above that of last year. This will result in a satisfactory level of capacity utilisation for most of 2004.

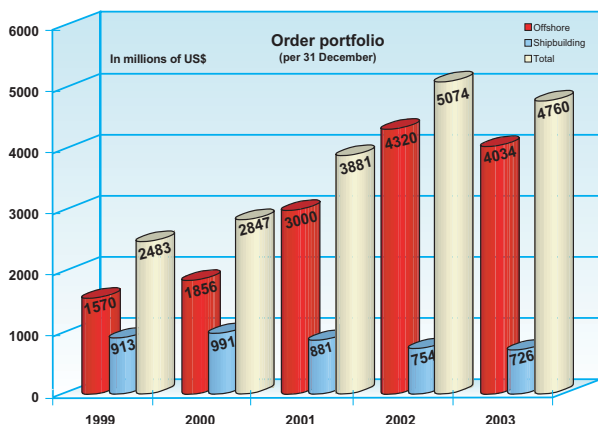


Total Group turnover increased significantly when compared with 2002, as a result of a number of large turnkey deliveries in the offshore division.



Value of production reached a new record level of US\$ 2.2 billion, higher than the US\$ 2.0 billion of 2002. An amount of US\$ 462 million was capitalised in the year as 'own work capitalised' (2002 : US\$ 573 million). This figure represents the completion of two FPSO's for ExxonMobil, the process upgrade of the Kuito FPSO, as well as substantial investment in the 50% owned FPSO for Agip Nigeria (delivered shortly after year-end) and some investment in the Sanha LPG FPSO.

The high level of activity especially in the offshore division resulted in overrecovery of indirect costs.

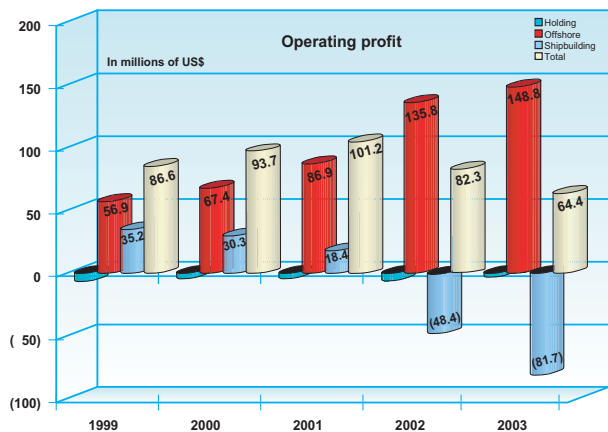


The year-end order portfolio at US\$ 4.8 billion is somewhat lower than last year's record level of US\$ 5.1 billion. The order backlog in the offshore oil activities decreased because of the high value of turnkey deliveries. The current order portfolio includes US\$ 3.3 billion – a 10% increase over the 2002 level of US\$ 3.0 billion – for the non-discounted value of future revenues from the long-term charters of the Group's fleet of F(P)SO's. The order backlog in shipbuilding decreased slightly and stands at a reasonable level, considering that one shipyard is now closed.

The overall quality of the order portfolio remains high, especially due to the impact of lease/operate contracts with relatively high profitability.

Profitability

Where there is a difference between the sum of the offshore and dredger/shipbuilding activities and the Group total, this relates to items such as corporate overhead, and other adjustments and provisions at corporate level.



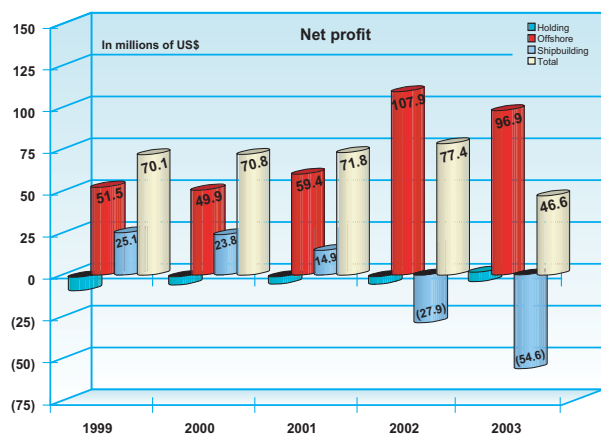
In spite of the much higher turnover, operating profit fell considerably, even compared to 2002 which already included an exceptional charge related to the capacity reductions at van der Giessen-de Noord. This was to a large extent due to the necessity to close down van der Giessen-de Noord. Furthermore, the Group incurred substantial order losses on certain turnkey projects, in the shipbuilding division, as well as in the offshore division. A profit warning had to be issued in October, when these losses became apparent.

The negative impact of the above factors could not be offset by:

- overrecovery of indirect costs in the offshore division, as a result of the high level of activity;
- the profit contribution from other, profitable turnkey deliveries in the offshore division (it should be realised that the margins on turnkey projects are generally lower than on leases);
- a growing contribution from the offshore division's lease fleet as a result of the start-up of two more FPSO's and a full year operation of the units having entered service during 2002;
- a substantial tax credit in respect of the losses incurred in the shipbuilding division.

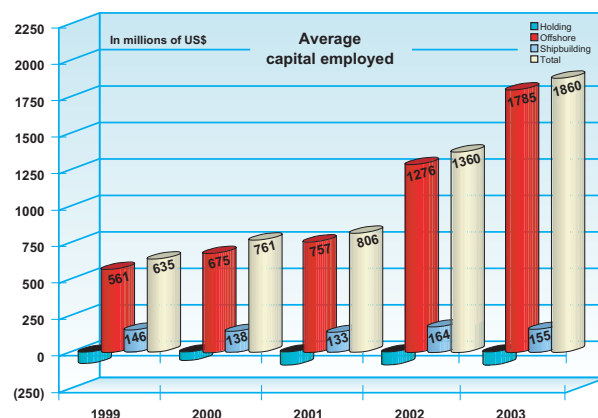
As a percentage of turnover, operating profit fell to 3.5% (2002: 8.9%).

The pre-tax losses mainly in the Dutch-resident part of the Group, combined with the relatively low tax burden in the offshore activities, resulted in a net tax credit of US\$ 34.5 million (275% of pre-tax profit), compared to a credit of US\$ 16.2 million (26%) in 2002. In view of the continuing increase in profits from the offshore division, the average tax burden for the Group in its present composition, even with shipbuilding returning to profits, is expected to be well below 15% of pre-tax profits for the foreseeable future.

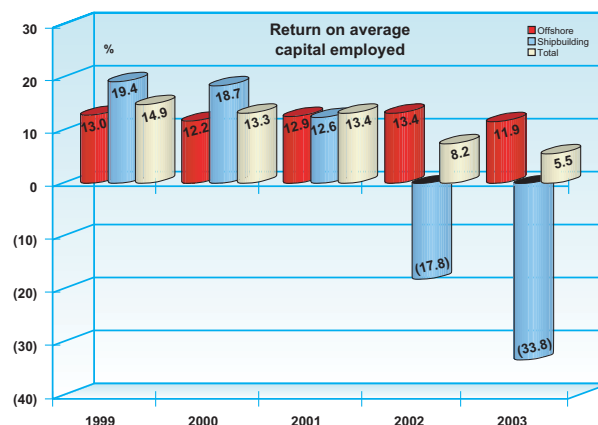


Total net profit decreased by 39.8% to US\$ 46.6 million (2002: US\$ 77.4 million). The decrease in net profit is higher than the operating profit decrease, in spite of a larger tax credit, due to much higher interest charges on the long-term debt portfolio, where most of the units being financed are now operational (last year the average debt balance related to assets under construction, where interest is capitalised, was substantially larger).

Return on Average Capital Employed



The relative share of the Group's capital employed in the offshore oil activities continues to increase, with the substantial investment in new FPSO's for the lease fleet. Dredger/shipbuilding capital employed was considerably reduced by the van der Giessen-de Noord situation and net losses at the other shipyards. The calculation of Return on Capital Employed is made on a time-weighted basis. Since the change of reporting currency into US\$, reflecting the predominant currency for the Group, the impact of a change in the US\$/Euro exchange rate is now much smaller.

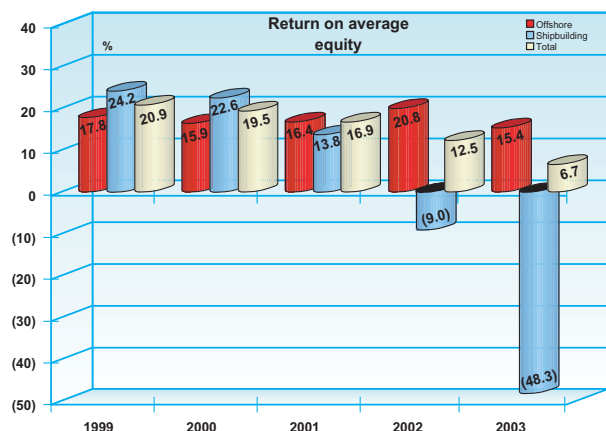


Return on Average Capital Employed fell from 8.2% to 5.5%. This is due to two main factors, namely:

- losses and closure costs at van der Giessen-de Noord and losses on turnkey projects resulting in a lower profit;
- the increased (and expected) higher long-term debt levels.

The impact on 2003 of the requirement to fund assets under construction without any corresponding return is less significant than it was in 2002; adjusting the Return on Average Capital Employed by including the interest capitalised would result in a ROCE of 6.3%.

Return on Equity is still at an acceptable level, taking into account the impact of exceptional losses. The Group also continues to generate returns on its new leases which exceed the weighted average cost of capital (WACC), and thus creates value for the Company and its shareholders.



Return on Average Equity (ROE) is down overall at 6.7% compared with 12.5% in 2002, as a result of the marked decrease in net profits. The decrease in profits in the offshore division results in a lower divisional ROE.

Cash flow/liquidities

US\$ million	1999	2000	2001	2002	2003
Net profit	70.1	70.8	71.8	77.4	46.6
Depreciation and amortisation	69.2	87.2	87.2	97.9	154.8
Cash flow	139.3	158.0	159.0	175.3	201.4
Net liquidities/ securities	201.4	253.7	185.4	212.4	167.3
Cash flow from operations*	93.7	238.7	149.0	145.8	296.6
Share price : cash flow ratio at 31/12	7.3	8.4	8.6	9.5	8.6

* As per the Consolidated statement of cash flows (page 72).

As predicted, cash flow was significantly higher at US\$ 201.4 million, in spite of the losses at van der Giessen-de Noord, as a result of further additions to the lease fleet and the two units added in 2002 generating cash flow for a full year.

Net liquidities were lower at US\$ 167.3 million, as a result of ongoing investments, combined with lower profits and a high payout ratio in respect of 2002 profits.

The share price : cash flow ratio decreased from 9.5 to 8.6 due to the combination of reduced profits with a lower share price.

Balance sheet

US\$ million	1999	2000	2001	2002	2003
Capital employed*	723.0	816.2	942.1	1686.3	2005.2
Shareholders' equity	378.7	406.0	553.5	679.9	710.6
Working capital	102.2	82.2	51.6	96.0	5.4
Net gearing	36	37	36	115	150
Net debt : EBITDA ratio	0.9	0.8	1.1	3.6	3.8
EBITDA interest cover ratio	N/A	18.6	9.5	10.7	5.4
Investment in tangible fixed assets	247.7	191.0	200.2	701.9	530.0
Current ratio	1.23	1.02	1.03	1.16	1.01

* Equal to total assets, less current liabilities.

The balance sheet reflects the further growth predicted in our previous Annual Report, with a substantial increase in long-term debt. As a consequence of the losses in van der Giessen-de Noord and the decision to pay a dividend based on the profit for the year 2002 excluding the losses at van der Giessen-de Noord, shareholders' equity only increased modestly during the year. It should be pointed out, that in accordance with changing Dutch GAAP requirements, the balance sheet is now stated before appropriation of profit. The dividend payout for 2003 will also be based on the profit excluding the losses in van der Giessen-de Noord.

Management is highly aware of the need to maintain appropriate balance sheet ratios, and has a clear focus on this issue. It is the Group's intention to continue financing new lease FPSO's with long-term debt, as the charter revenues are more than adequate to service such debt.

Some specific remarks relating to the balance sheet at year-end 2003 are as follows:

- Capital Employed has increased further, mainly due to the addition of new long-term debt, as was expected. Shareholders' equity on balance increased only slightly;
- the Net debt : EBITDA and EBITDA interest cover ratios are all in compliance with the relevant banking covenants (mainly under the Group's US\$ 500 million Revolving Credit Facility, signed in November 2002). It is agreed with the relevant lenders that the ratios are calculated prior to the charge for the closure of van

der Giessen-de Noord, which is of an extraordinary nature;

- Debt to equity – the current level of debt reflects the continuing growth in the lease fleet. Neither the Company nor its banks are concerned with the current debt level. Furthermore, a large part of the current debt is with limited recourse to the Group, thus reducing our risk profile. Net gearing, taking into account available liquidities, increased in line with the borrowing, to reach a level of 150%;
- all important liabilities are clearly identified and consolidated in the Group balance sheet, and there is no ‘off-balance’ financing;
- investment in tangible fixed assets (consisting of completing two large FPSO’s under construction at the beginning of the year, and investments in two further FPSO’s as well as the Sanha LPG FPSO) was lower than in 2002, reflecting the fact that the number of new lease contracts obtained was lower;
- the interest cover ratio is substantially lower, largely due to the further increase in long-term debt. This ratio does not include interest capitalised during construction of FPSO’s for lease, but it is nonetheless expected that the ratio will improve in years to come, in spite of the profit and loss impact of debt servicing, due to the projected increase especially in profits and depreciation.

Transition to International Financial Reporting Standards (IFRS)

The Group currently reports its financial results under Dutch GAAP and will continue to do so throughout 2004. In 2005, and in accordance with the transitional provisions set out in IFRS 1 – First Time Adoption of International Financial Reporting Standards, the Group will adopt those international standards which have been approved by the European Commission. Results for 2005 will therefore be prepared and published in accordance with IFRS. Comparative data for 2004 will be restated and reconciled to previously reported financial information.

With the assistance of its auditors, the Group is currently assessing the impact of implementing IFRS. Significant issues for the Group are expected to include the treatment of foreign exchange and interest rate hedges, fixed asset values and depreciation of the FPSO lease fleet, contract work in progress, and provisions.

TREASURY MANAGEMENT AND REPORTING

General

The fundamental objectives of Treasury are to minimise volatility in Group equity and profits. Exposures are

reviewed and hedged on an ongoing basis. Treasury reports monthly to the Board of Management of IHC Caland and quarterly to the Supervisory Board. The Group does not engage in any speculative activities and only undertakes hedging in respect of confirmed exposures using mostly fixed rate instruments. Derivatives are used infrequently and are never sold.

Change in reporting currency from Euro to US\$

With effect from 1 January 2003, in view of the ever-increasing importance of the US dollar – denominated offshore division, the Group decided to change its reporting currency from the Euro to the US dollar.

This change has the benefit of reduced pressure on the Group’s credit lines, a simplified and more transparent financial structure, reduced financial risk and reduced currency-driven volatility in the Group’s financial ratios.

Currency exposure management – Offshore

The business and functional currency of the offshore activities of the Group is the US dollar. Currency exposures relating to contracts in hand including the Euro denominated manpower requirements are hedged to US dollars.

Currency exposure management – Shipbuilding and other Netherlands based activities

Despite the change in reporting currency of IHC Caland from the Euro to the US dollar, the activities in the Netherlands continue to report in Euros. Due to their limited contribution to profits and the illiquid characteristic of equity, no hedging of these items will be undertaken. This is an exception to the otherwise full hedging policy, but considering the low values involved, and the decision to split off the Group’s dredgerbuilding activities, the effect on Group profits and equity resulting from foreign exchange rate movements will be limited.

Interest rate management

The Group finances most FPSO/FSO long-term lease projects with debt. Forward rate agreements are used during construction to minimise variations in the total investment cost. Long-term lease projects have fixed revenue streams while the interest costs related to financing these projects are usually based on floating interest rates. Profit volatility is reduced by swapping floating interest costs for fixed interest rates. All offshore division interest costs are US dollar denominated.

Liquidity

Group Treasury prepares a twelve month cash plan on a quarterly basis. The offshore business also prepares a two year cash plan. The business unit cash plans are built up from the detail of each project and accurately forecast

liquidity. Decisions on corporate and project finance are driven by the cash plan. Project financing is undertaken where there is a need to transfer non-core business risks outside the Group.

CAPITAL EXPENDITURE

Total capital expenditure for 2003 amounted to US\$ 530 million (2002: US\$ 702 million). A total of US\$ 512 million (2002: US\$ 601 million) related to new investment in the FPSO lease fleet as outlined below:

FPSO for ExxonMobil's Serpentina Field, Equatorial Guinea (Generic B)

The second Generic FPSO for ExxonMobil was completed, commissioned and start-up achieved mid-July 2003, more than one month ahead of contract schedule. The unit is currently producing 100,000 barrels of oil per day, under a seven-year lease and operate contract.

FPSO for ExxonMobil's Xikomba Field, Angola (Generic C)

The seven year lease and operate contract for the third Generic FPSO commenced early November 2003, again ahead of contract schedule. This contract is performed under the Sonasing joint venture with Sonangol, the Angolan State oil company. The FPSO is presently producing 80,000 barrels of oil per day, with capacity to increase to 110,000 barrels of oil per day as further wells are brought on stream.

FPSO for Agip Energy (Nigeria)'s Okono/Okpoho Fields

The FPSO Okono was delivered to Agip Energy (Nigeria) in December 2003. The seven-year lease and operate contract, in joint venture with Saipem, commenced mid-January 2004 once customs clearance delays had been resolved. The FPSO Okono replaces the early production system, the Jamestown, which had completed two years of service.

LPG FPSO for Chevron/Cabgoc's Sanha Field, Angola

The eight-year charter of this facility will again be performed by the Group's Sonasing joint venture with Sonangol. Construction work continued throughout the year, and the new built hull was floated in November 2003. Final delivery of the unit is still scheduled for early 2005.

FPSO for Petrobras' Marlim Sul Field, Brazil

Design and construction commenced during the year for the Group's third complex FPSO for Petrobras, which will be based on a 270,000 dwt VLCC. The turret moored FPSO will produce up to 100,000 barrels of oil per day

under a 94-month lease and operate contract. Delivery is scheduled for the second quarter of 2004.

Phase 2A Development for Chevron/Cabgoc's Kuito FPSO, Angola

The additional process facilities for the Kuito FPSO were brought into service in April 2003, under a five-year charter through the Sonasing joint venture with Sonangol.

Cost breakdown of an FPSO/FSO

In order to understand better what is meant by an investment in an FPSO or FSO, it is useful to define the elements which go to make up the capital cost of such a system. These comprise the external costs (shipyards, subcontractors, and suppliers), internal costs (design, engineering, construction supervision, etc.), third party financial costs including interest, and attributable overheads. The total of the above costs (or a proportionate share in the case of joint ventures) is capitalised in the Group's balance sheet as the value of an FPSO or FSO. No profit is taken on completion/delivery of such a system for a lease and operate contract.

Operations in Group companies

OFFSHORE OIL AND GAS ACTIVITIES



GROUP OF COMPANIES

Management:

D.H. Keller, *Chief Executive Officer*

D.J. van der Zee, *Chief Operating Officer*

F. Blanchelande, *President, SBM Production Contractors*

R. Raynaut, *Chief Financial Officer*

Profile

Single Buoy Moorings (SBM) is one of the world's leading companies in the supply of facilities and services for the development and production of offshore oil and gas fields as well as in the supply of terminals for the loading and offloading of crude oil, gas and product tankers. In particular, it is the world's largest owner and operator of oil and gas FPSO's and FSO's, a fast-growing segment of its activities.

The SBM head office in Switzerland and the engineering office in Monaco coordinate research & development and marketing and sales of the Group's offshore activities in Monaco, Houston and Schiedam. The organisation includes the business units SBM Systems for design, engineering and construction, SBM Production Contractors for operation of the FPSO and FSO lease fleet, and SBM Offshore Services for after sales and offshore contracting.

With the combined activities of its business units, SBM controls the total chain from contracting and design until operating a fleet of FPSO's and FSO's. This gives SBM a clear competitive advantage in the industry. The permanent feedback between the company's operating units and its projects to be delivered is unique in the FPSO and FSO contracting industry.

Developments 2003

The activity level in the SBM group remained quite high throughout the year, particularly with the construction of five large FPSO's, three of which were completed and



*Yoho FPSO and SBM chartered construction vessel
Normand Progress during riser installation*

put into service during the second half or just after year-end. In addition, a large number of projects on a sales basis were completed and delivered during the year. The turnover rose to a record high, although a large part of the turnover relates to execution by subcontractors, resulting in a relatively low margin on the total volume. Nonetheless, the company reported a significant increase in profits over 2002.

SBM Systems

SBM Systems is responsible for the design, engineering and construction of offshore systems on both sales and lease basis. Our own in-house staff is in charge of the design, engineering and project management. Construction is outsourced to shipyards offering the best quality and prices.

New and delivered orders

In the sector of FPSO's, a contract was obtained from Petrobras in January 2003 for the supply on a lease and operate basis of a large, complex unit to produce oil and gas on Marlim Sul field offshore Brazil. The contract is for a period of 94 months and the lease will commence mid 2004.



Marlim Sul FPSO turret

CALM buoy size evolution



Kizomba A deepwater buoy for block 15, Angola, at final stage of construction in Lobito, Angola

Also in the FPSO sector, a number of contract extensions were obtained. They are described in the section SBM Production Contractors (below).

In sales of facilities, the following major orders were obtained during 2003:

- seven CALM buoy (and related equipment) supply contracts: two for Nexen, two for Indian clients and one each for ChevronTexaco, ConocoPhillips and Total;
- a contract for the supply of an ultra-deepwater CALM buoy from Stolt Offshore for ExxonMobil as part of the Ehra field development in Nigeria. Delivery: mid 2005;
- a contract for the supply of another ultra-deepwater CALM buoy from Saipem, for the Kizomba B field development, Block 15 offshore Angola for ExxonMobil. Delivery: mid 2005;
- a contract from Nippon Steel Corporation for the supply of the rotating head and associated systems for a tanker loading platform at Shell Prygorodnoye/Sakhalin Island, Russia. Completion is scheduled for the second half of 2005;
- a contract with Teekay for the supply of a turret mooring system for an FSO to be installed in 2004 at Unocal's Big Oil field, Thailand.

On the execution side, in addition to the completion and start up of three major leased FPSO's during the year, the following systems on a sales basis were delivered:

- the order from Total for the Amenam FSO, a large

new-built storage unit constructed in Hyundai, Korea that was installed in the second quarter of 2003 offshore Nigeria;

- the order from Tanker Pacific for the turret of an FSO installed on Talisman's PM-3 field in Malaysia;
- the order from Kellogg Brown & Root (KBR) for a large complex mooring system installed on the FPSO for Shell Nigeria's EA field;
- an order from NPDC/Agip for a CALM buoy system installed on the Okono field offshore Nigeria. The facility serves as an export system for the Okono FPSO which is supplied, leased and operated by the SBM/Saipem joint venture.

SBM Production Contractors

SBM Production Contractors (SBM PC) leads the way in the lease and operation of FPSO and FSO units, with by far the longest track record in the offshore contracting industry. At the end of 2003, a total of 960 million barrels of oil had passed through the storage systems of the Group's thirteen units. This oil was offloaded through 1777 offloading operations performed by the production and marine crews of SBM. This represents around ninety-one years of cumulative experience in operating FPSO and FSO units. The focus is on safe, professional and cost effective fleet operations, involvement in construction project management from the date a lease and operate contract is signed, a competent and well-trained crew, environmental protection and asset management.

Fleet operations

When starting the year 2003 the operating fleet was composed of eight FPSO's and five FSO's, while four FPSO's were under conversion. Two were for the ExxonMobil Serpentina (Equatorial Guinea) and Xikomba (Angola) fields, one for the Petrobras Marlim Sul field and one for the NPDC/Agip Okono (Nigeria) field. A fifth unit was under construction for

The Roncador FPSO in production for Petrobras offshore Brazil



ChevronTexaco in Angola: the Sanha LPG FPSO.

During 2003, a major upgrade (Phase 2A) was carried out on the Kuito FPSO. The work was performed by sister company SBM-IMODCO, and increased the unit's capacity for water treatment and gas compression.

Also during 2003, two FSO's completed their contracts with Total: the FSO XV Domy in Nigeria and the Nkossa 1 FSO in Congo, and in the last days of 2003 the Jamestown FPSO was replaced offshore Nigeria by the Okono FPSO.

At the end of 2003, the operating fleet consists of ten FPSO's and three FSO's. During the second quarter of 2004, the Marlim Sul FPSO will start producing in Brazil while early 2005 the Sanha LPG FPSO will start operating in Angola.

The FSO XV Domy is available for conversion for future projects.

The Jamestown FPSO is being actively proposed for small field developments, mainly in West Africa and in the Far East. This unit is owned by the joint venture between SBM and Saipem.

A number of contract extensions were also obtained:

- a two-year extension of the lease and operate contract of the Okha FSO on Shell's Sakhalin II field in Russia. The time charter is now to continue until year-end 2005;
- an 1½-year extension of the lease and operate contract for the FPSO for Agip's Aquila field. The contract will now continue until March 2005;
- an one-year extension of the lease and operate contract with Petrobras of the Roncador FPSO in Brazil. The time charter will now continue until May 2009.

SBM PC is always involved from the very beginning of a new lease and operate project, throughout the different phases: design, purchasing, construction, conversion and commissioning. The start up activities for the future operation, such as recruitment, training and various client related activities in the operating country are performed by a dedicated group from SBM PC. This dedicated group which handles the start up during the project execution, becomes the operation support in-country when the unit starts producing.

The main activity of SBM PC in 2003 was to concentrate on the oil and gas production of new FPSO's having started their operational life:

- Yoho FPSO in November 2002;
- Roncador FPSO in December 2002;
- Serpentina FPSO in July 2003;
- Xikomba FPSO in November 2003;
- Okono FPSO in December 2003/January 2004.

The production ramp-up of these new units has to be carefully monitored, particularly the fine-tuning of rotating equipment used for power generation, gas compression and water injection. This has required additional knowledge in the group, and a strong capacity for operational intervention in SBM PC.

In view of the increased number of FPSO's in the fleet and their complexity in terms of topsides equipment, a Process Operations Group has been formed late 2002 to handle the following tasks:

- technical support of the FPSO's daily process operations;
- monitoring the efficiency of FPSO's process plants through a system of daily reported Key Performance Indicators;
- management of surveillance programs agreed with clients in order to support their operational targets in a cost effective manner.

Competence assessment

In order to maintain the company's fleet production and marine crews to the highest standard, a Competence Assurance Training programme has been introduced. This programme is designed to ensure that the company employs the most suitable candidates for each unit and consists of two stages:

- a recruitment stage, in which specific training programmes may be necessary, depending on availability of labour and equipment to be operated;
- an offshore working stage, designed to identify levels of knowledge within the onboard departmental organisation and to identify potential promotions and transfers and the related training needs.

Health, Safety and Environmental protection

Health, safety and environmental protection being primary requirements in all aspects of our business and our operations, SBM PC is continuously updating and enhancing its policies in respect of these subjects. In 1998, SBM PC was the first contractor to obtain the Safety and Environmental Protection (SEP) certification from DNV, which is in excess of the International Safety Management (ISM) code imposed by the International Maritime Organisation (IMO). In respect of environmental protection, the SEP system requires the company to maintain high standards and particularly to ensure strict monitoring of overboard discharges in compliance with MARPOL 73/78.

SBM PC has achieved an outstanding rate of reliability and safety on board which compares favourably with the offshore industry as a whole. Lost Time Accident Frequency (LTAF) in the year 2003 was 0.38, i.e. there were seven Lost Time Accidents (LTA's) involving a loss of work time exceeding 24 hours, for the 3,535,879 manhours worked during the year. At the close of the year 2003, five of the company's units had passed the

milestone of one year without LTA, and from these five units the Yetagun FSO had passed the milestone of three years without LTA, and the Tantawan FPSO had passed the commendable milestone of five years without LTA.

Asset Management

In order to protect the value of our FPSO's and FSO's and maintain these to the highest standards, an Asset Management Group has been put in place with responsibility for the following major tasks:

- monitoring the adequacy of the relationship between the assets' performance, their lifetime and the related contractual requirements;



State-of-the-art high pressure toroidal swivel being assembled on the turntable deck

- development and provision of technical systems, maintenance philosophies, maintenance standards and procedures;
- maintaining drawings, specifications and other technical documentation on board the units, at the shore bases and at the head office up to date;
- investigations into serious or persistent failure modes to determine corrective actions.

SBM Production Contractors' 2004 outlook

The coming year is again expected to present a heavy workload for SBM PC. Marlim Sul FPSO is scheduled to produce first oil in June in Brazil, and the Sanha LPG FPSO will be ready to receive gas in December in Angola.

In order to respond to the ongoing demand for lease and operate contracts from the offshore industry, SBM PC is continuing its policy of securing in advance good quality tankers of a suitable size, which will then be available for FPSO conversion.

SBM Offshore Services

In 2003 SBM Offshore Services has sustained its growth in all its areas of activities: after sales services, offshore contracting and fabrication of standard SBM systems.

In 2003, the main achievements were:

- the targets for the year in terms of turnover and profit, in particular in the spare parts area, have again been exceeded;
- the refurbishment and conversion of a second soft yoke system (BZ28) is in progress in China;
- the refurbishment of a CALM buoy in Luanda was successfully completed;
- the following swivel stacks were completed/installed during the year: ExxonMobil Serpentina, Husky Energy's White Rose, ChevronTexaco Sanha, Petronas MISC, ExxonMobil Yoho FSO, Kizomba B;
- the Dynamic Installer has been working in excess of her targeted number of days for the year;

- the MPV Normand Progress has been on charter for the whole year;
- the major installations completed during the year were: Shell Bonga FPSO, Talisman FSO, ExxonMobil Serpentina and Xikomba FPSO's;
- the CALM buoy group has completed the fabrication of three units and started two others.

Main developments were:

- the innovative Vertically Loaded Plate Anchors (Velpa's) were successfully tested along with IHC Hydrohammer's 'Pyrodriver' deepwater pilehammer in West Africa. The combination Velpa/Pyrodriver is being further developed in cooperation with IHC Hydrohammer;
- the engineering for a deepwater installation vessel has been completed and the vessel's fabrication is due to start early 2004. SBM entered a joint venture with the Norwegian company Solstad for the engineering, fabrication and management of this vessel.

FPSO Kuito in production on ChevronTexaco Block 14, Angola





SBM-IMODCO Inc.

Management:

A. Mace, *President*

Profile

SBM-IMODCO Inc. has, together with its sister companies Atlantia Offshore and GustoMSC-Ocean-Design (GMOD), its base operating office in Houston, the oil and gas capital of the world. SBM-IMODCO supports the SBM group of companies in marketing and sales and the execution of floating production, storage and offloading system projects (FPSO's/FSO's) including LNG import/storage terminals for the USA. The company also designs, procures and fabricates mooring terminals, turrets and associated facilities and focuses on research and development for deepwater systems and applications.

It is expected that FPSO's will eventually be deployed in the US Gulf of Mexico as the US Minerals Management Service (MMS) has opened the door for this concept to be used. The company is therefore preparing itself for this potential new market area.

preparation of proposals for future major FPSO/FPU projects.

The year has seen further consolidation of the company operating procedures and practices for project execution, aligning itself with the other SBM group companies. SBM-IMODCO and its sister companies in Houston (Atlantia Offshore and GMOD) have moved into a single office in order to work closely together, take advantage of the synergy created, and benefit from a higher visibility as a recognised and major offshore services company in the oil and gas capital of the world.

New, ongoing and delivered orders

The following major orders were obtained in 2003:

- the design and supply of a turret for Unocal/Teekay Shipping for an FSO offshore Thailand;
- the supply of a CALM buoy for Cairn Energy, India;
- the supply of a CALM terminal for Gujarat Adani Port, India.

The following work was executed during the year:

- the continuation of the design and supply of a complex disconnectable internal turret mooring system for Husky Energy's White Rose FPSO project offshore Newfoundland. This system will be located in one of the harshest offshore environments in the world and in addition will be able to disconnect at short notice in the event of iceberg approach.



Manifold, Buoy

Lower Turret

White Rose turret components being constructed in GPC Dubai

Developments 2003

During this year, the company has worked predominantly on the execution of three major projects comprising a complex disconnectable turret system, a major upgrade including offshore hook-up of topsides facilities on an existing FPSO, and an FSO project. Significant effort was employed on the development and

The turret was delivered to a South Korean Shipyard for integration into the FPSO vessel;

- a subcontract from SBM group for the full execution of the expansion project for its Kuito FPSO, Angola, was successfully completed. This involved the design, fabrication and offshore installation of several new production modules to increase the capacity of the



Turret for Husky Energy's White Rose FPSO for operation offshore eastern Canada

FPSO. This was the first time that such an extensive upgrade work has been carried out offshore on an FPSO;

- continuation of the subcontract from SBM group for the design and supply of an FSO for ExxonMobil's Yoho field offshore Nigeria, for which an already existing FSO is currently undergoing extensive refurbishment and conversion in a Malaysian shipyard;
- subcontracts from SBM group to execute the proposal preparation for various FPSO and FP(D)U projects.

Orders delivered in 2003:

- the Kuito FPSO topsides expansion project;
- the turret for MISC/Petronas for an FPSO offshore Malaysia was delivered and integrated onto the FPSO vessel;
- the delivery of a CALM buoy for BP and CALM terminals for CPC Sri Lanka and Conoco Indonesia;
- a significant number of orders for spare parts for existing systems.

Technological highlights

Various new products and designs were developed, both as marketing initiatives and on the direct request of clients:

- continuing development of the Gravity Actuated Pipe system (GAP®) used for the transfer of products between two floating production facilities (such as an FPSO and a TLP), minimising deepwater flow assurance issues;
- further development of steel catenary risers for use in the connection of seabed wells and other subsea facilities with FPSO's in ultra deepwater, focussing on installation methods;
- development of novel installation techniques for heavy subsea equipment packages in deepwater using light means.



Gusto MSC



IHC GUSTO ENGINEERING BV

Management:

S.A.W. Janse, *Managing Director*

MARINE STRUCTURE CONSULTANTS (MSC) B.V.

Management:

C.J. Mommaas, *Managing Director*

GustoMSC-OceanDesign Inc:

Management:

Bui V Dao, *President*

Profiles

IHC Gusto Engineering, Marine Structure Consultants (MSC) and GustoMSC-OceanDesign (GMOD) provide design, engineering and consultancy services, mainly for the offshore oil industry.

IHC Gusto Engineering

The core competence of IHC Gusto Engineering (Gusto) is the development of complete class-approved designs for custom-built work vessels and platforms, such as dynamically positioned (DP) drilling vessels, work-over, pipelay and crane vessels, large capacity offshore cranes and jack-up platforms for civil construction.

Included in Gusto's portfolio is the design and turnkey delivery of special equipment, including mechanical constructions such as various types of jacking systems, high capacity winches, thruster retrieval systems, heave compensating systems, pipelay systems and large capacity hose reels.

In addition, Gusto provides design services for the SBM group, supplying topsides and conversion engineering for their tanker-based floating production, storage and offloading systems, as well as mechanical engineering for specific critical components.

Gusto celebrated its 25th anniversary in 2003.

Marine Structure Consultants (MSC)

MSC has an outstanding reputation with proprietary designs for jack-up and semi-submersible platforms for various offshore applications ranging from drilling to accommodation, construction, maintenance, well services and production.

MSC also develops, designs and supplies the patented equipment associated with these proprietary designs.

GustoMSC-OceanDesign

GustoMSC-OceanDesign (GMOD) has an outstanding reputation in the design and modification of jack-up

drilling units and semi-submersible drilling units. In addition GMOD provides design and engineering for platform drilling rigs. In its capacity as the USA branch of the GustoMSC alliance, GMOD also offers the proprietary designs of Gusto and MSC to US based clients.



Mayflower Energy's 'Mayflower Resolution' provided with Gusto jacking systems

Developments 2003

The markets for drilling and construction slowed down in the first quarter of 2003. The last quarter showed a recovery of these markets. Furthermore, in addition to internationally operating clients, an increased activity from local contractors became clear. The performance of the three sister companies was below target, but with nonetheless a positive result.

New, ongoing and delivered orders

Engineering

- Gusto carried out substantial engineering assistance to the SBM group for FPSO projects such as Petrobras' Marlim Sul FPSO, ExxonMobil's Xikomba FPSO and Agip's Okono FPSO. For all units, Gusto's involvement consisted of vessel conversion and topsides engineering;
- Gusto carried out the design and engineering for a 20,000 ton jacket launch barge for COOEC, which is presently under construction in China;
- Gusto carried out various design and engineering activities on pipelay and crane vessels, including upgrades and modifications to Allseas' Solitaire, NPCC's HLS 2000 and TOUK's Deep Blue;
- for the SBM group, Gusto is carrying out the design and engineering for the rotating head of the Sakhalin II tanker loading platform;

- MSC obtained an order from KeppelFels for the verification of the P52 Design FEED. Construction of the P52 was contracted by Petrobras to a KeppelFels-led Consortium at the end of 2003;
- MSC received an order from Vietsovpetro, Vietnam, for upgrade engineering for the cantilever drilling jack-up Tam Dao (MSC CJ50);
- GMOD finalised the design of the platform drilling rig for the ExxonMobil Orlan platform located offshore Sakhalin Island, Russia. GMOD delivered the detailed design drawings for the drilling modules. The work was executed together with KCA-Deutag Drilling Co. of Aberdeen. The construction of the unit is currently taking place in South Korea.

Proprietary Design

- Within the engineering service contract with Saudi Aramco, GustoMSC completed the design of a self-propelled well-service and maintenance jack-up and obtained a contract for the design of a crane jack-up barge at the end of the year;
- The MSC DSS20 type drilling semi-submersible Maersk Explorer was successfully completed and delivered to Maersk Contractors by Caspian Shipyard in Baku in the last quarter of 2003;
- GMOD obtained a contract with Danos & Curolé for the design of three self propelled jack-up vessels. The design concepts were provided by MSC.

Hardware

Gusto completed a number of projects involving the engineering and delivery of hardware components:

- for Mayflower Energy, the six 2500 ton jacking systems for Mayflower's wind turbine installation vessel were successfully commissioned;

MSC CJ70-150 MC Maersk Innovator on its first location



- for SBM, a stern offloading system comprising a hawser reel and a hose reel with spooling device for a 250 metres floating offloading hose was delivered;
- for IHI, the vent-tower for the Sanha FPSO was delivered;
- for SBM, an active heave compensation system with a wire line capacity of 350 tons was delivered.

MSC successfully completed a number of projects involving the engineering and turnkey delivery of hardware components for the second MSC CJ70-150MC harsh environment cantilever drilling jack-up under construction at Hyundai Heavy Industry (HHI) in South Korea. The fixation and XY-cantilever skidding systems were successfully installed and commissioned.

Technological highlights

Various new products or designs were developed, both as marketing initiatives and on direct requests of clients:

- Gusto developed a low-cost modular J-lay pipelay system, with a tension capacity of 250 to 500 tons, suitable for water depths up to 2000 metres;
- Gusto developed a 'Pressurised Riser Drilling' alternative for the Gusto 10000 drillship design, the PRD-12000;
- Gusto is assisting SBM in the development of the LNG-FSRU concept. The scope of work comprises the design of the hull with LNG containment system and topsides;
- for future LNG/LPG FPSO's, Gusto is extending its expertise for the design of LNG/LPG process installations and LNG/LPG vessel storage systems;
- the four MSC designed and recently delivered mobile offshore units (the jack-ups Maersk Innovator, Vagant and Pauline and the semi-submersible Maersk Explorer) have operated successfully and to the satisfaction of the respective clients in their first operational year;
- MSC developed a deepwater drilling semi-submersible DSS50, which is designed for operations in water depths up to 3000 metres;
- Gusto developed a new range of rack and pinion jacking systems;
- GMOD developed the cantilever drilling jack-up CJ46-X100E with the XY cantilever. The unit is designed to meet the requirements of the US drilling contractors for operations in 100 metres water depth in the Gulf of Mexico;
- GMOD developed a semi-submersible floating production unit for operations in Gulf of Mexico conditions as a dry tree concept with steel catenary production risers. This development was carried out in cooperation with sister company Atlantia Offshore.



ATLANTIA OFFSHORE LIMITED

Management:

K. Caldwell, *President*

Profile

Atlantia Offshore Limited (Atlantia) is involved in the engineering, procurement, construction and installation of its SeaStar® monocolumn Tension Leg Platform (TLP). This deepwater technology is suitable for drilling and producing oil and gas as a stand-alone system when offshore storage is not required, or in tandem with an FSO or FPSO. Atlantia also offers a semi-submersible Floating Production System (FPS) for ultra-deepwater development in the Gulf of Mexico. Atlantia's primary business strategy is to offer floating deepwater solutions for project development on a turnkey basis to the worldwide marketplace.

Developments 2003

Atlantia's result for the year was disappointing, with losses occurring due to overruns on the Matterhorn project and the unexpected absence of new projects in Atlantia's marketplace.

The company could not therefore achieve its goal of landing two new major projects during the year.

Until now Atlantia has only supplied TLP's in the Gulf of Mexico, but the management is confident about Atlantia's prospects worldwide in 2004. During 2003 Atlantia was awarded strategic studies by major operators for deepwater developments located in the Gulf of Mexico, West Africa and South-east Asia. Many of these studies are focused on the cost savings to be achieved by utilising various configurations of the SeaStar® TLP compared to other deepwater floating concepts. It is expected that several of these studies will lead to FEED's and/or tenders for turnkey supply contracts during 2004.

During 2003 the company concentrated on the installation and start up of its Matterhorn project for Total, on product development to improve our opportunities in the marketplace, and on developing new deepwater technology through a continuing R&D effort. The company moved into new offices during the year with its sister companies in Houston, and implemented shared services that are expected to reduce overhead costs, strengthen technical resources and improve project execution capabilities.

Successful installation Total Matterhorn

The Matterhorn SeaStar® TLP construction effort achieved good results during the year, although overruns on the topsides resulted in disappointing financial results at the end of the project. Despite technical challenges and delays due to Eddy currents and two tropical storms, the unit was successfully installed in 860 metres of water in the Gulf of Mexico in September 2003 and achieved first oil in November 2003.

The innovative Matterhorn concept was Atlantia's first dry-tree design. The installation of the production riser system was performed flawlessly by Atlantia, in conjunction with Total's drilling contractor. The offshore hook-up achieved completion to the level required for the platform to successfully pass the US Coast Guard inspection, allowing Total to initiate their drilling program on schedule. The platform achieved first hydrocarbons during November 2003 and was formally accepted by Total. Although the offshore hook-up was ongoing, all work required for mechanical completion for hydrocarbon production was planned and conducted so as to not interfere with Total's drilling and completion program.

The Matterhorn contract represented a major milestone for the company and was the first lump sum turnkey EPIC contract for a deepwater project in the Gulf of Mexico. The Matterhorn SeaStar® is considerably larger than the company's first three SeaStar® TLP's, and can accommodate dry trees, a platform workover rig, and a process facility handling 33000 bopd oil and 55 mmscf/d gas. Total payload capacity is approximately 11000 tons.

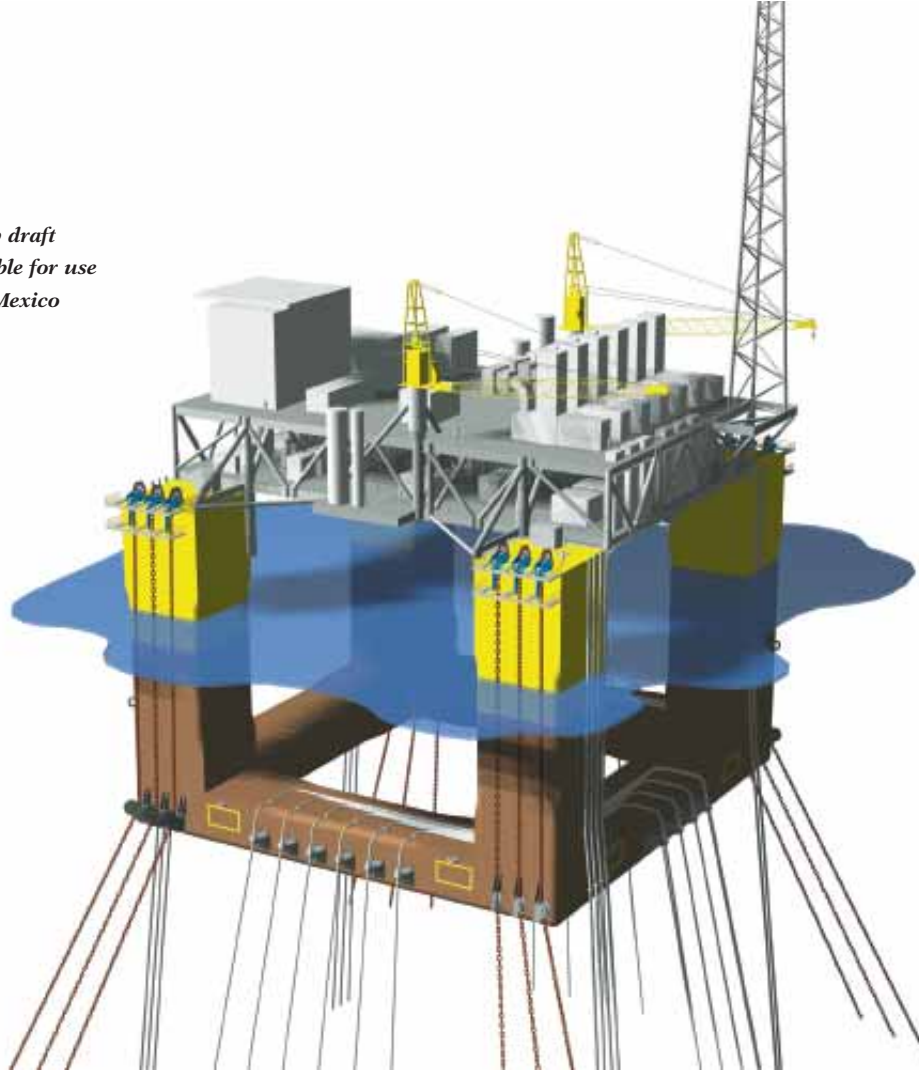
Semi-submersible FPS for ultra-deepwater

The fast-track concept development of a semi-submersible FPS in conjunction with sister company GustoMSC-OceanDesign (GMOD) and an aggressive marketing campaign resulted in the award of a FEED for a floating platform development in 2500 meters of water in the Gulf of Mexico. The FEED is expected to result in a turnkey lump sum tender for the fabrication and installation of the hull and mooring system. Studies and cost estimates have been conducted for other major operators for similar water depths in the Gulf of Mexico.

Aftermarket support

Atlantia continues to provide technical and construction management support to ENI for its Morpeth and Allegheny platforms and to ChevronTexaco for its Typhoon platform. This support includes platform monitoring and reporting, conducting annual inspection programs, and analysis of the impact of significant metocean events on platform performance. Total has committed to receiving similar support services on Matterhorn. This aftermarket service not only generates revenue and enhances the company's knowledge of deepwater platform performance, but it also enables

Section of deep draft semi-submersible for use in the Gulf of Mexico



Atlantia to continue its good relationship with the customer long after the construction project is completed.

Technological highlights

At the Offshore Technology Conference, Atlantia was the recipient of the OTC Special Citation for the innovative technology developed on the Morpeth SeaStar® TLP. Atlantia continued its aggressive product development and R&D programs during 2003. Some of the accomplishments are:

- the development of the Generation 3 SeaStar® progressed considerably during the year. This dry-tree SeaStar® accommodates payloads up to 30,000 tons and utilises an integrated topside to eliminate the need for a heavy-lift derrick barge to install the deck offshore. This concept provides a competitive alternative to a Spar for larger topside payloads and has received acceptance by major operators for use in West Africa, South-east Asia and the Gulf of Mexico;
- the development of a semi-submersible FPS in conjunction with sister company GMOD has resulted in the award of a FEED and several studies. The concept provides a competitive alternative to a Spar for development of wet-tree gas fields in the ultra-deepwater Gulf of Mexico. Atlantia is now being accepted by the industry as a viable turnkey supplier of semi-submersible FPS's;

- model testing of new technology for ultra-deepwater TLP's continued during 2003. The results of the model test have been incorporated into new analytical tools which are being used for concept development of a SeaStar® for 3000 metre water depths.

Dry-tree SeaStar® TLP in production on Total's Matterhorn field, Gulf of Mexico



DREDGER/SPECIALISED SHIPBUILDING ACTIVITIES



IHC HOLLAND NV

Management:

J. van Sliedregt, *President*

F. Brouwer, *Financial Director*

Profile

IHC Holland, whose history goes back more than 300 years, is the world-wide market leader in the design and construction of custom-built and standard dredging equipment. IHC Holland has all essential technologies for the development of dredging equipment under its own control, including the design and production of dredging components, complete dredging installations, hydraulic installations, instrumentation and automation of the dredgers.

The building of complete dredging vessels takes place at its two modern yards in the Netherlands or at the yard of its sister company Merwede Shipyard. The trend towards subcontracting the non dredging-specific part of the equipment results in an increasing need for multi-skilled personnel and higher demands are being made on staff, for project management, subcontract coordination and the logistics process at the construction yards.

Our clients sometimes request that construction yards in their own country of operations be used. When local building is called for, IHC Holland supplies the design, dredging installation components and operating systems, as well as technical support and supervision.

Both IHC Holland and its sister company Merwede Shipyard have a significant domestic market, namely the strong and prominent Dutch and Belgian dredging contractors. Mergers and take-overs further reinforce these companies' international competitive position. The Ministry of Public Works, the contractors, the yards, the suppliers and the specialised scientific education, research and training institutes make up a strong maritime dredging cluster

IHC Holland's aim is to retain its leading position in the market for dredging equipment. In order to reduce its dependence on building dredging equipment however, IHC Holland has also ventured in recent years into foundation equipment, dovetailing with its know-how and production facilities.

Developments 2003

The financial result for 2003 was disappointing. After an uninterrupted period of sixteen years with good results,



Installation of the deckhouse of the 10000m³ trailing suction hopper dredger 'Wan Qing Sha' for CHEC – Guangzhou Waterway Bureau, China

the negative result is the consequence of significant losses on the self-propelled cutter suction dredger for J. de Nul and to a lesser extent as a result of problems with novel gantries for large dredging installations. In addition a number of business units experienced the consequences of the deteriorating economic situation, and the still suspended land reclamation project in Singapore. The financial results of the foundation activities were positive in spite of disappointing results of IHC Hydrohammer.

Based on the order book at the beginning of 2004, and taking into account the moderate sales forecast for this year, IHC Holland expects a satisfactory utilisation rate for the yards and the other business units during 2004. The reduction of personnel carried out in 2003, by means of transfers to other units and termination of temporary personnel contracts, contributes to the expected full utilisation of the remaining capacity. In this way IHC Holland is able to fully benefit from the improved flexibility in its structure.

Dredgerbuilding and dredging equipment

Sales development

New orders and demand for after sales supply of spare parts and components have resulted in a good order intake, and in a complete utilisation of all units. In comparison with 2002, the orders received for new-built dredgers were slightly lower, both in quantity and total order amount. After the investments in jumbo trailing suction hoppers, the emphasis now lies on smaller and medium-sized vessels and on large (self-propelled) cutter suction dredgers.

In addition to an order for a small-size trailing suction hopper dredger, IHC Holland again received an order for a large self-propelled cutter suction dredger with an installed power of 26100kW. The sales of standard cutter

dredgers were, as in other years, at a satisfactory level. The ongoing delivery of dredging installations with high-powered submersible pumps for dredging operations in very deep water highlights our advances in deep dredging technology.

IHC Holland Parts & Services has built four swivel stacks for the SBM group. IHC Hydrohammer frequently cooperated with SBM-IMODCO and IHC Gusto Engineering on new anchoring methods, piling operations and mutual consultancy in respect of tools and vessels.

After sales and services

In addition to supplying new dredging equipment, IHC Holland's after sales activities are continuously expanding. With the supply of spare parts and components, IHC Holland is offering support throughout the equipment's operating life, leading to enduring client relationships. IHC Holland's target is to enlarge its service level and where possible to execute a part of the maintenance of dredging installations and dredging automation. In cooperation with customers, IHC

Holland has made further steps towards wear and tear control, monitoring of dredging valves, support during revisions/dock repair and maintenance activities that took place in Singapore over the past year. For these activities the quality-price ratio and delivery reliability are crucial. During 2003 IHC Holland has worked on further improving the quality and delivery times for after sales supplies.

New orders

The most important new orders for dredgerbuilding and dredging equipment were:

- a very large self-propelled cutter suction dredger with an installed power of 26100kW for SDI (DEME), Belgium;
- a 1000m³ trailing suction hopper dredger for Ports & Shipping Organization (PSO), Iran;
- a self-propelled grab dredger for Drapor, Morocco;
- fifteen cutter suction dredgers from the standard IHC Beaver series for customers in Serbia, Nigeria, Russia, France, Iran, Croatia, Malaysia, India, the Maldives and the United Arab Emirates. The larger models of



Suction tube of the 4750m³ trailing suction hopper dredger 'Volvox Olympia'

these Beavers were of the New Generation type, where the ladder mounted dredge pump is driven by a diesel engine mounted in the engine room via the patented IHC pivoting gearbox;

- an order for three Delta workboats in a package with a Beaver cutter suction dredger;
- a Delta Pusher 2500 for a German contractor;
- renovations of the trailing suction hopper dredgers 'Soumar' for PSO, Iran, the 'Oboor' for the Suez Canal Authority, Egypt, and 'Dredge XI' for DCI, India;
- an order for the engineering and delivery of components in cooperation with a local yard for the construction of a 8000kW custom-built cutter suction dredger for China;
- an order in cooperation with a local yard for three small monohull Beaver cutter suction dredgers in India;
- upgrading of the trailing suction hopper dredgers 'HAM 311' and 'HAM 312' with up-to-date PLC and SCADA control of dredging operations;
- stand-alone DP/DT systems for two trailing suction



Deep dredging installation on board the 'Vasco da Gama' in Singapore

hopper dredgers for Royal Boskalis Westminster, under construction at Merwede Shipyard.

Deliveries

The most important deliveries in dredgerbuilding and dredging equipment were:

- the 2800m³ sand and gravel dredger 'Mellina' for Aannemingsbedrijf K. Krul & Zonen;
- the 3500m³ trailing suction hopper dredger 'Tong Tan' for CHEC Tianjin Dredging Company, China;
- the 4750m³ trailing suction hopper dredger 'Volvox Olympia', subcontracted to and built at van der Giessen-de Noord, for Van Oord ACZ Ltd;
- the very large self-propelled cutter suction dredger 'J.F.J. De Nul' with an installed power of 27000kW for DMM, for which the cutter ladder and the spud carrier installation were designed and built by IHC Holland Beaver Dredgers;
- underwater pump installation for the trailing suction

hopper dredger 'Prins der Nederlanden' for Royal Boskalis Westminster;

- underwater pump installations for the trailing suction hopper dredgers 'Sand Falcon' and 'Sand Fulmar' of South Coast Shipping;
- underwater pump installation for the trailing suction hopper dredger 'Pearl River', from DEMA;
- sixteen cutter dredgers from the IHC Beaver series for customers around the world;
- three Delta workboats;
- a Delta Azimuth Tug 2800 to Sleepbedrijf Thetis BV, the Netherlands;
- a self-propelled grab hopper for a customer in Sri Lanka;
- the world's largest deep dredge installation for the trailing suction hopper dredger 'Vasco da Gama' to J. de Nul, Belgium;
- components for the conversion of a bulkcarrier into a sandcarrier for Hyundai, South Korea;
- a joint venture order for a 1700m³ trailing suction hopper dredger for India;



1700m³ trailing suction hopper dredger for CPT, India

- dredging automation renewal of the hopper dredger 'Essayons' of the US Army Corps of Engineers;
- complete packages for integrated instrumentation and control for the trailing suction hopper dredgers 'Volvox Olympia' and 'Tong Tan';
- the fully integrated monitoring and control system for the world's largest cutter suction dredger the 'J.F.J. De Nul'.

Technological highlights

Technological highlights in dredgerbuilding and dredging equipment were:

- the realisation of the largest self-propelled cutter suction dredger in the world – 35% larger than existing ships – has demonstrated the need for improved project management and risk control procedures. The experience gained with this order contributed substantially to concluding a contract for a second large self-propelled cutter suction dredger of 26100kW

in 2003. The efficiency of this dredger will be improved through the adjustable spud carriage, which is the latest development in cutter dredgers for open water;

- the improved performance in the design of trailing suction hopper dredgers for operations in shallow water (wash reduction and fuel consumption) were verified full scale and confirmed;
- IHC Mining directed special focus to the development of deep sea mining tools and ROV's. In cooperation with IHC Gusto Engineering and MTI, an exclusive agreement was signed with a large mineral mining company to develop dedicated deep sea mining equipment;
- development and delivery of the new generation of IHC System's excavator monitor line. Migration to a state-of-the-art hardware platform and the development of new software architecture has created the possibility to extend the functionality of the product to a number of geographical mapping applications. Integration of functions from excavation control and survey monitoring minimises the interfaces between the two disciplines in the operational work;
- expertise in the field of cutter control and the current interest for cutter operations has led to the start of development of an advanced cutter control and monitoring system by IHC Systems. In cooperation with Royal Boskalis Westminster and together with their extensive know-how, a back-to-basics development strategy is employed, using modern techniques

IHC Systems' Dredge Control Monitoring System (DCSM) on the trailing suction hopper dredger 'Essayons'



in advanced control algorithms to create a system that will adapt itself to working conditions and operating demands;

- in 2003 the earlier reported wear prediction models were validated for pumps and pipelines by processing datasets made available from IHC Holland files. Results were encouraging with an improvement of the quality of the predictions. This enabled continuation of the validation process. In 2003 MTI started to import datasets from a large contractor, who is a partner in this project. Within IHC Holland the knowledge is used as a basis for calculation of exploitation costs, while the customer ultimately will be provided with tools to assist decision in the planning of changing wearing parts;
- research on forces and mixture formation within dragheads is a process where results are immediately incorporated in new design. In 2003 research into the effects of very high densities and extreme soil conditions was continued with a series of tests in the laboratory of MTI;
- the research programme on the forces on the pump shaft while working out of the Best Efficiency Point, was continued with a series of tests using the upgraded pump test circuit at MTI.

Pump circuit at MTI



Foundation equipment

Overall profits and order intake of the non dredging-related foundation entities were satisfactory. In spite of the successful niche market for the application of heavier hammers in offshore oil and gas activities as well as for the execution of large civil projects, IHC Hydrohammer lost money, due to organisational problems which have been resolved.

Windmill farms emerging market

The relatively young market for the offshore windmill farms is very promising due to the increasing trend towards sustainable energy. In the Irish Sea, the first phase was realised of a large windmill farm, named Arklow Banks, which will ultimately consist of approximately 150 wind turbines, each 3.6mW with pile diameters of 5.1 metres. With the installation of this first phase of seven piles, IHC Hydrohammer has set the world record of the biggest pile diameter ever driven. This was made possible by the investments IHC Hydrohammer has made during the past years in large rental equipment such as sleeves for large pile diameters and a heavy hammer, the S-1200 which was added to the

Fundex – F3500 during testing



rental fleet in 2003. The windmill farm Scropy Sands, near the coast of Great Yarmouth, United Kingdom, was installed successfully and on schedule by Mammoet Van Oord, with IHC Hydrohammer's S-1200. This consisted of driving thirty piles with diameters of 4.0 metres.

Environmentally friendly foundations

The need for more friendly (especially vibration-free and low-noise) foundation techniques has led to innovative

developments. In order to satisfy these requirements, foundation piles are being drilled or screwed into the soil, using heavy piling rigs, such as the IHC Holland-manufactured Fundex machine. In addition, the structures to be supported are becoming ever larger and heavier, which necessitates new techniques.

The world's largest levelling tool

IHC Handling Systems maintained its position as market leader in the area of tools for lifting and positioning heavy foundation piles, as used in the offshore sector. For the largest gas production platform ever to be built in the Mediterranean Sea (Sabratha Project), an order was received for the rental of a 3000 ton levelling tool which facilitates the levelling of the jacket. For this project IHC Handling Systems designed and built the world's largest levelling tool.

Water depths records

Again this year water depth records were broken. Foundation piles were installed for Stolt Offshore in 1150 meter water depth off the coast of Angola (Kizomba A project), and foundation piles were installed together with Heerema in 1310 metre water depth in the Gulf of Mexico (Marco Polo project).

New orders

The most important new orders for foundation equipment were:

- a record turnover of twenty pile gripper systems and a rental order for the world's largest levelling tool (3000tons) of IHC Handling Systems;
- twenty-one IHC Hydrohammers of various sizes, and more than 125 orders for the rental fleet;
- six Fundex machines mainly of the F12SE type and even hydraulic rotary heads, six power packs and a hydraulic ring vibrator from IHC Fundex Equipment;
- orders for complete large scale hydraulic installations for dredgers, FPSO de-ballast and turret-handling, offshore cranes and self-elevating platforms for Hytop as designer and builder of complete hydraulic systems;
- 572 SUPREME® stern tube seal arrangements and 161 LIQUIDYNE® pump seals of various sizes and types for IHC Lagersmit. A special order was the delivery of SUPREME® seals for a steel rolling mill. Also the first order was received for the supply of complete preassembled stern tubes including seals.

Deliveries

The most important deliveries in foundation equipment were:

- twenty-three IHC Hydrohammers of various sizes for customers around the world;
- complete large scale hydraulic installations for dredgers, FPSO de-ballast and turret handling systems and systems for self-elevating platforms from Hytop.



Hytop – 1500kW hydraulic powerpack

Tunnelling equipment

2003 was a crucial year for IHC Tunnelling Systems (ITS). ITM Hubertus (the consortium through which ITS and the civil construction builders Boor Tunnel Combinatie Hubertus VOF (BTC) prepared the offer for the ‘St. Hubertustunnel’) made a great effort to prepare a suitable offer. In the end the bid failed, due to an unexpected uncertainty regarding the fire resistance characteristics of the concrete tunnel lining. The customer included in his budget the costs of eventual additional measures, with the consequence that our offer became uneconomical. Without a proven test project it is virtually impossible to get our new technology accepted by the market. As a consequence IHC Holland has decided to terminate its activities in the tunnel building machine market.

IHC Handling Systems – 2500tons pile gripper



MERWEDE
shipyard

MERWEDE SHIPYARD

Management:

T. Rietdijk, *Managing Director*

A. Klijnsoon, *Technical Director*

Profile

BV Scheepswerf en Machinefabriek Merwede was established exactly one hundred years ago. In these one hundred years Merwede has completed numerous significant projects, has undergone considerable expansion and, as Merwede Shipyard, has for decades enjoyed an excellent international reputation. Nowadays Merwede is not only a world leader in shipbuilding. Its Interior Builders activities for marine, industrial and office projects, ship repair work and the construction of high-quality industrial valves are also highly valued, both nationally and internationally.

Merwede Shipyard is an ISO-9001-2000 certified internationally recognised builder of customised, high-value, mainly deep-sea tonnage and is one of the leading yards in the Netherlands. Its business policy is to respond to the needs of shipowners who require vessels of innovative concept and modern engineering, built to a ‘one-off’ order or limited series in the following market areas:

- dredgers;
- offshore vessels;
- cruise vessels and ferries;
- specials.

A distinguished track record and reputation for constructing numerous highly distinctive designs is a confirmation of the versatility of Merwede Shipyard. Merwede Shipyard enjoys recognition as one of the very few specialist shipyards with in-depth understanding of the design and construction of dredgers, including large trailing hopper dredgers for offshore dredging and trench filling operations. Some more examples of commercial vessels built by Merwede Shipyard are Ro-Ro’s, passenger cum cargo ships, oceanographic research vessels, ferries, chemical products tankers, workshops for offshore operations, deep-sea tugs and suppliers, and heavy-load transportation vessels.

With the closure of van der Giessen-de Noord it has been decided that Merwede Shipyard will take over the former know-how of van der Giessen-de Noord shipbuilding activities. For the design, engineering and construction of specialised offshore vessels and ferries Merwede Shipyard has assumed all intellectual property including key personnel.

Merwede Interior Builders

Specialist builders of high quality, bespoke interiors for

both the marine and civil construction industry. Product quality is assured by maintaining a certified quality management system.

Merwede Ship Repair

A specialist yard in maintenance, repair and conversion work on short-sea vessels, offshore work ships, dredgers, tugs and all kinds of inland transportation craft, including river cruise vessels.

Merwede Valves

An ISO-9001 certified specialist manufacturing company, producing engineered-to-order valves for applications in the oil, gas, chemical and power industries. Unequalled lead times are maintained as a result of a flexible production process.

Merwede Design

A marine and mechanical design office consisting of a highly qualified well experienced team of specialists within shipbuilding, ship repair and mechanical engineering design works.

Developments 2003

Merwede Shipyard managed to achieve full occupancy during 2003, but due to some problems with the two 16000m³ hopper dredgers for Royal Boskalis Westminster, it finished the year with a small loss. Based on the order book secured by the end of 2003, full capacity has not yet been achieved for 2004. Nevertheless, the outlook with respect to prospective projects looks promising.

New orders

The following major orders were obtained:

- a luxury river cruise vessel for Viking River Cruises which will be delivered for the season of 2005. Merwede Shipyard has options for a second vessel also to be delivered in 2005, and a third, fourth and fifth vessel to be delivered for the season of 2006. The vessels will be used on the inland waterways between Amsterdam and Basel and it can be truly said that a new generation of river cruise vessels has been introduced to the market. The vessels will be considerably larger than the vessels currently operating on these waters and are designed according to the latest two compartment damage stability principles increasing the safety margins in case of substantial damage. Furthermore they will be equipped with an emergency propulsion unit in order to assure a safe return to port in case of main engine failure;
- a luxury river cruise vessel for Dunav Tours. The vessel will ply the European inland waterways including the estuary in the southern part of the Netherlands, the IJsselmeer and the Waddenzee until the Danube estuary in Bulgaria.

Deliveries

The following order was completed in 2003:

- a luxury river cruise vessel for chronically ill and disabled passengers for 'Stichting Varende Recreatie'. The vessel will be used on the European inland waterways including the estuary in the southern part of the Netherlands, the IJsselmeer and the Waddenzee.

The river cruise vessel 'Prins Willem-Alexander' for 'Stichting Varende Recreatie'





van der Giessen-de Noord N.V.

VAN DER GIESSEN-DE NOORD N.V.

Management:

A.J. Houweling, *President*

Late summer 2003 IHC Caland decided to restructure the shipbuilding activities of the Group, including the closure of van der Giessen-de Noord (GN).

As from 25 August 2003, the necessary actions were taken to implement such closure. The division van der Giessen-de Noord Piping (GNP) has been excluded from the closure and will continue as a separate business unit within IHC Holland. The reason for this is the positive market outlook for this type of work.

With regard to the work in progress, it was decided to complete the ongoing work on the GN site with the use of existing personnel. Negotiations were started with the

works council and trade unions to discuss the Redundancy Plan for the complete workforce. This resulted in an agreement on 2 October 2003, and as from 1 December 2003, the first workers have been made redundant.

During the period 25 August to the end of November two vessels were launched, yard numbers 992 ('Rousse Prestige') and 991 ('Pallierter'). By the end of 2003 only the commissioning of the 'Pallierter' was outstanding.

In 2003, GN delivered the following vessels:

- Ro-Pax ferry 'Pascal Paoli' for SNCM, France;
- the 4750 m³ suction hopper dredger 'Volvox Olympia' for Van Oord, on behalf of sister company IHC Holland;
- the hull for the river cruise vessel 'Rousse Prestige' for Dunav, Romania, on behalf of sister company Merwede Shipyard.

Deliveries

At mid January 2004, the trailing suction hopper dredger 'Pallierter' was delivered.

The Ro-Pax ferry 'Pascal Paoli' for SNCM, France





NKI GROUP

Management:

G. Aerts, *Managing Director*

Profile

NKI Group has built a reputation of quality and excellence in the airport terminal interior market as well as in the market for passenger boarding bridges (PBB's).

The core competence of NKI Group lies in the design, engineering, manufacture and project management of airport terminal interior projects worldwide, as well as major signage projects for railway stations.

The core business activities include the manufacture and installation of:

- passenger boarding bridges (PBB's);
- complete check-in island facilities;
- all other special counters;
- custom-made interiors for airport terminals;
- static and dynamic signage;
- taxiway guidance signs.

Developments 2003

Despite strong competition, 2003 was a successful year for NKI Group and the company's profit target has been achieved. The restructuring of the company started early 2003, has been finalised and has enabled a return to profitability.

Due to the impact of SARS and the Iraq war, the recovery of the airport market in 2003 was much slower than expected. However, step by step we now see signs of recovery in the aviation market. We expect a more significant recovery in 2004 and a normalisation of the market by 2005.

Barring further unexpected negative developments in the market, we expect that 2004 will also be a profitable year.

New orders

The following orders were booked in 2003:

- several contracts for the delivery and installation of counters for a new terminal at Miami Airport, USA.;
- a contract for the delivery and installation of counters for a new terminal at Harrisburg Airport, USA.;
- a contract for the delivery and installation of check-in island facilities for the new Guangzhou Airport, China;
- a contract for the delivery and installation of glass fibre reinforced polyester (GRP) parts at the new Barajas Airport, Madrid, Spain;
- a contract for the delivery and installation of counters and signage at Almaty Airport, Kazakhstan;

- a contract for the delivery and installation of counters at Vnukovo Airport, Moscow, Russia;
- a contract for the delivery and installation of passenger boarding bridges at Schiphol Airport, the Netherlands;
- a contract for the renovation of passenger boarding bridges at Heathrow Airport, United Kingdom.

Deliveries

In 2003 the following orders were completed:

- a contract for the complete interior and signage of Lahore Airport, Pakistan;
- a contract for the complete interior of Terminal 3 of Manila Airport, Philippines;
- a major contract for the complete signage of all stations on the new KCRC Westrail line, Hong Kong;
- a contract for counters at Miami Airport, USA;
- a contract for passenger boarding bridges at Johannesburg Airport, South Africa;
- a contract for passenger boarding bridges at Capetown Airport, South Africa;
- a contract for the renovation of passenger boarding bridges at Schiphol Airport, the Netherlands;
- a contract for the delivery and installation of passenger boarding bridges at Schiphol Airport, the Netherlands.

Kowloon Canton Railway Corporation (KCRC), Hong Kong, 2003 Railway terminal signage project







Annual Accounts 2003

Consolidated profit and loss account

in thousands of US dollars

	Notes	2003	2002
Net turnover	1	1,848,656	929,508
Changes in stocks and work in progress		(132,850)	470,280
Own work capitalised		461,980	573,015
Other operating income		14,767	19,070
<i>Operating income</i>		2,192,553	1,991,873
External costs	2	(1,643,652)	(1,552,262)
Wages and salaries	3	(227,789)	(189,801)
Social security costs	4	(51,620)	(44,136)
Amortisation intangible fixed assets	10	(3,446)	(2,237)
Depreciation tangible fixed assets	5/11	(151,356)	(95,669)
Other operating costs	6	(50,255)	(25,435)
<i>Operating costs</i>		(2,128,118)	(1,909,540)
Operating profit	7	64,435	82,333
Share of results of associated companies	12	340	189
Other financial income / (expense)	8	(52,220)	(20,570)
Financial income / (expense)		(51,880)	(20,381)
Profit before taxation		12,555	61,952
Taxation	9	34,547	16,202
Minority interests		47,102	78,154
Net profit		(493)	(762)
		46,609	77,392
Weighted average number of shares outstanding		32,125,097	31,685,599
Net profit per share		US\$ 1.45	US\$ 2.44
Fully diluted net profit per share (calculated in accordance with IAS 33)		US\$ 1.44	US\$ 2.43

Consolidated balance sheet

in thousands of US dollars (before appropriation of profit)

	Notes	31 December 2003	31 December 2002
Fixed assets			
Intangible fixed assets	10	36,061	39,425
Tangible fixed assets	11	1,896,772	1,519,155
Financial fixed assets	12	66,940	31,656
	17	1,999,773	1,590,236
Current assets			
Stocks		42,312	46,118
Work in progress less instalments received	13	191,534	167,591
		233,846	213,709
Receivables	14	325,342	258,656
Securities	15	3,078	2,940
Cash and cash equivalents	16	224,377	223,467
	17	786,643	698,772
Current liabilities	18/22	781,227	602,758
Net current assets		5,416	96,014
Net assets		2,005,189	1,686,250
Long-term debt	19/22	1,231,294	991,165
Provisions	20/22	58,597	4,174
Investment premium equalisation account	21/22	2,027	8,011
Group equity			
Shareholders' equity	23	710,534	679,878
Minority interests		2,737	3,022
		713,271	682,900
Capital employed		2,005,189	1,686,250

Consolidated statement of cash flows

in thousands of US dollars

	2003	2002
Operations		
Trade debtors	1,625,325	1,295,251
Trade creditors	(1,206,088)	(1,361,228)
Wages and salaries, social security costs	(272,376)	(212,416)
Vessel operating costs	(71,501)	(54,457)
Other operating costs	(226,226)	(163,994)
Other receipts / (payments), net	(14,537)	69,602
	(165,403)	(427,242)
Own work capitalised (included in Investments in tangible fixed assets)	461,980	573,015
<i>Cash flow from operations</i>	296,577	145,773
Dividends from associated companies	181	214
Interest income	7,592	6,894
Interest expense	(73,502)	(45,410)
	(65,729)	(38,302)
Taxation	20,554	4,087
	251,402	111,558
Investments		
Investments in intangible fixed assets	(30)	(4,822)
Investments in tangible fixed assets	(518,804)	(683,773)
Disposals of tangible fixed assets	36,336	5,241
Investments in associated companies	(235)	(189)
Disposals / repayments associated companies	7	-
	(482,726)	(683,543)
	(231,324)	(571,985)
Financing		
Issue of share capital	796	7,160
Dividends paid	(33,205)	(25,201)
Additions to long-term debt	371,076	706,088
Reductions in long-term debt	(138,154)	(85,821)
Investments in other financial fixed assets	(32,903)	(16,083)
Disposals / repayments other financial fixed assets	612	831
	168,222	586,974
Net in/(out)flow	(63,102)	14,989
Currency differences	17,953	11,975
Increase / (decrease) in cash and cash equivalents and securities less short-term bank debts	(45,149)	26,964
Reconciliation		
Operating profit /	64,435	82,333
Cash flow from	154,802	97,906
operations	219,237	180,239
(Increase) / decrease in stocks and work in progress less instalments received	(20,137)	(50,856)
(Increase) / decrease in receivables	(66,686)	(77,159)
Increase / (decrease) in current liabilities	178,469	74,630
Movement in other net current assets Included in movement in other net current assets, but not related to operations	91,646	(53,385)
	(14,306)	18,919
Cash flow from operations	296,577	145,773

General

Except where otherwise indicated, all amounts are in thousands of US dollars, and the accounting principles apply to both the Consolidated Accounts and the Company Accounts.

Consolidation

The Consolidated Accounts comprise IHC Caland N.V. and its Group companies, which are defined as companies in which the Company has effective control. Assets, liabilities and results of these companies are fully consolidated. The minority interests are shown separately.

Participations in companies in which the Group has 50% control, as well as participations in joint ventures, are consolidated on a proportional basis.

In accordance with legal requirements, a list of consolidated companies has been deposited at the Chamber of Commerce in Rotterdam.

Changes in accounting principles

Reporting currency

Effective 1 January 2003 the Group has changed its reporting currency to US dollar, being the functional currency of the offshore oil and gas activities of the Group, in view of the ever-increasing importance thereof, and the practical and cost implications of maintaining a full hedging to Euros.

Currency differences shown in the shareholders' equity movement schedules are equal to the revaluation of the Euro denominated part of the Group's net asset value.

Foreign currencies

Income and expense items denominated in foreign currencies are now translated at average quarterly rates of exchange.

Assets and liabilities denominated in foreign currencies are translated using the rates of exchange on the last day of the financial year. At year-end, the most important rate was the Euro at US\$ 1.261 (2002: US\$ 1.045).

Currency translation differences resulting from the application of this principle are included in Other reserves. For 2003 the effect on Other reserves is US\$ 5.5 million negative (2002: US\$ 2.7 million negative).

The policy of full hedging in the offshore oil and gas activities to its functional currency continues. The reference rates for the conversion of foreign currency transactions and balances are the actual rates for the various forward contracts used in the execution of this hedging policy.

In view of the relatively minor impact on results and equity of the Company and the intended split-off of the dredgerbuilding activities, it has been decided not to hedge the net asset value (equity) and results of the Dutch-based and Euro-denominated dredger/specialised shipbuilding activities of the Group, but to record any movement against the US dollar through equity.

Appropriation of profit

In accordance with revised accounting principles generally accepted in the Netherlands applicable from 2003 onwards, the proposed dividend is no longer included in Current liabilities but shown as a separate part of the shareholders' equity.

The 2002 figures have been restated for comparison reasons with respect to the changes mentioned above.

Principles of valuation, profit and loss determination

The Annual Accounts have been prepared on the basis of historical cost. Unless stated otherwise, assets and liabilities have been included at nominal value less such provisions as are considered necessary.

The Group uses a 'full cost' accounting system. This means that, particularly in respect of offshore activities, certain indirect cost items such as sales and general overheads are charged to orders on the basis of a fixed percentage. Similarly, in the Group's dredger/shipbuilding activities, where a significant part of order execution takes place at its own facilities, the man-hour rates include certain indirect costs. The calculation of these percentages is based on a forecast 'normalised' level of order execution or 'value of production' in the year.

Intangible fixed assets

The difference between cost and net asset value of acquired interests in Group and associated companies is capitalised and consistently amortised through the profit and loss account during the estimated economic lifetime.

Patents acquired from third parties are capitalised and amortised over their anticipated useful lives.

The anticipated economic lives of the categories of intangible fixed assets are as follows:

- Goodwill 5-20 years
- Patents 15 years

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation.

The capital value of an F(P)SO to be leased to and operated for a client is the sum of external costs (such as shipyards, subcontractors, suppliers), internal costs (design, engineering, construction supervision, etc.), third party financial costs including interest paid during construction and attributable overheads.

In principle, these assets are depreciated by the straight-line method over their anticipated economic life, taking into account a residual value for the tanker-based F(P)SO's and the dynamically positioned diving support vessel 'Dynamic Installer'. Depreciation of long-term leased F(P)SO's with external financing is calculated in such a way that the aggregate of interest and depreciation is evenly spread over the lease period.

Investment subsidies (with the exception of investment premiums) are directly deducted from the historical cost of the assets. Insofar as third party interest is paid on the financing of tangible fixed assets under construction, these amounts are capitalised in the investment.

The anticipated economic lives of the categories of tangible fixed assets are as follows:

<i>Land and buildings (unless unlimited life)</i>	30-50 years
<i>Vessels and floating equipment (almost entirely F(P)SO's):</i>	
• Newbuild F(P)SO's	20 years
• Converted tankers, including refurbishment Amortised to scrap value over their remaining useful life;	10-15 years
• 'Non-recoverable' investments Costs which are incurred for a specific project e.g. installation costs, transport costs, costs of anchor lines, anchor points, risers, etc. and must be written-off over the period of the contract to which they relate;	3-15 years
• Other F(P)SO investments These include the mooring system, swivel stack, vessel conversion, process equipment if relevant, etc. In the case of long-term contracts these items are fully amortised over the contract duration. For shorter-term contracts, a decision is required as to which percentage of these costs should be amortised; Exceptionally, where lease rates have a special profile, e.g. to match projected field production, depreciation will follow this profile;	6-15 years
<i>Machinery and equipment</i>	5-20 years
<i>Other fixed assets</i>	3-20 years

The tangible fixed assets of IHC Holland NV's shipyards are carried at going concern value after a one-time writedown in 1988, when the company was restructured. A similar write-down has taken place in 1997 on the tangible fixed assets of van der Giessen-de Noord N.V.

Financial fixed assets

Financial fixed assets comprise shares in and amounts owed by associated companies, and other long-term receivables.

Associated companies are defined as companies in which the Group has significant influence and which are neither subsidiaries nor joint ventures. Unless otherwise indicated, associated companies are valued at the appropriate proportion of the net asset value.

Stocks

Stocks comprise semi-finished products, finished products and spare parts.

Semi-finished and finished products are stated at cost including attributable overhead, excluding interest on capital invested.

Spare parts are valued at the lower of purchase price and market value.

Work in progress less instalments received

Work in progress is stated at cost including attributable overhead, excluding interest on capital invested, less any provisions necessary for anticipated losses up to the completion of the projects.

Government subsidies, if applicable, have been deducted from gross work in progress.

Instalments received are deducted from work in progress. Where advance payments exceed the value of the related work in progress, the excess is included in 'Current liabilities'.

Securities

Securities are stated at the lower of cost and market value.

Provisions

Provisions are made for commitments and contingencies which relate to the activities of the Group.

Investment premium equalisation account

The investment grants will be credited to the profit and loss account over the anticipated lifetime of the assets involved and relate to the Group's shipbuilding activities.

Net turnover, determination of result

Turnover and profit are recognised upon the delivery of turnkey orders because many of the Group's products are custom-built or have a prototype nature (principle of prudence).

Turnover (the total of the day-rates) and profit of long-term F(P)SO lease and operate contracts – which can be measured on a more reliable basis – are reported annually once the systems have come into service.

Taxation

Taxation is accounted for on the basis of the results reported, taking into consideration the applicable fiscal rules.

The provision for deferred taxation results from differences between accounting and taxable results and is computed at current rates of taxation.

Deferred tax assets are recognised to the extent these are likely to be realised.

Policies regarding the Consolidated statement of cash flows

The Consolidated statement of cash flows is drawn up using the direct method. Cash flows denominated in foreign currencies are translated using the exchange rates at the respective balance sheet dates.

Notes to the Consolidated profit and loss account

1. Net turnover

By geographical area:		2003		2002	
		%		%	
The Netherlands	91,602	5	64,810	7	
Rest of Europe	339,388	18	272,173	29	
North, Middle and South America	333,434	18	177,870	19	
Africa	821,010	45	180,404	20	
Middle-East / Asia / Australia	263,222	14	234,251	25	
	1,848,656	100	929,508		100

The classification by geographical area is determined by the final destination of the product, or in the case of vessels built at the shipyards of the Group, by the country of residence of the client.

By business segment:		2003		2002	
		%		%	
Offshore	1,280,136	69	380,266	41	
Dredger / specialised shipbuilding	568,520	31	549,242	59	
	1,848,656	100	929,508		100

2. External costs

External costs comprise materials supplied and services rendered by third parties, including subcontracts.

External costs are net of government subsidies ('Generieke steun') of US\$ 1.0 million in respect of the Group's dredger/shipbuilding activities (2002: US\$ 3.5 million).

Direct research costs amounted to US\$ 16.2 million (2002: US\$ 11.5 million). Considerable research is also carried out during the sales effort for orders, which are often custom-built. In these cases, when the sales effort results in an order the related costs are charged directly to the order result. If not, the costs are expensed to the profit and loss account.

3. Wages and salaries

The remuneration of the Managing Directors of the Company, including pension costs and performance related bonuses, amounted to US\$ 5.0 million (2002: US\$ 2.5 million).

The performance related part of the remuneration equals 24% (2002: 32%).

The total remuneration and associated costs of the Managing Directors can be specified as follows:

	2003			2002	
	Salary and emoluments	Bonus	Pension costs	Total	Total
J.J.C.M. van Dooremalen	503	420	1,049	1,972	1,336
G. Docherty	417	390	713	1,520	591
D.H. Keller	417	390	703	1,510	591
	1,337	1,200	2,465	5,002	2,518

The bonus is performance related in respect of the previous year, based on a target return on equity. For 2003, the bonus plan has been changed to an Economic Value Added basis. With the lower results for 2003, the bonuses will fall to US\$ 181,000 for Mr. Van Dooremalen, and US\$ 154,000 for Messrs. Docherty and Keller. The share options granted will also be reduced. The pension costs include backservice charges in respect of the salary review which was made effective from 2002.

The remuneration of the Supervisory Board amounted to US\$ 257,000 (2002: US\$ 191,000) and can be specified as follows:

		2003	2002
H. Langman	Chairman (until 16 May 2003)	16	35
A.P.H. van Baardewijk	(Vice-)Chairman	42	30
A.G. Jacobs	Vice-Chairman (from 16 May 2003)	37	27
J.M.H. van Engelshoven	Vice-Chairman	–	13
J.D.R.A. Bax		34	27
D.J.C.N. Goguel-Nyegaard		33	27
R.H. Matzke		74	32 including allowance for travel from the USA
H.C. Rothermund	(from 16 May 2003)	21	–
		257	191

The number of employees was as follows:

By business segment:		2003		2002	
	Average	Year-end	Average	Year-end	
Offshore	1,690	1,838	1,347	1,542	
Dredger / specialised shipbuilding	2,524	2,289	2,783	2,775	
Holding	21	21	21	21	
		4,235	4,148	4,151	4,338

By geographical area:		2003		2002	
	Average	Year-end	Average	Year-end	
The Netherlands	2,496	2,304	2,692	2,705	
Abroad	1,739	1,844	1,459	1,633	
		4,235	4,148	4,151	4,338

4. Social security costs

Included are pension premiums amounting to US\$ 22.5 million (2002: US\$ 19.1 million).

This figure includes a one-time expense of US\$ 2.3 million, being a top-up funding payment in respect of the transfer of the company pension fund 'Stichting Pensioenfonds IHC Holland' to 'Bedrijfstakpensioenfonds voor de Metalektro'.

In addition to state and industry pension plans, Group companies have a number of supplementary pension plans. Most such plans are defined benefit plans, with a limited number of defined contribution plans.

In respect of defined benefit plans the amounts charged to the profit and loss account in any year cover the current service cost of the plan and any other pension costs. Other pension costs include e.g. past service costs, the effects of changes in actuarial assumptions and the effect of plan amendments.

Contributions to defined contribution plans for any particular year are charged to the profit and loss account in that year.

5. Depreciation tangible fixed assets	By business segment:	2003		2002	
		%		%	
Offshore	140,025	93	86,842		91
Dredger / specialised shipbuilding	11,355	7	8,851		9
Holding	(24)	-	(24)		-
	151,356	100	95,669		100

6. Other operating costs Included is a loss of US\$ 51 million in respect of the provision for reorganisation costs with regard to the closure of van der Giessen-de Noord, of which US\$ 36 million relates to redundancy payments. The remainder relates to other costs of the yard's closure, and disposal of its assets.

7. Operating profit	By business segment:	2003		2002	
		%		%	
Offshore	148,829	231	135,777		165
Dredger / specialised shipbuilding	(81,685)	(127)	(48,379)		(59)
Holding	(2,709)	(4)	(5,065)		(6)
	64,435	100	82,333		100

8. Other financial income / (expense)	2003	2002
Income from financial fixed assets	1,391	649
Interest received	5,534	11,055
Interest paid*	(59,145)	(32,274)
	(52,220)	(20,570)

* Net of US\$ 15,246 (2002: US\$ 19,484) capitalised.

9. Taxation	2003	2002
Tax credit / (charge)	35,400	13,610
Movement provision for deferred taxation	(853)	2,592
	34,547	16,202

The Group's operational activities are subject to taxation at rates which range up to 34.5%. The respective tax rates, including fiscal privileges in several countries, tax-exempt profits and non-deductable costs, result in an effective tax credit of 275% (2002: credit of 26%), calculated as 'Taxation' divided by 'Profit before taxation' in the profit and loss account. The fact, that the overall tax burden is negative, is caused by tax losses in the United States of America and especially in the Netherlands, both jurisdictions with a high tax rate.

By business segment:			2003	2002
	Profit before taxation	Taxation	%	%
Offshore	94,556	2,457	(3)	5
Dredger / specialised shipbuilding	(82,282)	28,147	34	43
Holding	281	3,943	(1,403)	27
	<u>12,555</u>	<u>34,547</u>	(275)	(26)

The Group has approximately US\$ 53 million available in tax losses in the Netherlands and the United States of America, a part of which has been capitalised in the balance sheet.

Notes to the Consolidated balance sheet

10. Intangible fixed assets	Goodwill	Patents	Total
Balance at 1 January			
Cost	29,516	13,236	42,752
Accumulated amortisation	(2,002)	(1,325)	(3,327)
Book value	<u>27,514</u>	<u>11,911</u>	<u>39,425</u>
Movements			
Investments	30	–	30
Amortisation	(2,564)	(882)	(3,446)
Currency differences	52	–	52
	<u>(2,482)</u>	<u>(882)</u>	<u>(3,364)</u>
Balance at 31 December			
Cost	29,652	13,236	42,888
Accumulated amortisation	(4,620)	(2,207)	(6,827)
Book value	<u>25,032</u>	<u>11,029</u>	<u>36,061</u>

The items 'Goodwill' and 'Patents' relate almost entirely to offshore activities.

11. Tangible fixed assets	Land and buildings	Vessels and floating equipment	Machinery and equipment	Other fixed assets	Under construction	Total
Balance at 1 January						
Cost	209,558	1,501,737	85,125	82,926	267,048	2,146,394
Accumulated depreciation	(115,611)	(391,502)	(62,968)	(57,158)	–	(627,239)
Book value	<u>93,947</u>	<u>1,110,235</u>	<u>22,157</u>	<u>25,768</u>	<u>267,048</u>	<u>1,519,155</u>
Movements						
Investments	2,974	437,830	7,844	12,694	68,674	530,016
Disposals	(658)	(32,304)	(1,445)	(417)	–	(34,824)
Depreciation	(4,933)	(134,915)	(4,375)	(7,133)	–	(151,356)
Currency differences	18,717	5,865	4,836	4,770	424	34,612
Other movements	245	(176)	(48)	(333)	(519)	(831)
	<u>16,345</u>	<u>276,300</u>	<u>6,812</u>	<u>9,581</u>	<u>68,579</u>	<u>377,617</u>
Balance at 31 December						
Cost	262,749	1,862,485	106,633	105,202	335,627	2,672,696
Accumulated depreciation	(152,457)	(475,950)	(77,664)	(69,853)	–	(775,924)
Book value	<u>110,292</u>	<u>1,386,535</u>	<u>28,969</u>	<u>35,349</u>	<u>335,627</u>	<u>1,896,772</u>

'Land and buildings' includes harbours and slipways.

'Vessels and floating equipment' at year-end include:

- ten integrated floating production, storage and offloading systems (FPSO's), each consisting of a converted tanker, a processing plant and a mooring system;
- four floating storage and offloading systems (FSO's), consisting of a converted or newbuild tanker and a mooring system including the fluid transfer system;
- the 'Dynamic Installer', a dynamically positioned diving support vessel;
- one second-hand tanker;
- a trailing suction hopper dredger on lease to a client, funded by a financial lease.

An amount of US\$ 11,212 third party interest has been capitalised during the financial year under review.

In view of the write-down which has taken place in 1997 on the tangible fixed assets of van der Giessen-de Noord N.V. the book value is expected to be at least equal to the market value.

The future receipts in respect of lease/operate contracts are:

- 2004 : US\$ 384 million
- 2005 up to and including 2008: in total US\$ 1,520 million
- later years : in total US\$ 628 million

	2003		2002	
Investments by business segment:		%		%
Offshore	518,500	98	661,119	94
Dredger / specialised shipbuilding	11,152	2	40,671	6
Holding	364	–	115	–
	530,016	100	701,905	100
Investments by geographical area:		%		%
Europe	25,219	5	98,630	14
North, Middle and South America	199,791	38	210,243	30
Africa	304,481	57	391,035	56
Middle-East / Asia / Australia	525	–	1,997	–
	530,016	100	701,905	100
Book value by business segment:		%		%
Offshore	1,769,738	93	1,411,213	93
Dredger / specialised shipbuilding	126,716	7	107,543	7
Holding	318	–	399	–
	1,896,772	100	1,519,155	100
Book value by geographical area:		%		%
Europe	218,276	12	195,766	13
North, Middle and South America	665,612	35	531,281	35
Africa	839,079	44	589,275	39
Middle-East / Asia / Australia	173,805	9	202,833	13
	1,896,772	100	1,519,155	100

12. Financial fixed assets

	Participations in associated companies	Other receivables	Total
Book value at 1 January	1,454	30,202	31,656
Investments	235	32,903	33,138
Disposals / repayments	(7)	(612)	(619)
Share of results	340	–	340
Dividends	(181)	–	(181)
Currency differences	345	2,261	2,606
Book value at 31 December	2,186	64,754	66,940

The item 'Other receivables' relates mainly to loans that have a remaining term of more than one year.

13. Work in progress less instalments received		2003	2002
	Work in progress	701,797	830,841
	Instalments received	<u>(510,263)</u>	<u>(663,250)</u>
		191,534	167,591
14. Receivables		2003	2002
	Trade debtors	134,647	151,193
	Other receivables	83,456	61,981
	Accruals in respect of delivered orders	68,242	5,332
	Other prepayments and accrued income	<u>38,997</u>	<u>40,150</u>
		325,342	258,656

The item 'Other receivables' includes deferred tax assets in respect of tax losses and other temporary valuation differences amounting to US\$ 16 million (2002: US\$ 7 million).

15. Securities		2003	2002
	Bonds	2,213	2,199
	Other securities	<u>865</u>	<u>741</u>
		3,078	2,940

The securities are listed on the exchanges of Euronext Amsterdam, and are held as temporary investments of excess cash.

The market value of the bonds at year-end amounts to US\$ 2.3 million.

16. Cash and cash equivalents		2003	2002
	Cash and bank balances	96,494	59,342
	Short-term deposits	<u>127,883</u>	<u>164,125</u>
		224,377	223,467

The cash and cash equivalents are freely available, and are amongst others used for debt servicing and interest payments. For the short-term portion of the long-term debt to be paid in 2004 reference is made to item 19.

17. Assets	By business segment:		2003	2002
			%	%
	Offshore	2,386,619	86	1,931,777
	Dredger / specialised shipbuilding	413,645	15	336,969
	Holding	<u>(13,848)</u>	<u>(1)</u>	<u>20,262</u>
		2,786,416	100	2,289,008
				100

18. Current liabilities

	2003	2002
Short-term bank debts	60,200	14,003
Trade creditors	208,674	169,593
Personnel costs	50,266	44,984
Taxation and social security costs	19,671	17,822
Pension costs	15,071	10,902
Reorganisation costs	3,947	16,577
Owed to associated companies	28	24
Unrealised forex results	26,593	14,143
Advance payments in respect of orders	66,947	70,817
Accruals in respect of delivered orders	135,000	62,935
Other creditors, accruals and deferred income	194,830	180,958
	781,227	602,758

19. Long-term debt

The movement in the amounts owed to credit institutions is as follows:

Balance at 1 January	991,165 ,	of which due after more than 5 years:	22,232
Additions	371,076		
Reductions	(138,154)		
Currency differences	7,207		
Balance at 31 December	<u>1,231,294 ,</u>	of which due after more than 5 years:	23,649

This item includes:

	Drawn	Repayment period	Interest per annum	
US\$ limited recourse project finance facilities	Mid 2000 December 2000 January / December 2002 June 2003 July / November 2003 October 2003	10 years 6 years 5½ years 4 years 5½ years 6½ years	8.94 % 10.424 % 7.925 % 6.9625% 6.112 % 6.458 %	32,620 94,292 163,883 63,980 99,792 75,260
				<u>529,827</u>
US\$ guaranteed project finance facilities	June 2002 / February 2003	5 years	6.29 %	159,870
US\$ 500 million revolving credit facility		5 years	variable	495,000
€ financial lease		5 years	5.73 %	33,797
Other long-term debt, including mortgage				<u>13,430</u>
				<u>1,231,294</u>

The guaranteed project finance facilities are guaranteed by the main offshore division holding company, IHC Inc. S.A., in view of the existence of a strong financial guarantee from the client's US parent company.

Amounts falling due in 2004 included above total US\$ 149.5 million.

Interest paid on long-term debt during 2003 amounted to US\$ 55.1 million (2002: US\$ 24.8 million).

The following important financial covenants have been agreed with the respective lenders (unless stated otherwise those relate to both IHC Caland N.V. and IHC Inc. S.A. consolidated financial statements), after adjustment of EBITDA for items of an exceptional nature:

- Minimum tangible net worth of IHC Inc. S.A. of US\$ 450 million.
Actual tangible net worth is US\$ 607 million.
Minimum tangible net worth of IHC Caland N.V. of US\$ 530 million.
Actual tangible net worth is US\$ 674 million;
- Leverage (net debt : EBITDA ratio) of maximum 4.25 : 1 at year-end 2003.
Actual leverage is 3.60 and 3.79 for IHC Inc. S.A. and IHC Caland N.V. respectively;
- Operating leverage (adjusted for construction financing) of maximum 2.75 : 1.
Actual operating leverage is 1.88 and 2.03 for IHC Inc. S.A. and IHC Caland N.V. respectively;
- Interest cover ratio (EBITDA : net interest expense) of minimum 4.0 : 1;
Actual interest cover ratio is 5.6 and 5.4 for IHC Inc. S.A. and IHC Caland N.V. respectively.

The Group has no 'off-balance' financing through special purpose entities. All long-term debt is included in the Consolidated balance sheet.

20. Provisions

	Reorga- nisation	Deferred taxation	Pensions	Environ- mental liability	Total
Balance at 1 January	–	2,630	358	1,186	4,174
Additions	51,100	853	7	–	51,960
Release	–	–	(66)	–	(66)
Payments	(3,514)	–	(10)	–	(3,524)
Currency differences	4,993	748	68	244	6,053
Balance at 31 December	<u>52,579</u>	<u>4,231</u>	<u>357</u>	<u>1,430</u>	<u>58,597</u>

The provision for reorganisation costs relates in its entirety to the closure of van der Giessen-de Noord N.V., which is expected to be fully completed by mid 2004.

The provision for deferred taxation relates mainly to temporary differences.

The provision for environmental liability is related to the shipyards of the Group for future clean-up of soil contamination required under present legislation.

21. Investment premium equalisation account

	2003	2002
Balance at 1 January	8,011	7,315
Release	(7,185)	(527)
Currency differences	1,201	1,223
Balance at 31 December	<u>2,027</u>	<u>8,011</u>

The release of the investment premium equalisation account relates almost entirely to van der Giessen-de Noord N.V.

22. Liabilities

By business segment:	2003		2002	
		%		%
Offshore	1,688,347	81	1,323,527	82
Dredger / specialised shipbuilding	346,729	17	257,224	16
Holding	38,069	2	25,357	2
	<u>2,073,145</u>	<u>100</u>	<u>1,606,108</u>	<u>100</u>

23. Shareholders' equity

Reference is made to items 6. to 8. of the Notes to the Company balance sheet.

24. Commitments not provided in the balance sheet

Obligations in respect of rights of recourse amount to US\$ 6.9 million. These relate to medium-term debtors assigned to banks. Of these a total of US\$ 6.5 million is covered by credit insurance and bank guarantees.

The obligations in respect of operational lease, rental and leasehold obligations, are as follows:

				2003	2002
	< 1 year	1-5 years	> 5 years	Total	Total
Operational lease	5,810	3,904	–	9,714	13,173
Rental	8,789	25,701	23,346	57,836	56,755
Leasehold	656	2,478	10,253	13,387	14,760
	<u>15,255</u>	<u>32,083</u>	<u>33,599</u>	<u>80,937</u>	<u>84,688</u>

Under the terms of financing arrangements and as security for credit facilities made available to several subsidiaries, property of these Group companies has been mortgaged and movable assets and current assets have been given in lien to the Group's bankers.

25. Financial instruments**General**

Based on a financial policy agreed by the Board of Management together with the Supervisory Board, the Group uses several financial instruments in the ordinary course of business, which are either accounted for under assets and liabilities, or are not accounted for in the balance sheet.

Financial derivatives are not used unless there is a real business transaction.

In respect of controlling interest rate risk, interest rates of long-term loans are fixed for the entire maturity period. This is generally achieved by using derivatives, such as interest rate swaps. The revolving credit facility bears interest at floating rate, since this facility is intended for fluctuating needs of construction financing of F(P)SO's.

Considering the fluctuating cash flows as a consequence of the nature of the business, available cash funds are usually not invested for periods longer than one year.

In respect of controlling political and payment risk, the Group has a policy of thoroughly reviewing risks associated with contracts, either turnkey or long-term leases. Where political risk cover is deemed necessary and available in the market, insurance is obtained. In respect of payment risk, bank or parent company guarantees are negotiated with customers, and credit insurance is taken out by the Group's shipyards. Furthermore limited recourse project financing removes a large part of the risk on long-term leases. The Group reduces its exposures to the maximum extent possible.

Financial instruments accounted for in the balance sheet

Financial instruments accounted for under assets and liabilities relate to financial fixed assets, trade debtors, cash and cash equivalents as well as current liabilities and long-term debt. The estimated market value of these financial instruments at year-end equals the nominal value.

Financial instruments not accounted for in the balance sheet

The market value of forward foreign exchange contracts outstanding as at 31 December 2003, calculated at the exchange rates prevailing at the end of the financial year amounts to US\$ 399 million, and the nominal value of US\$ 367 million. Taking into account the currency losses already recognised in the Accounts, the remaining unrealised positive result amounts to US\$ 54 million.

The market value of the long-term debt portfolio, including related interest rate swaps that have been put in place, as at 31 December 2003 is US\$ 63 million lower than the nominal value.

Company balance sheet

in thousands of US dollars (before appropriation of profit)

	Notes	31 December 2003	31 December 2002
Fixed assets			
Tangible fixed assets	1	9,688	66
Financial fixed assets	2/5	768,659	667,912
		<u>778,347</u>	<u>667,978</u>
Current assets			
Receivables	3	6,145	1,070
Cash and cash equivalents		5,956	17,729
		<u>12,101</u>	<u>18,799</u>
Current liabilities			
	4	57,561	6,899
		<u>(45,460)</u>	<u>11,900</u>
Net current assets			
		<u>732,887</u>	<u>679,878</u>
Provisions			
	5/2	22,353	–
Shareholders' equity			
Issued capital	6	40,761	33,309
Share premium account	7	261,006	260,728
Other reserves	8	363,513	335,878
		<u>665,280</u>	<u>629,915</u>
[Proposed] dividend		45,254	49,963
		<u>710,534</u>	<u>679,878</u>
Capital employed			
		<u>732,887</u>	<u>679,878</u>

Company profit and loss account *

in thousands of US dollars

	Notes	2003	2002
Company result		(3,709)	(2,178)
Results Group companies	2	50,318	79,570
		<u>46,609</u>	<u>77,392</u>
Net profit			

* The Company profit and loss account is abridged in accordance with Article 402, Part 9 of Book 2 of the Netherlands Civil Code.

Notes to the Company balance sheet

1. Tangible fixed assets

	Land and buildings	Other fixed assets	Total
Balance at 1 January			
Cost	–	262	262
Accumulated depreciation	–	(196)	(196)
Book value	–	66	66
Movements			
Investments	10,312	13	10,325
Disposals	(662)	–	(662)
Depreciation	–	(41)	(41)
	9,650	(28)	9,622
Balance at 31 December			
Cost	9,650	275	9,925
Accumulated depreciation	–	(237)	(237)
Book value	9,650	38	9,688

The investments in land and buildings relates to assets acquired from a Group company, on an arms length transaction.

2. Financial fixed assets

	2003	2002
Participations in Group companies	765,455	665,253
Amounts owed by Group companies	3,204	2,659
	768,659	667,912

The movements in the item 'Participations in Group companies' are as follows:

Balance at 1 January		
Participations in Group companies		665,253
Provisions		–
		665,253
Movements		
Results		50,318
Dividends		(12,848)
Currency differences		12,677
		50,147
Balance at 31 December		
Participations in Group companies		765,455
Provisions		(50,055)
		715,400

3. Receivables		2003	2002
	Amounts owed by Group companies	4,101	289
	Other debtors	2,044	781
		<u>6,145</u>	<u>1,070</u>
4. Current liabilities			
	Amounts owed to Group companies	30,054	5,263
	Taxation and social security costs	25,478	894
	Other creditors	2,029	742
		<u>57,561</u>	<u>6,899</u>
5. Provisions			
	Participation in Group company	50,055	–
	Amounts owed by Group company	(27,702)	–
		<u>22,353</u>	<u>–</u>

This item relates in its entirety to van der Giessen-de Noord N.V.

6. Share capital

The authorised share capital amounts to € 100,000,000.– divided into 50,000,000 ordinary shares and 50,000,000 preference shares, each of € 1.–.

During the financial year 21,450 new ordinary shares were issued in respect of the exercise of employee share options.

The total number of ordinary shares outstanding at the end of the year was 32,324,430, of which 10,500 were held by Managing Directors.

	2003	2002
Balance at 1 January	33,309	27,958
Stock dividend	494	245
Share options exercised	24	170
Currency differences	6,934	4,936
	<u>40,761</u>	<u>33,309</u>
Balance at 31 December		

In 1991 the Supervisory Board of the Company introduced a share option plan for the Board of Management, and the management and senior staff of Group companies. Around one hundred employees participate in this plan, which determines the annual issue of options based on the preceding year's financial results and individual performance.

All options are issued at market price on the date of issue and can be exercised for a period of five years from the date of issue, from 2001 onwards with a vesting period of three years. This date of issue is the date on which the Supervisory Board adopts the Annual Accounts of the Company or the date of the Annual General Meeting of Shareholders, if shareholder approval is required.

Since 1 April 1999 rules of conduct with regard to inside information are in place to ensure compliance with the 'Wet Toezicht Effectenverkeer 1995'. These rules forbid e.g. the exercise of options during certain periods defined in the rules and more specifically when the employee is in possession of price sensitive information. The Chief Financial Officer of the Group is the Compliance Officer in this respect.

During the financial year 310,000 share options were issued. The opportunity cost of options exercised during 2003 (being the difference between market value and strike price at the time of exercise) amounts to US\$ 0.3 million.

Details of options outstanding at year-end are as follows:

Year of issue	Number	Strike price	Expiry date
1999	148,400	33.00	9 April 2004
2000	251,100	44.70	31 March 2005
2001	274,770	57.00	30 March 2006
2002	307,500	55.50	4 April 2007
2003	310,000	39.22	23 April 2008
	<u>1,291,770</u>		

The table below summarises the share options of each Managing Director:

	1 January	Issued	Expired	31 December
J.J.C.M. van Dooremalen	73,200	20,000	(3,200)	90,000
G. Docherty	69,000	15,000	(9,000)	75,000
D.H. Keller	61,000	15,000	(6,500)	69,500
	<u>203,200</u>	<u>50,000</u>	<u>(18,700)</u>	<u>234,500</u>

7. Share premium account

	2003	2002
Balance at 1 January	260,728	215,354
Stock dividend	(494)	(245)
Share options exercised	772	6,990
Currency differences	–	38,629
Balance at 31 December	<u>261,006</u>	<u>260,728</u>

The share premium account is fully available for distribution free of taxes for private investors, and amounts to € 249.7 million.

8. Other reserves

Balance at 1 January	335,878	276,377
Dividend re share options exercised	–	(229)
Dividend retention re stock dividend	21,124	14,302
Corporate income tax	2,865	–
Currency differences	2,291	17,999
[Proposed] appropriation of profit	1,355	27,429
Balance at 31 December	<u>363,513</u>	<u>335,878</u>

9. Commitments not provided in the balance sheet

The Company has issued performance guarantees for contractual obligations to complete and deliver projects in respect of several Group companies, and fulfilment of obligations with respect to F(P)SO long-term lease/operate contracts. Furthermore the Company has issued parent company guarantees in respect of several Group companies' financing arrangements.

The Company is head of a fiscal entity in which almost all Dutch Group companies are included. This means that these companies are jointly and severally liable in respect of the fiscal entity as a whole.

Schiedam, 26 March 2004

Board of Management

J.J.C.M. van Dooremalen, President, CEO
 G. Docherty, Managing Director, CFO
 D.H. Keller, Managing Director, Offshore
 F. Blanchelande
 D.J. van der Zee

Supervisory Board

A.P.H. van Baardewijk, Chairman
 A.G. Jacobs, Vice-Chairman
 J.D.R.A. Bax
 D.J.C.N. Goguel-Nyegaard
 R.H. Matzke
 H.C. Rothermund

Appropriation of profit

With regard to the appropriation of profit, article 22 of the Articles of Association states:

1. When drawing up the accounts, the Board of Management shall charge such sums for the depreciation of the Company's fixed assets and make such provisions for taxes and other purposes as shall be deemed advisable.
2. From the profit shown in the approved accounts, insofar as this is adequate, a sum equivalent to the undermentioned percentage of the nominal sum paid up on preference shares will first be paid to holders of these shares. The aforesaid percentage is equal to the weighted average of 12 month Euribor during the financial year in which the preference shares were outstanding or the part of the financial year in which the preference shares were outstanding, increased by a margin of two hundred (200) basis points. No further sum from the profit will be paid to holders of preference shares.
3. The Board of Management shall be empowered, subject to the approval of the Supervisory Board, to determine each year the portion of the profit to be transferred to the reserves after the provisions of the preceding clause have been met.
4. From the balance of the profit then remaining, the holders of ordinary shares shall, if possible, receive a dividend of four per cent on the nominal value of their shareholding.
5. The residue of the profit shall be at the disposal of the General Meeting of Shareholders.
6. The General Meeting of Shareholders will only be allowed to resolve to distribute any reserves on the proposal of the Board of Management, with the approval of the Supervisory Board.

With the approval of the Supervisory Board, it is proposed that the net profit shown in the Company profit and loss account be appropriated as follows (in US\$):

Net profit	46,609,000
In accordance with Article 22 clause 3 to be transferred to Other reserves	1,355,000
Remains	45,254,000
In accordance with Article 22 clause 4 holders of ordinary shares will receive a dividend of 4% on the nominal value of their shares i.e. 4% of € 32,324,430	1,630,000
At the disposal of the General Meeting of Shareholders	43,624,000

Pursuant to the provisions of Article 22 clause 5 of the Articles of Association, it is proposed that the balance be distributed among the shareholders. The dividend may be fully paid in the form of either cash or shares (stock dividend) at the shareholder's option. Full details are given in the Agenda for the General Meeting of Shareholders of IHC Caland N.V. to be held on 14 May 2004, under agenda item number 4 and in the notes thereto.

Auditors' report

Introduction We have audited the financial statements of IHC Caland N.V., Schiedam, for the year 2003. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2003 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Rotterdam, 26 March 2004

KPMG Accountants N.V.

Key figures

in millions of US dollars, unless stated otherwise

	Notes	2003	2002	2001	2000	1999
Value of production		2177.8	1972.8	1106.9	964.5	1338.0
Net turnover (delivered orders)		1848.7	929.5	917.3	820.5	1362.5
New orders		1392.3	1858.4	1973.5	1309.5	887.6
Order portfolio at 31 December		4760.1	5074.4	3880.9	2847.0	2483.3
Results						
Net profit		46.6	77.4	71.8	70.8	70.1
Dividend		45.3	50.0	38.0	36.1	35.5
Shareholders' equity at 31 December		710.5	679.9	553.5	406.0	378.7
Cash flow		201.4	175.3	159.0	158.0	139.3
Investments in tangible fixed assets		530.0	701.3	200.2	191.0	247.7
Depreciation and amortisation		154.8	97.9	87.2	87.2	69.1
Number of employees (average)		4235	4151	3798	3520	3290
Wages and salaries, social security costs		279.4	233.9	181.4	162.0	172.5
Ratios (%)						
Shareholders' equity : net assets		35	40	59	50	52
Current ratio		101	116	103	102	123
Return on average capital employed		5.5	8.2	13.4	13.3	14.9
Return on average equity		6.7	12.5	16.9	19.5	20.9
Operating profit : net turnover		3.5	8.9	11.0	11.4	6.4
Net profit : net turnover		2.5	8.3	7.8	8.6	5.1
Cash flow : average equity		29	28	36	42	40
Cash flow : average capital employed		11	14	20	21	23
Net long-term debt : shareholders' equity		150	115	36	37	36
Shareholders' equity : value of production		33	34	50	42	28
Shareholders' equity : new orders		51	37	28	31	43
Information per share (US\$)						
Net profit	1	1.45	2.44	2.46	2.52	2.54
Dividend		1.40	1.57	1.21	1.28	1.28
Shareholders' equity at 31 December	2	21.98	21.33	17.62	14.41	13.69
Cash flow	1	6.27	5.53	5.44	5.62	5.04
Share price (€) – 31 December		43.00	50.30	52.50	50.00	36.25
– highest		52.25	64.95	65.50	61.40	49.20
– lowest		33.53	41.32	40.60	31.00	26.40
Price / earnings ratio	2	37.4	21.5	19.0	18.7	14.4
Net profit : market capitalisation at 31 December (%)		2.7	4.6	4.9	5.3	6.9
Number of shares issued (x 1,000)		32324	31868	31414	28185	27666
Market capitalisation (US\$ mln)		1752.7	1675.4	1467.8	1327.7	1013.9
Turnover by volume (x 1,000)		42858	26893	27342	24209	29200
Number of options exercised		21,450	188,475	132,300	241,550	156,425
Number of shares issued re stock dividend		434,662	265,991	243,728	277,302	357,906

Where (significant) changes in accounting principles occurred during this five year period, previous years have been restated for comparison.

1 Based upon weighted average number of shares.

2 Based upon number of shares outstanding at 31 December.

Design
Niek Wensing
Huis ter Heide

Photography
Group companies
IHC Caland N.V.

*Lithography
and printing*
B.V. Drukkerij
De Eendracht
Schiedam

Binding
Boekbinderij
Van der Kaay/Coninck
Zoetermeer

This Annual Report
is printed on paper
without the use
of chlorine.
It is biodegradable
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IHC Caland N.V.

Postal address

P.O. Box 31
3100 AA Schiedam
The Netherlands

Visitors address

Karel Doormanweg 66
3115 JD Schiedam
The Netherlands

Telephone (+31) 10 2320900
Telefax (+31) 10 2320999
E-mail ihcc@ihccaland.nl

Full information regarding
IHC Caland is available
on the Company's website
at www.ihccaland.nl