

ANNUAL REPORT 2004



FORMERLY

IHC CALAND

TECHNOLOGY CREATING VALUE



Mission Statement

The mission of SBM Offshore N.V. is to create value for its stakeholders through the delivery of reliable and cost effective solutions to the global offshore oil and gas industry. The Group's objective is to be consistently at the forefront of technology development for innovative solutions to maintain and reinforce its leading position in the world market.

Corporate profile

SBM Offshore N.V. (SBM Offshore), formerly IHC Caland N.V., is a multinational group of companies selling systems and services to the oil and gas industry. The Group's clients are mainly the offshore oil and gas producing companies both private and government owned, and its market position has been established in a strongly competitive environment. SBM Offshore operates through five fully owned operating units that are among the leaders in their respective niche markets. The Group has activities in twenty one countries and employs directly and indirectly 2,500 people.

Product line

SBM Offshore activities include the engineering, supply and offshore installation of floating facilities for the production, storage and export of crude oil and gas. These comprise Floating Production Storage and Offloading systems (FPSOs), Floating Storage and Offloading systems (FSOs), Tension Leg Platforms (TLPs), Floating Production Units (FPU) of all types including both monohull and semi-submersible as well as self elevating Mobile Offshore Production Units (MOPUs).

SBM Offshore was the pioneer in 1979 offering an integrated oil and gas production service through the investment in F(P)SOs for its own account and the leasing and operation of the facility offshore. Today, this concept has generally been accepted as advantageous by most of the oil companies, particularly in deep waters and this business is a major component of the Group's activity with a portfolio of eighteen long-term lease and operate contracts.

Included in the product line are all the systems, mostly based on the Single Point Mooring principle, used to moor crude oil and gas carriers in open seas for the purpose of loading or offloading cargoes. Derived from the same technology, the complex mooring systems to keep floating facilities on station on the production sites are also a core product of the Company; they are of various types such as fixed heading or weathervaning, permanent or disconnectable.

Besides these activities, the Group provides design and engineering services sometimes combined with the supply of critical components for crane vessels, pipelay barges and drilling units of all types, such as monohull, jack-up and semi-submersible.

Another steady activity in the wake of all the above which represents quite a substantial element in the Group business is the provision of specialized services such as maintenance, spare parts, repairs and offshore installation. They are an essential complement to the sales of facilities, offering to clients a comprehensive and integrated service.

NKI Group N.V., providing equipment for airport infra-

structure remains after the sale of the shipyards the only operating unit of the Group with activities outside the core business of SBM Offshore. It is the intention to divest this unit in the short to medium term.

Strategy and organisation

In respect of both the sales of facilities and lease and operate activities, there is a set of centrally agreed and controlled financial and strategic rules and procedures. Within these limits, each operating unit markets its products and services independently, and under its own identity. At the same time, the operating units make extensive use of each others' core skills and resources, common market knowledge, and network of clients, suppliers and strategic project partners. The corporate culture is characterised by market-oriented innovation. SBM Offshore 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, it 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. SBM Offshore operates from three main centres: Engineering and Project Management resources are located in Monaco, Schiedam and Houston. The operation of the leased units is managed and supported from Monaco. Beyond these three main centres, there are permanent establishments in eighteen countries for regional marketing and sales, local management of offshore operations and construction activities.

Added value

For clients, the supply of high quality maritime technology and services, creating maximum value, is fundamental in the strategy of SBM Offshore. Flexibility and efficiency in combining its own knowledge and skills with those of partners can provide comprehensive one-stop shop solutions when clients so desire.

For shareholders, SBM Offshore pursues a long-term return substantially higher than its cost of capital. Although certain sectors where it operates have an irregular character, both the long-term contracts for lease of the Group's F(P)SOs and the after sales service activities contribute to a reasonably stable and predictable earnings profile.

For employees, SBM Offshore seeks to be a good employer, offering security, attractive remuneration and opportunities for professional and personal advancement.

In the design of facilities and in their operation at sea, the Group places the consideration for Health, Safety and Environmental Protection at the highest level. The Group Management System defines the rules, the personnel accountability and the controls and reflects the collective commitment to the highest HSE standards.



*Atlantia's Matterhorn Sea Star® TLP
in operation in the Gulf of Mexico for Total*

Contents

The change in the structure of the Group resulting from the split-off of the shipbuilding activities early 2005 is reflected in this report in the following manner:

The report presents for 2004 the facts and the financial results of the whole Group including the shipbuilding activities.

The definition of the Company, the market analysis and other forward oriented considerations are offshore oil and gas related only.

| | |
|--|-----------|
| Snapshot 2004 | 4 |
| Overview 2005 | 5 |
| Five years key graphics | 6 |
| Shareholder information | 7 |
| Report of the Supervisory Board | 8 |
| Remuneration Report | 10 |
| Report of the Board of Management | 13 |
| Introduction | 13 |
| Split-off of Shipbuilding | 14 |
| Developments 2004 | 15 |
| The Future | 20 |
| Research and Development | 25 |
| Business Drivers and Competitive Position | 29 |
| Risk and Control | 30 |
| Sustainable Development | 33 |
| Health and Safety | 34 |
| Human Resources | 35 |
| Corporate Governance | 37 |
| Developments in operating units | 39 |
| Financial Review | 49 |
| Financial Statements 2004 | |
| Consolidated profit and loss account | 56 |
| Consolidated balance sheet | 57 |
| Consolidated statement of cash flows | 58 |
| Accounting principles | 59 |
| Notes to the Consolidated Financial Statements | 62 |
| Company balance sheet | 73 |
| Company profit and loss account | 73 |
| Notes to the Company Financial Statements | 74 |
| Other information | 78 |
| Appropriation of profit | 78 |
| Auditors' report | 78 |
| Key figures | 79 |

Glossary

A technical glossary is available with this Annual Report 2004. Updates of the glossary will be made on a bi-annual basis, with the latest version available on the Company's website.

Snapshot 2004

| Item (US\$ mln.) | 2003 | 2004 | Movement | % | Comment |
|--------------------------|---------|----------------|----------|--------|---|
| Net profit | 46.6 | 46.8 | 0.2 | 0.4 | Shipbuilding impairment |
| Per share (US\$) | 1.45 | 1.42 | (0.03) | (2.1) | Shipbuilding impairment |
| EBIT | 64.4 | 122.5 | 58.1 | 90.2 | Improved operational profit |
| EBITDA | 219.2 | 318.1 | 98.9 | 45.1 | Increasing depreciation |
| Enterprise value (EV)* | 2,819.8 | 3,317.1 | 497.3 | 17.6 | Market capitalisation increasing |
| EV : EBITDA | 12.9 | 10.4 | (2.5) | (19.4) | Higher EBITDA |
| Turnover | 1,848.7 | 1,318.6 | (530.1) | (28.7) | Low turnkey deliveries in offshore |
| EBIT : Turnover (%) | 3.5 | 9.3 | 5.8 | | EBIT up: Turnover down |
| Cash flow | 201.4 | 242.3 | 40.9 | 20.3 | Increasing depreciation |
| Per share (US\$) | 6.27 | 7.33 | 1.06 | 16.9 | Increasing depreciation |
| Net cash, securities | 167.3 | 145.2 | (22.1) | (13.2) | Healthy level |
| Capital expenditure | 530.0 | 240.8 | (289.2) | (54.6) | Lease fleet construction slowed |
| Equity | 710.5 | 747.8 | 37.3 | 5.2 | Net profit low |
| Capital employed | 2,005.2 | 2,089.0 | 83.8 | 4.2 | Growing lease fleet |
| ROCE (%) | 5.5 | 5.5 | - | | Shipbuilding impairment |
| Net Debt : Equity (%) | 150 | 159 | 9 | | Full debt burden on Sanha FPSO |
| EBITDA interest cover** | 5.4 | 6.1 | 0.7 | 13.0 | Higher EBITDA |
| Net Debt : EBITDA** | 3.8 | 3.1 | (0.7) | (18.4) | Improved with lease fleet additions |
| New orders | | | | | |
| - Offshore | 990.6 | 1,426.9 | 436.3 | 44.0 | Late recovery in market |
| - Dredger/shipbuilding | 401.7 | 462.8 | 61.1 | 15.2 | Dredgerbuilding still slow |
| Backlog | | | | | |
| - Offshore | 4,034.0 | 4,731.1 | 697.1 | 17.3 | Improved order intake / delayed completions |
| - Dredger/shipbuilding | 726.1 | 643.3 | (82.8) | (11.4) | Delivery of major orders / low order intake |
| Share price 31/12 (€) | 43.00 | 46.74 | 3.74 | 8.7 | Outperformed AEX by 5% |
| AEX-index | 337.0 | 348.1 | 11.1 | 3.3 | |
| Market capitalisation | 1,752.7 | 2,130.1 | 377.4 | 21.5 | Share price increase and €/US\$ movement |
| Proposed dividend (US\$) | 1.40 | 1.70 | 0.30 | 21.4 | 50% of 'operational' profits |

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

** Excluding items of an extraordinary nature



The FPSO Marlim Sul started oil production for Petrobras in June 2004



The Sanha LPG FPSO, the first floating offshore facility for production, liquefaction, storage and export of Butane and Propane

Overview 2005

The Group's restructuring was successfully completed early 2005 through the sale of the Shipbuilding division and it is now operating as a pure play Offshore Oil and Gas Services company.

Market conditions

The demand for SBM Offshore products was low for a period of eighteen months beginning early 2003. As predicted, an up-cycle started again mid-2004 and is likely to stay at a high level for the foreseeable future.

Indeed, the increasing demand for energy particularly from the fast growing Asian economies has contributed to a steep rise of hydrocarbon prices. It is expected that this will continue through an extended period of many years. It will place more emphasis on the development of deepwater oil and gas reserves under favourable economics.

The portfolio of orders obtained at the time of writing this report is close to filling the capacity of all the Group companies for the whole year. The respective managements are actively expanding resources to take advantage of more opportunities coming up during 2005.

The Group considers that five or possibly six FPSOs on lease basis should be awarded by the industry in 2005. The market for the supply of facilities, particularly from

Atlantia's product line, also presents several serious projects, while the Group's parts and services activities should continue to grow their contribution.

Furthermore, it is obvious that the gas industry has definitely turned around as more and more energy consumers see it as an indispensable fuel alternative. In this sector, the Group should find opportunities for its technology and is actively preparing itself for this with the firm intention to secure a place among the key players in the near future.

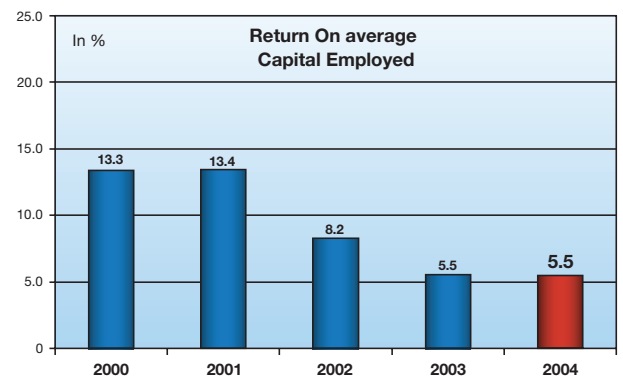
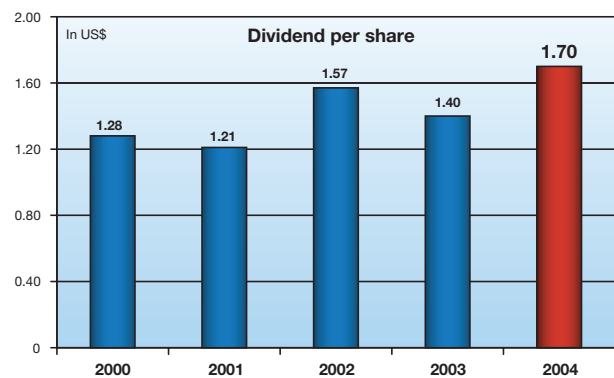
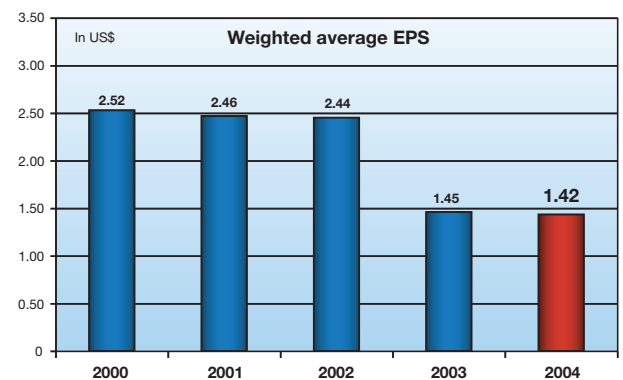
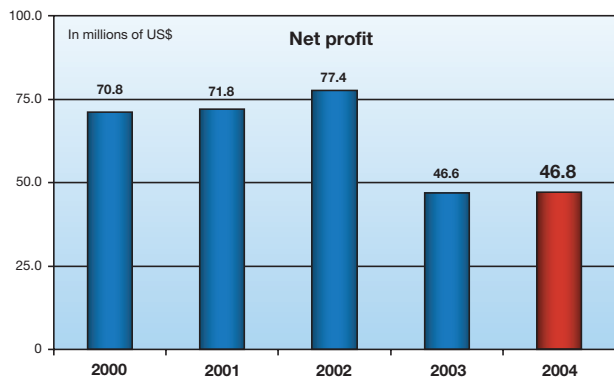
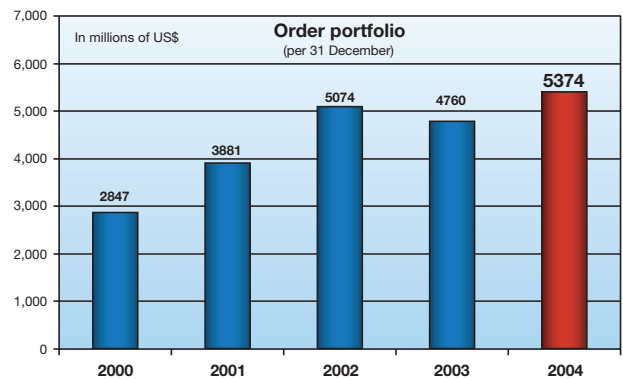
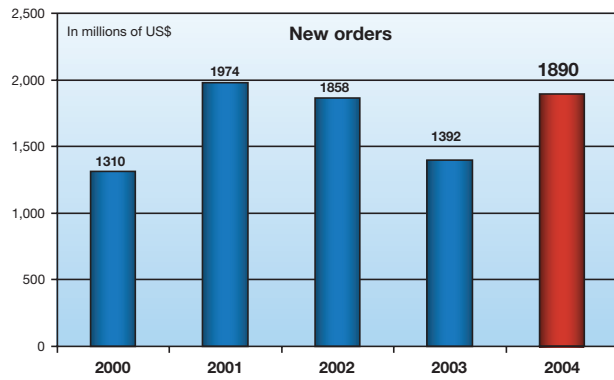
Financial

The Group's projected net profit for 2005 under IFRS is US\$ 125 million. No residual impact from the disposal of the Shipbuilding division is expected. It is estimated that under Dutch accounting principles, the 2005 net profit would have been US\$ 135 million.

The fleet of leased FPSOs and FSOs is expected to generate about 75% of the total net profit and close to 90% of cashflow. The year begins with eleven FPSOs and three FSOs in operation. Two more units will be added during the year with the start-up of the Sanha LPG FPSO and the Extended Well Test system for Turkmenistan.

Turnkey project revenues and profits will be recognised on a percentage of completion basis for the first time in 2005 and gross profits will therefore depend for a significant element on new order intake.

Five years key graphics



Shareholder information

Share Listing

The shares of IHC Caland N.V. (par value € 1) are listed on the stock exchange of Amsterdam since 11 October 1965 and are since 4 March 2003 included in the AEX Index of Euronext Amsterdam. Out of the 24 participants in the index, the Company ranked at year-end 2004 19th on the basis of market capitalization, and 22nd on the basis of turnover, with a weighting of 0.62%. Following the name change of the Company into SBM Offshore N.V. the shares will be listed and traded under the new name from 2 May 2005.

Options on IHC Caland shares have been traded since 7 July 1993. As per 2 May 2005 the options will be converted into options on SBM Offshore N.V. shares and trading continues under the new name on the Euronext Amsterdam Derivative Markets.

Share price development

The share price went up during the year by 8.7% from € 43.00 to € 46.74, thereby outperforming the AEX by 5%, compared with an underperformance of 19% in 2003. In US Dollar terms the increase of the share price was more significant, from US\$ 54.22 to US\$ 63.47, or 17%.

Dividend

As last year, the annual dividend will be calculated in US Dollars, but will be payable in Euros at the exchange rate on 20 May 2005. The same exchange rate will apply in the event a shareholder chooses for a dividend payment in shares of SBM Offshore. Based on the year-end closing price, the proposed dividend of US\$ 1.70 per share gives a yield of 2.7% per share (2003 - 2.6%).

Number of outstanding ordinary shares

The total number of ordinary shares in IHC Caland showed the following movements during the year 2004:

| | |
|--|------------|
| Balance 1 January 2004 | 32,324,430 |
| Stock dividend | 425,876 |
| New shares for financing cash dividend | 656,551 |
| Options exercised | 148,400 |
| Bonus shares | 3,721 |
| Balance 31 December 2004 | 33,558,978 |

Full information regarding the number of shares in issue and various statistics per share can be found in the Notes to the Financial Statements.

Shareholders

SBM Offshore shares are currently bearer shares, so no detailed register of shareholders is available to the Company. However, according to information provided by the largest banks and financial institutions, the shares are mainly in the hands of institutional investors, of whom the large majority is Anglo-American.

Currently only one institutional investor, Capital Income Builder from the United States of America has, as required under the Major Holdings in Listed Companies Disclosure Act, disclosed an interest in the capital of SBM Offshore in excess of 5%.

Employees of the Group own approximately 205,000 shares in SBM Offshore through an Employee Share Ownership Plan (ESOP).

The revised Articles of Association adopted by the Extraordinary General Meeting of 11 February 2005 provided the Company with the option to dematerialise its shares and it is the Company's intention to effect this change in conjunction with its change of name.

Financial

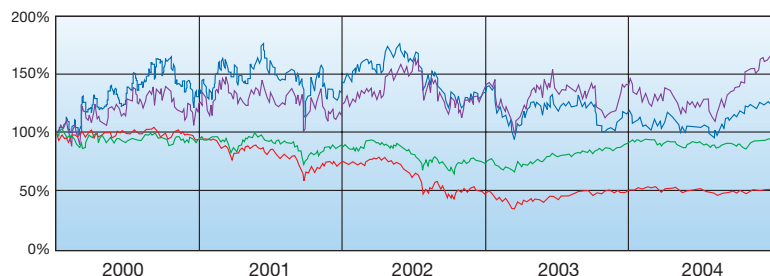
Average daily liquidity in 2004 amounted to around 235,000 shares, which is equivalent to 180% of average outstanding shares on an annual basis.

Market capitalisation at 31 December 2004 was € 1,568 million compared with € 1,390 million at the end of 2003, an increase of 12.8%. The equivalent figures in US Dollars show a market capitalisation at the end of 2004 of US\$ 2,130 million, up by 21.5% from US\$ 1,753 million at 31 December 2003.

| Year | Turnover by volume | % Share capital | Highest share price in Euros | Lowest share price in Euros | Closing share price in Euros | Closing share price in US\$ |
|------|--------------------|-----------------|------------------------------|-----------------------------|------------------------------|-----------------------------|
| 2000 | 24,208,898 | 86.82 | 61.40 | 31.00 | 50.00 | 47.11 |
| 2001 | 27,342,047 | 93.68 | 65.60 | 40.60 | 52.50 | 46.73 |
| 2002 | 26,892,853 | 83.64 | 64.95 | 41.32 | 50.30 | 52.57 |
| 2003 | 42,956,586 | 133.59 | 52.25 | 33.53 | 43.00 | 54.22 |
| 2004 | 59,305,043 | 179.69 | 47.08 | 33.56 | 46.74 | 63.47 |

Relative Performance

■ IHC Caland (€)
■ IHC Caland (US\$)
■ AEX Index
■ Dow Jones Index



Report of the Supervisory Board

We hereby present to you the Financial Statements for the year 2004, to be discussed and approved in the Annual General Meeting of Shareholders on Friday, 20 May 2005. The Financial Statements 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 Financial Statements.

A proposal is made by the Board of Management in the Financial Statements in respect of distribution of profit, including a cash dividend of US\$ 1.70 per ordinary share. At the choice of the shareholder, the dividend can also be received in shares, with a small conversion premium for shareholders selecting this option.

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 Financial Statements.

In the Annual General Meeting of Shareholders we will ask you to approve the Financial Statements, and the proposal in respect of allocation of profit. Thereafter we will ask you to grant discharge to the Managing Directors for the exercise of their functions, and the Supervisory Board for the supervision they have performed in the year 2004. As a new item this year we will also request your approval of the Company's remuneration policy.

2004

2004 was a historic year for the Company in respect of the sale of the shipbuilding division, from which the current offshore oil and gas activities of the Group were originally born. The split-off process, which was already announced in 2003, began in the spring of 2004 with vendor due diligence work and information memorandum preparation, followed by receipt of non-binding offers in the summer. The decision to proceed with the sale (rather than to pursue a separate listing for the shipyards) was approved by the Supervisory Board in August 2004, and after difficult negotiations, due in part to the depressed dredgerbuilding market in 2004, heads of agreement were signed with Rapar (the private equity branch of Rabobank) in December 2004.

The share purchase agreement was signed mid January 2005 and the transaction was closed on 1 March 2005 after receipt of approvals from the Extraordinary General Meeting of IHC Caland Shareholders held on 11 February 2005, the Works Councils and the European Commission. The buying consortium comprised Rapar (49%), management and employees (33%) and Parkland, a part of the Indofin group (18%). The shipbuilding activities accordingly remain under Dutch ownership and this was considered to be one of the keys to successfully concluding the transaction. The Supervisory Board is

confident that in the circumstances the Company obtained the best deal available. The Supervisory Board extends its thanks to the Management and close to 2,000 employees of the IHC Holland and Merwede shipyards for their contributions to the Group and wishes them well for the future under the new ownership structure.

The level of activity within the Group was lower than in 2003 due to the low construction workload brought forward, and the continuing slow demand for both the offshore and dredgerbuilding products during the first half-year. Nevertheless the 2004 operational results (before the exceptional charge relating to the sale of shipbuilding) improved over the 2003 figures due to the enlarged FPSO/FSO lease fleet and the return to profitability of the shipyards.

During the second half-year order intake accelerated sharply. In particular, Atlantia secured a major order mid year which reassured the Supervisory Board since the niche market in which this company plays had been slow for more than two years.

Meetings of the Supervisory Board

In 2004 the Supervisory Board met seven times. This included two extraordinary meetings connected with review and approval of the shipbuilding sale progress. The members of the Board of Management attended all meetings. Each of the five regular meetings began with a session without the presence of the Board of Management during which several subjects including the performance of the Supervisory Board and its members, and the performance of the Board of Management and its members were discussed. The external auditor attended the meeting of the Supervisory Board in which the annual accounts were discussed. The external auditor informed us that there were no issues that required discussion without the Board of Management being present.

During the year none of the members of the Supervisory Board was frequently absent.

Composition of the Supervisory Board

The profile of the Supervisory Board, the division of duties within the Supervisory Board and the procedures of the Supervisory Board have been laid down in a set of regulations, which has also been published on the website of the Company. Following the discussion of the performance of the Supervisory Board and of its individual members, no changes in the composition of the Supervisory Board were deemed to be necessary.

As reported last year Mr. D.J.C.N. Goguel-Nyegaard stepped down from the Supervisory Board at the 2004 Annual General Meeting and Mr. L.J.A.M. Ligthart was appointed to the Supervisory Board. In 2005 Mr. van Baardewijk, Chairman of the Board since 2003, will retire

by rotation after the Annual General Shareholders' Meeting. 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. Mr. H.C. Rothermund will replace Mr. van Baardewijk as Chairman of the Supervisory Board for the remainder of his current term of office.

The Supervisory Board discussed which members during their term of office would require further training or education. For Mr. Ligthart, a special induction programme was set up, covering the general financial and legal affairs, financial reporting by the Company and specific aspects that are unique to the Company and its business activities. This programme included visits to the Company's operational centres in Monaco, Houston and Schiedam.

Composition of the Board of Management

There were two changes in the composition of the Board of Management during the year. The first change was Mr. G. Docherty, who as reported last year, retired at the 2004 Annual General Meeting. The Supervisory Board wishes him a long and happy retirement. Mr. M.A.S. Miles was duly appointed as a non-statutory director and Chief Financial Officer. The second change was Mr. J.J.C.M. van Dooremalen who stepped down as CEO of the Board of Management in connection with the sale of the Dutch shipyards, in which Mr. van Dooremalen had a conflict of interest as a consequence of his willingness to manage the shipyards. The President of the Board of Management since 9 August 2004 is Mr. D. Keller. Mr. J.J.C.M. van Dooremalen has subsequently resigned as a Managing Director of the Company with effect from 1 March 2005 being the closing date of the sale of the shipyards. The Supervisory Board thanks him for his contribution during his thirty-four years with the Group and his four years as CEO.

Activities of the Supervisory Board

The areas which the Supervisory Board follows particularly closely include:

- achievement of the Company's objectives.
- corporate strategy and risks inherent in the business activities.
- structure and operation of the internal risk management and control systems.
- financial reporting process.
- compliance with legislation and regulations.
- performance of the Board of Management, its remuneration and succession plan.

In accordance with the corporate governance code the Supervisory Board has set up three committees which report their findings to the full Supervisory Board on a regular basis. The three committees, of which summary reports are included below are:

- Audit Committee
- Remuneration Committee
- Selection and Appointment Committee

During the year the Supervisory Board hired an external advisor in relation to the process of the sale of the shipyards.

The rules of the corporate governance code regarding conflicts of interest are complied with by both the Supervisory Board and by the Board of Management. In the last year there have been no such conflicts of interest for the members of the Supervisory Board. In the Board of Management, the only conflict of interest was that of Mr. van Dooremalen; it has been properly dealt with as explained above during the shipbuilding sale process.

Audit Committee

The Audit Committee's members are:

- A.G. Jacobs, chairman and financial expert in the Supervisory Board
- J.D. Bax
- H.C. Rothermund.

The Audit Committee met five times in 2004 with all members present. All meetings were attended by members of the Board of Management and the external auditor. On each occasion a discussion was held with the external auditor without the Board of Management being present.

The main items that were discussed during the year were:

- operation of the internal risk management and control systems, including a detailed risk evaluation of the FPSO fleet.
- provision of financial information by the Company (preparation and publication of the annual report, the Financial Statements, the half yearly figures and ad hoc financial information, choice of accounting policies, application and assessment of the effects of IFRS, information about the handling of estimated items in the Financial Statements, budgets and forecasts, etc).
- reports of external auditors.
- compliance with recommendations and observations of internal and external auditors.
- policy of the Company on tax planning.
- relations with the external auditor, including, in particular, his independence, remuneration and any non-audit services for the Company. By virtue of the small proportion of non-audit related work performed for the Company in 2004 the external auditor was concluded to be independent.
- financing of the Company, including bank covenant compliance and balance sheet gearing.
- applications of information and communication technology (ICT).

Remuneration Committee

The Remuneration Committee consists of:

- A.G. Jacobs, chairman
- A.P.H. van Baardewijk.

This Committee met three times during the year. The main items that were discussed were the remuneration policy and the implementation thereof, as set out in the Remuneration Report below.

Selection and Appointment Committee

The Selection and Appointment Committee consists of:

A.P.H. van Baardewijk, chairman
A.G. Jacobs

The Committee met three times during the year. The main items discussed were the selection of future members of the Supervisory Board, the composition of the Board of Management after the sale of the shipyards and the succession plan for the Board of Management.

In conclusion

All in all the Supervisory Board's activities have been intensified as a result of the introduction of the corporate governance code. This does not only concern the initial implementation of the code and the manner in which the Company deals with the principles and best practice provisions, but it also means that ongoing activities and responsibilities have been intensified and are expected to further intensify in the future.

Schiedam, 1 April 2005

Supervisory Board

A.P.H. van Baardewijk, Chairman
A.G. Jacobs, Vice-Chairman
J.D. Bax
R.H. Matzke
H.C. Rothermund
L.J.A.M. Ligthart

Remuneration Report

Remuneration Policy

The remuneration policy of the Company has been designed to ensure that the Managing Directors receive for their work a remuneration package which enables qualified and expert persons to be promoted, retained and recruited if necessary.

Remuneration consists of a fixed and a variable part. The fixed part has been established with the aid of external experts and reflects the activities of the Company and the need to attract internationally oriented and qualified managers with potential to develop into director positions.

The variable part is linked to achievement of previously determined, measurable and influenceable targets, and is designed to strengthen the Managing Directors' commitment to the Company and its objectives. It does not encourage them to act in their own interests and neglect the interests of the Company. The variable remuneration consists of:

- A bonus payable partly in cash and partly in Company shares, of which 50% are awarded subject to a three-year vesting period in the Company's employment.
- Options on the Company's shares, with the number of options granted each year being determined by the Supervisory Board. The vesting period for options granted is also three years.

The Managing Directors participate in defined benefit pension schemes which provide for retirement at 62 years of age with a pension calculated on the basis of the number of years of service.

A revision of this policy, incorporating a modification of the share option element of variable remuneration will be submitted for adoption to the Annual General Meeting of Shareholders.

Implementation of Remuneration Policy

The remuneration policy is partly determined by comparison with a peer group consisting of European oil service contractors. The fixed element of the Managing Directors' remuneration was increased in 2004 in line with inflation. That of Mr D. Keller was adjusted as of 9 August 2004, when he took over the CEO position from Mr. J.J.C.M. van Dooremalen.

The bonus is performance related, based upon the previous year's Economic Profit (Return On Capital Employed exceeding an assumed Weighted Average Cost of Capital of 8%). The bonus is payable 80% in cash and 20% in ordinary shares. In addition, and upon completion of a vesting period of three years within the Group's employment, an equal number of 'matching'



FPSO Brasil during an offloading operation transferring cargo to an export tanker

shares are granted. The bonuses paid in 2004 (derived from the relatively low 2003 results) were more than 50% below prior year. The performance related remuneration accordingly represented 14% of the total remuneration. The improved 2004 results, prior to the charge from shipbuilding impairment, will give rise to an increase of approximately 25% in the Managing Directors' bonuses to be paid in 2005.

Pension plans for the Managing Directors continue to provide for pensions of up to a maximum of 70% of final salary, 'earned' at the rate of 2% for each year of service within the Group.

Pension contributions in respect of the Managing Directors were lower in 2004 than in 2003, when the impact on pension premiums of salary increases granted with effect from 2002 were recognised. Provision was however taken for increased pension premium obligations in respect of the promotion of Mr D. Keller to the position of CEO.

The share option allocations to the Managing Directors were also reduced by 33% to 50% in 2004 (again based upon the relatively low 2003 results). For this element of variable remuneration in 2005, it is proposed to introduce a part options, part performance shares compensation method, based upon the future growth of earnings per share. This will replace the current system of option allocations for the Managing Directors.

This long term incentive will work in the following manner: When average growth of earnings per share is equal to 5% per annum over the three years following the year of reference, the CEO will receive 10,000 options plus an equivalent value of ordinary shares. When average EPS growth is below 5% per annum over the three-year period neither the options nor the performance shares will be issued. When average EPS growth exceeds 5%

per annum, for each percentage point surplus an additional 2,000 options and an equivalent value of performance shares will also be issued. The performance shares have to be retained for five years from the vesting date.

Exceptional items and business driven equity issues may be excluded from the EPS growth calculation at the discretion of the Remuneration Committee.

Mr Keller is currently the only Managing Director of the Company. For any future appointments, a contractual term of four years will be specified, at the end of which re-appointment will be necessary. A limit of one year's fixed salary will be stipulated as severance pay in the event of redundancy, unless this would be manifestly unreasonable during the first term of appointment, in which case the maximum compensation could be increased to two year's fixed salary.

In the year 2004 no extraordinary remuneration has been paid to any present or former Managing Director.

As mentioned earlier, Mr J.J.C.M. van Dooremalen stepped down as CEO of IHC Caland in August 2004. He resigned from the position of Managing Director on 1 March 2005 at the closing of the shipbuilding division sale. In relation to this transaction, the Company has agreed to top-up Mr van Dooremalen's salary in the new shipbuilding group to his 2004 CEO salary level, until his normal retirement date (1 September 2006). The Company will continue also to make sufficient pension contributions such that Mr van Dooremalen's final pension will not be inferior to the pension which would have been received had he remained CEO of the Company until his retirement date. Bonus and share options will be paid and granted in 2005 based upon 2004 results. There will be no bonus or share options payable in the further years.

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.

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.

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 Koninklijke Vopak NV
Chairman of the Supervisory Board of Corio NV
Chairman of the Supervisory Board of IHC Holland-De Merwede B.V.
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.

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
Member of the Council of 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 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.

L.J.A.M. Ligthart - Nationality: Dutch (1938)
A former Vice-Chairman of the Managing Board of Directors of DSM NV
Supervisory directorships:
Chairman of the Supervisory Board of Hoek Loos NV
Member of the Supervisory Board of Nutreco NV
Chairman of the Supervisory Board of Nutreco Nederland BV
Member of the Supervisory Board of Budelpack NV
Member of the Board of Directors of Royal P&O Nedlloyd NV

First appointment: 2004.

Current term of office: 2004-2008.

Report of the Board of Management

Introduction

Early in the year 2004 at the time of writing the annual report, Management refrained from giving a profit forecast due to uncertainties about the timing of order intake in the Offshore division and also due to questions surrounding the split-off of the Shipbuilding division. Soon after year-end, the split of the Group was successfully achieved. The recovery of business in the Offshore division started later than expected, but then accelerated during the latter part of the year. As a result, the net operational profit for the year increased to US\$ 114.4 million, substantially above the mid-year forecast of US\$ 100 million, but net profit was affected by an extraordinary charge of US\$ 67.6 million related to the difficult sale of the Shipbuilding division.

During the first half of 2004, all operating units of the Group were occupied with tail end execution of the existing portfolio and with a high level of activity in the preparation of proposals for a number of large projects. In July, orders started flowing in with two large projects outside the traditional product line of the Company: indeed success was obtained through the sale of a deep-draft semi-submersible hull for gas process facilities in the Gulf of Mexico and the sale of three flash gas compression barges for the Caspian Sea.

Later, a lease and operate contract was obtained for a set of production facilities to produce a Petronas oil field

offshore Turkmenistan, also in the Caspian Sea. In the latter part of the year and shortly after year-end, two major projects were obtained for large FPSOs, one in Brazil where the Group demonstrated its ability to win when faced with particularly tough competition and the other one in Malaysia where an early strategic partnership initiative placed SBM in a strong position.

By year-end, the Group had rebuilt a comfortable order book and resources were being increased through the hiring of additional key personnel and through the use of temporary labour in the three execution centres of Monaco, Schiedam and Houston.

The year's results were enhanced by the addition of revenues from the Okono FPSO for Agip and the large Marlim Sul FPSO for Petrobras that started production before mid-year as planned.

Another major contributor to the Company result is the after sales and offshore contracting activity, a steady, predictable business that has been the object of increased attention under a separate profit centre. This division, that deals with less prestigious, low visibility projects, has the mission to deliver profits to the Group while placing client post sales satisfaction as a top priority. Under focused management and with dedicated staff it plays a major role in maintaining a reputation of quality in life cycle and responsiveness for our products in the industry.



M.A.S. Miles
Director, CFO
(1964, British)

F. Blanchelande
Director
(1949, French)

D. Keller
Managing Director, CEO
(1946, French)

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

Split-off of Shipbuilding

As announced in 2004, after a review of the Group fundamentals, Management decided that the combination of specialised shipbuilding with oil and gas services was detrimental to the objective of maximising shareholders value and that the two businesses should be separated. The main reasons leading to these conclusions were as follows:

- The long-term visibility and relative predictability of oil and gas revenues were affected by the risks related to low margins and high labour costs in the irregular shipbuilding market.
- The growing imbalance between the economics of both activities. The shipbuilding roughly represented 5% of the Group's value while utilising close to 50% of human resources.
- The combination of both activities was making the business model difficult to understand and affected the clarity and transparency of financial reporting.
- Major shareholders were in favour of a split of the businesses.

An agreement was reached with potential buyers before year-end and the sale of the entire shipbuilding was completed on 1 March 2005 after approval was received from the shareholders, the European Commission and the Works Councils of the shipyards.

The buyer IHC B.V. is owned 49% by Rabo Participaties B.V. (Rapar), the private equity arm of Rabobank, 33% by the management and employees of the shipyards, and 18% by Parkland, a part of the Indofin group. The

The yard of IHC Holland in Kinderdijk



financial consequences of the transaction are detailed in the Financial Review.

As a consequence of the sale, the Articles of Association of the Company have been adapted and approved by an Extraordinary Meeting of the Shareholders held on 11 February 2005. It was proposed and approved that IHC Caland N.V. would be renamed SBM Offshore N.V., since SBM (Single Buoy Moorings) is historically well known in the oil and gas industry, and the name IHC (Industrieele Handels Combinatie) corresponds specifically to the Dutch shipbuilding activity.

This restructuring of the Group represents a milestone in the history of the Company. Indeed the SBM business goes back to 1959. It started as a small CALM buoy-related business within the then prosperous shipbuilding activities of Gusto shipyard in Schiedam, the Netherlands. It is fair to say that, without the foresight of the shipyard management at the time and the original financial support of the shipbuilding activity, the present Group would not exist. Special tribute should be paid to the early visionaries who allowed this business to develop some 50 years ago.

The two companies are now pure play in their respective markets and each will receive the benefit of full management focus. There is no doubt that this configuration will generate in the future for both entities better shareholder value than under the previous combination.

The 2004 accounts take the whole burden of the economic impact resulting from the transaction and no negative consequences are expected on the results of 2005 or subsequent years for SBM Offshore N.V.

The Board of Management wishes every success to its former employees from Shipbuilding under their new ownership and thanks them warmly for their contribution to the Group's success through the years.

Developments 2004

OFFSHORE OIL AND GAS ACTIVITIES

Net profits of the Offshore division increased to US\$ 101 million. New orders were up by 44% to US\$ 1,427 million, and year-end backlog was also up (by 17%) to US\$ 4,731 million. About 75% of this (US\$ 3,573 million) relates to the non-discounted value of the revenues from the Group's long-term lease contracts for FPSOs and FSOs in portfolio at year-end.

Order intake in the offshore operating units has been rather slow in the first half of 2004 but the engineering and project execution capacity remained occupied during that period with the execution of several large turnkey supply contracts carried over from 2003 and with the completion of construction of three lease FPSOs for which contracts were obtained in 2002 and 2003. A lot of time and effort was further spent on engineering studies and proposal preparations which bore fruit in the second half of the year with a sharp increase in the order intake resulting in a satisfactory order back-log and full capacity occupation by year-end.

The most noticeable achievements of the year were the timely and successful delivery and start up of two more large FPSOs, and in particular of the Marlim Sul FPSO which started production for Petrobras in early June, only sixteen months after receipt of order. Several smaller turnkey supply projects for terminals and mooring systems were completed on time and in budget, and have been successfully put into operation by clients worldwide.

An aerial view of FPSO Marlim Sul prior to installation offshore Brazil



The implementation of Corporate Engineering Standards and the harmonisation of the systems and controls between the operating units has increased the efficiency in the execution of projects and improved the competitive position of the Group in the bidding for large contracts in the second half of the year.

In Houston, cost-savings and synergy between the three affiliates SBM-Imodco, Atlantia Offshore and GustoMSC Inc which moved into the same building in the course of 2003, were further enhanced through the implementation of joint administration, personnel and general office services departments.

FPSOs and FSOs on lease and operate basis

The year started with the substitution of the small FPSO Jamestown by a larger FPSO as production vessel under a long-term lease contract with Agip Nigeria at the Okono field. The Jamestown, a small unit primarily sized for short-term EPS projects, was subsequently sold as it is the policy of the Company to focus its lease fleet on medium and large size units with full field development capabilities. The FPSO Marlim Sul, the third large FPSO operating under a long-term lease contract with Petrobras, started production early June as scheduled, meeting the extremely tight time constraint of only sixteen months between confirmation of the order by the client and first oil. This has brought the total number of units in operation to fourteen: eleven FPSOs and three FSOs.

Construction of the new build Sanha LPG FPSO was completed and the unit left the IHI Kure shipyard in Japan in November 2004. In the meantime installation offshore Angola has been completed successfully and production is expected to commence shortly. 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 represents a milestone in the offshore gas industry. The project has been executed in close cooperation with the client ChevronTexaco, under contracts with Sonasing and OPS, the joint ventures between Sonangol and SBM which respectively own and operate the facility.

Further orders for lease units were obtained in the second half of 2004 from Petronas for an Extended Well Test system (EWT) to operate in the Caspian Sea offshore Turkmenistan and from Petrobras for the development of the Golfinho field in the Espirito Santo basin offshore Brazil. The EWT for Petronas will be a novelty in the fleet of the company as it consists of a Mobile Offshore Production Unit (MOPU), a jack-up platform carrying the process facilities, and a small turret moored FSO for storage and subsequent offloading of the produced oil.

The MOPU and FSO, both designed by GustoMSC, are under construction in the Middle East and will be brought into the Caspian Sea at the end of 2005, before the start of the winter. The Golfinho FPSO, based on the conversion of one of the Stena 'C' class tankers purchased by the Company in 2003, will be built in Singapore and is due to start operation in Brazil in the second quarter of 2006.

Shortly after the end of 2004 a further long-term lease contract was obtained from Murphy Sabah Oil for the Kikeh FPSO to be installed offshore Malaysia in 2007. This contract will be executed in joint venture with Malaysia International Shipping Corporation Berhad (MISC), a subsidiary of the Petronas group. Construction of this FPSO, based on another Stena 'C' class tanker, will take place at the yard of Malaysia Shipbuilding and Engineering (MSE) in Johor Baru.

Other than the Jamestown FPSO, no vessels were taken out of service in 2004 and the same should be the case for 2005 as the two contracts originally ending in 2005, the Aquila FPSO and the Okha FSO, were both extended in the first quarter of 2005.

The revenues generated by the existing fleet of FPSOs are steady and in line with projected targets. The business of leased FPSOs in the Group is driven by strict principles derived from the risk management policies presented in this report.

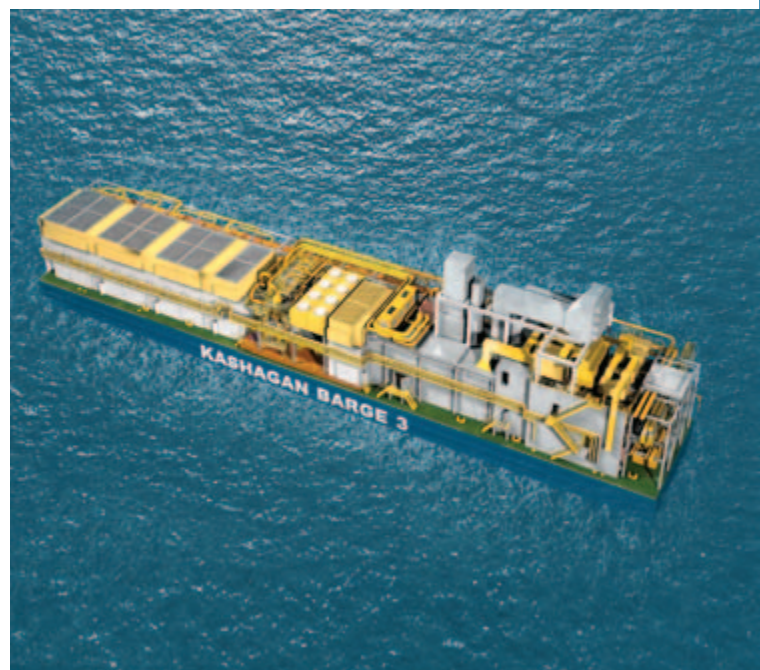
Turnkey supply of facilities, components and services

No large turnkey supply contracts were completed in 2004 but several turret mooring systems and CALM terminals were delivered to their respective clients on time and within budget. The deepwater export system for the Kizomba A development of ExxonMobil offshore Angola was successfully put into operation in the third quarter of the year.

The Kizomba A deepwater export buoy ready for launching at the Sonamet yard in Angola



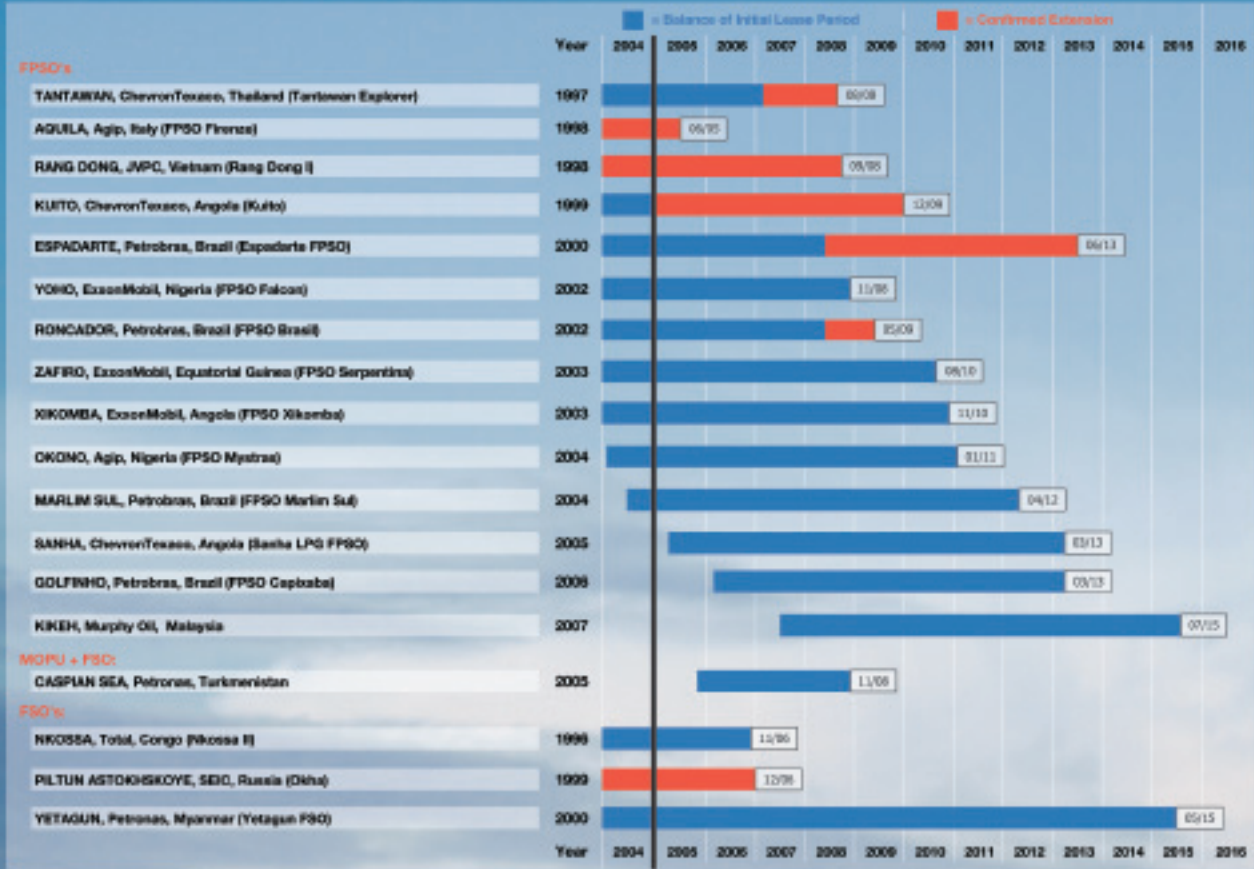
Work continued throughout the year on a number of large turnkey projects which will be delivered in the first half of 2005 including the FPSO mooring and deepwater export system for the Bonga field of SNEPCO offshore Nigeria, the FSO for the Yoho field for ExxonMobil in Nigeria, the disconnectable internal turret for the White Rose FPSO of Husky Oil, Canada and deepwater export systems for ExxonMobil for Erha, Nigeria and Kizomba B, Angola.



A computer generated image of one of the flash gas compression barges under construction for Agip KCO

Early in the year, confirmation was received from Woodside of the full contract scope for the design and supply of a disconnectable riser turret mooring for the Enfield FPSO. In July the Group achieved a breakthrough with the award of two turnkey contracts for products slightly outside its traditional product line, and for sites at the extremities of the range of waterdepths for offshore field developments. The first, a contract from Agip KCO for the design and supply of three flashgas compression barges for the Kashagan development in the Caspian Sea offshore Kazakhstan, will be installed in a waterdepth of five metres only. For the execution of this project which was obtained in partnership with Siemens, the Group calls on the engineering expertise of Gusto BV and the project management and construction skills of SBM. The second, a contract for Atlantia, is for the design and supply of a deep-draft semi-submersible hull and mooring system for the Independence Hub, a central gas processing facility in the Gulf of Mexico, to be owned by Enterprise Products Partners and operated by Anadarko. The award has been the result of the success of Atlantia, in close cooperation with GustoMSC, in a design competition involving also the Spar and alternative semi-submersible designs for this production facility to be installed in the record waterdepth of 2,400 metres.

Balance of the initial lease periods and confirmed extensions of the lease fleet



The Sanha LPG FPSO on departure from the construction yard in Japan en route for Angola



The 'Normand Installer' will enter service in January 2006

The turnaround for Atlantia was confirmed later in the year by the award by BHP of a Front End Engineering and Design (FEED) contract for a TLP for the Neptune field in the Gulf of Mexico. It is expected that the project will be sanctioned towards the middle of 2005, upon which the commitment of BHP will be extended into a turnkey supply and installation contract.

In the traditional business of CALM terminal technology, the Group maintained a good position with a market share of 50% of the systems constructed or delivered worldwide during the year and 60% of the contracts awarded in 2004.

Offshore contracting and after sales services have been in 2004 a large contributor to the activities and the earnings of SBM. Both the SBM-owned Diving Support Vessel 'Dynamic Installer' and the 'Normand Progress', operated under a long-term charter from Solstad, reached a record level of occupation throughout the year. Spare part sales were up and several major overhaul and refurbishment contracts were completed.

In anticipation of the increased activities of the major oil companies in deep and ultra-deep water, in particular in the Southern Atlantic, SBM have entered into a joint venture with the Norwegian company Solstad Shipping A/S for the purpose of investing in a new generation Offshore Deep Water Construction and Installation Vessel. In August 2004 the joint venture placed a contract for this vessel, to be named the 'Normand Installer', with the Ulstein Shipyard in Norway.

The new vessel will be a strategic tool for SBM in the market of supply and installation of offshore facilities. She will be able to install any of SBM Offshore's products (FPSOs, TLPs, Semi-Submersibles, CALM systems) in deep and ultra-deep water. In addition, the vessel will place the company in a strong position in the deep-water construction and installation market. The vessel will be delivered in January 2006.

Competition

In the market of medium size and large FPSOs on a lease and operate basis, competitors include almost systematically Modec of Japan and Prosafe of Norway. Bergesen, a Norwegian tanker owner seeking alternative opportunities for vessels of its fleet of trading tankers, is an occasional player in this market. Saipem, joint venture partner of SBM in two FPSOs operating under lease contracts with Agip, decided in 2004 to pursue lease contracts on their own strength and participated in a number of tenders. Bluewater of the Netherlands and Maersk of Denmark are only incidentally participating in tenders for lease projects, primarily when such projects offer a relocation opportunity for their existing units. For the simpler systems, the competition continues to consist mainly of tanker owners, keen to find a life extension opportunity for vessels in their fleet.

In the market of FPSOs and FSOs on a sales basis, in order to maintain control of project management, cost and revenues, SBM Offshore 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 FPSOs 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 has offered opportunities for several yards to execute FPSO conversion contracts.

Since ABB has withdrawn from the TLP market the competition for Atlantia's SeaStar® monocolumn TLP is limited to Modec of Japan with a multicolumn TLP concept. The future role of Keppel and McDermott, who have taken over the relevant ABB patents, is for the time being unclear. For certain applications the Spar concept promoted by Technip and McDermott remains a serious competitor for the TLP.

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

DREDGER/SPECIALISED SHIPBUILDING ACTIVITIES

During 2004, the dredgerbuilding and specialised shipbuilding activities performed below expectations, due to problems in the execution of one specific part of the orderbook. The net result of the dredger and specialised shipbuilding activities amounted to US\$ 9 million including profits on sale of the Krimpen and Alblasterdam North premises of the now closed van der Giessen-de Noord shipyard. The net result of the IHC Holland and Merwede shipyards was US\$ 5 million. New orders were received to an amount of US\$ 463 million and the backlog at the end of 2004 stood at US\$ 643 million.

Like last year, the market for dredging equipment continued to be depressed. Demand from the state-owned dredging corporations, predominantly situated in emerging countries, was very moderate. On top of that, the lasting problems with the availability of sand from the Indonesian and Malaysian territorial waters for the large Singapore reclamation projects caused hesitation regarding new investments by the Dutch and Belgian contractors since the jumbo dredgers which they employed on these projects were diverted to other dredging jobs.

Nevertheless, 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 market for specialised shipbuilding capacity did improve, resulting in orders for Merwede shipyard.

The foundation division was successfully involved in a number of piling projects for offshore windmill farms and the division contributed positively to the 2004 results. Considerable growth of this market is to be expected well into the future.

Orders and deliveries

In the dredgerbuilding market no major orders were booked with the exception of an order for the construc-

The hopper dredger 'Wan Qing Sha' delivered to the Guangzhou Waterway Bureau



tion of a mid-size cutter suction dredger for a Chinese client, to be built at a Chinese shipyard.

Order intake for the line of the standard series of Beaver cutter suction dredgers was also disappointing with a number of six ending at about one third of the usual annual sales volume.

In the specialised shipbuilding market a contract was obtained for the design and construction of two Ro-Pax ferries for Bornholmstrafikken, Denmark of which one was subcontracted to Volharding Shipyard of Holland. Both vessels are to be delivered in April 2005.

Furthermore a very sophisticated offshore support vessel was booked for delivery to Solstad Shipping, Norway and finally a multi-role vessel was contracted by Tenix Defence Pty. Ltd., Australia destined for the New Zealand Navy. Two more river cruise vessels were added to the order book.

During the year a significant number of ships were delivered to their respective clients. January saw the delivery of the 5,400m³ hopper dredger 'Pallietier' for the Belgian dredging contractor DEME; and February the deliveries of the first 16,000m³ hopper dredger 'Prins der Nederlanden' to Royal Boskalis Westminster and the river cruise vessel 'Rousse Prestige' to Dunav. In July the second 16,000m³ hopper dredger 'Oranje' went to Royal Boskalis Westminster and the 10,000m³ hopper dredger 'Wan Qing Sha' was delivered to Guangzhou Waterway Bureau, China while in December the 1,000m³ hopper dredger equipped with an oil spill recovery installation was delivered to the Ports and Shipping Organisation, Iran. In the range of Beaver dredgers six units were delivered.



The hopper dredger 'Prins der Nederlanden' during trials

Service centres

In view of the large dredging orders executed in the Middle East a new service centre was set up in Dubai.

The service centres existing in 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 Future

General Strategy

SBM Offshore has established a target of average double-digit EPS growth for the years to come. Management has evaluated whether major diversification would be required to achieve the target or, alternatively, whether the existing product line can be relied upon given the present market perspectives. It was concluded that the present product line is properly set up to fuel a satisfactory growth and to respond efficiently to the expected demand, and there is no urgent need to diversify or to consider major acquisitions: organic growth will continue to be the strategy.

This organic growth policy is motivated by the firm view that in this risk intensive business, focus is the most important way to control the risk. A company can outperform competition only with absolute focus and management considers that this is a surer way to deliver value than under a growth profile based on mergers and acquisitions.

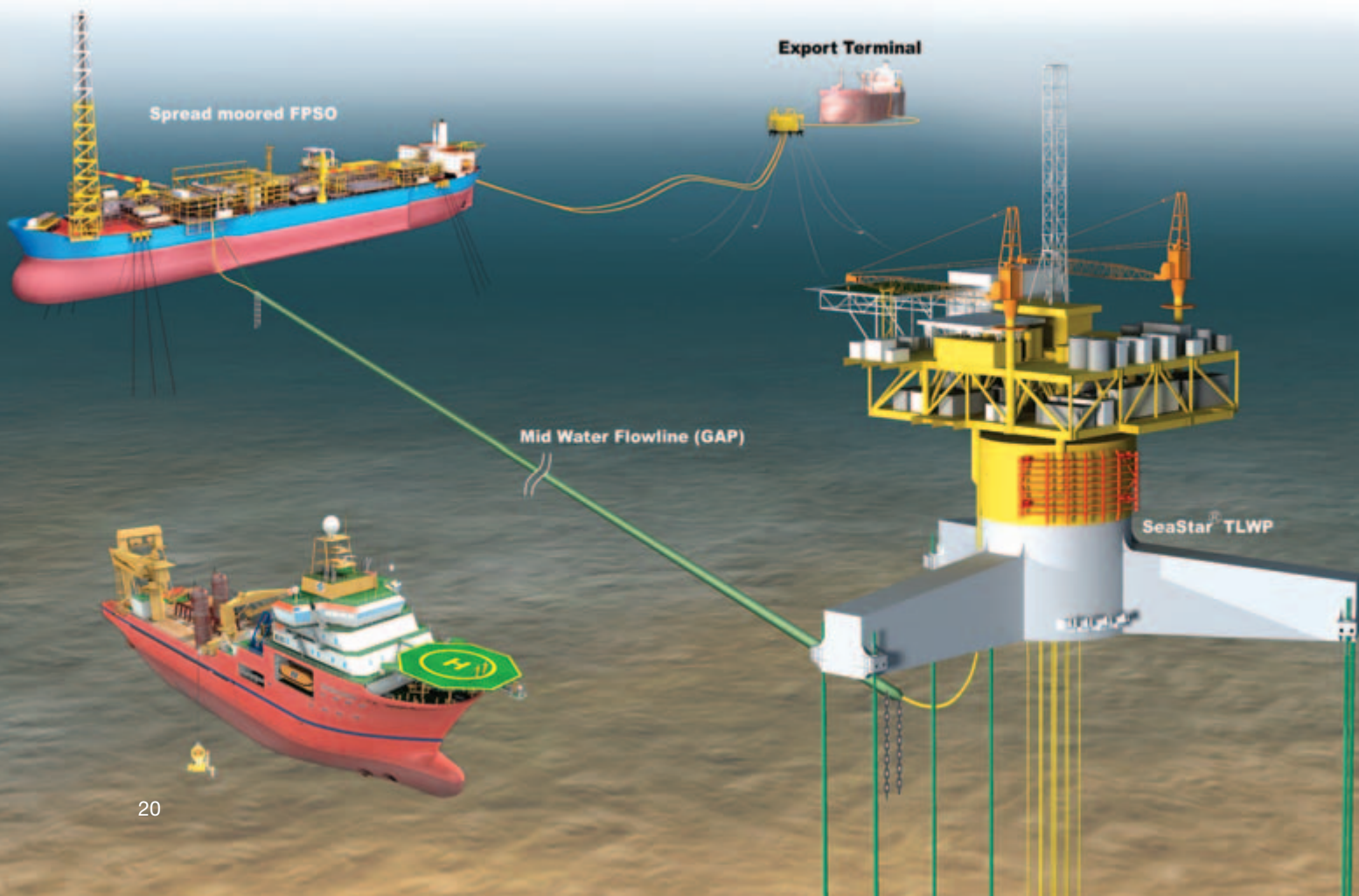
Of course, the development of technology will remain a priority, mainly to seek for constant improvement of cost effective solutions and thereby maintain the Company's

position at the forefront of the industry. In doing so, opportunities adjacent to the existing product line will always be pursued as they were, successfully, during 2004.

Under the above strategy the definition of clear objectives is most important. They are summarized as follows:

- Develop innovative technical solutions and maintain a position of leader in the Group's market.
- Continue to develop the offshore deepwater technology and generate an increasing volume of sales for related mobile offshore facilities.
- Continue to grow the FPSO lease fleet while improving the returns on capital employed.
- Cultivate the position of preferred contractor on the grounds of quality and reliability of products and services. Focus on marketing strategies and partnerships to leverage that position.
- Continue to develop technology and marketing efforts in the gas sector. Establish a position of leading contractor in this market.
- Maintain a high level of attention on after sales services and offshore contracting and grow this stable, predictable business segment.

Total deepwater field development capability: a TLP tied-back to a turret moored FPSO via the patented GAP™ fluid transfer system, a deepwater export buoy connected to the FPSO via a Trelline hose system and the 'Normand Installer' designed to install all components.



Deepwater technology

The future of the offshore oil and gas industry is definitely moving further away from the coast and into deepwater. Over the past few years, the Company has expanded its product line to provide comprehensive solutions for the development of deep and ultra deep offshore oil and gas fields. It has now all the competence and the resources in-house to design, supply and install any or all of the components necessary for deep offshore developments. The philosophy takes as a primary objective, to make such facilities quasi independent from water depth through the use of surface and near-surface technology. The reasoning is that equipment installed on the sea-floor, particularly in ultra-deep water is not only expensive in both Capex and Opex terms but also faces technical difficulties with respect to accessibility and flow-control due to freezing level temperatures. Another advantage of surface solutions is their reduced footprint on the seabed with minimum impact on the environment.

In 2001, Management decided to invite Atlantia Offshore to join the group with the objective to add the TLP technology to the product line, in anticipation of the future demand. After a two-year period of depressed business in the Gulf of Mexico during which Atlantia was under occupied, it is now comforting that there are real perspectives for their products both in the Gulf of Mexico and in the global market.

Concerning another piece of the deepwater technology puzzle, the Group is close to securing a contract for the first application of its GAP™ patented technology. Behind this acronym is a near-surface transfer solution for production flows of oil, gas, water and controls. Management is confident that the industry will see in this technology an attractive solution to overcome temperature problems associated with fluid transfer in ultra deep water.

For field developments using very large spread moored FPSOs, deepwater export buoys installed at about 2,000 metres from the FPSO, will remain a key component in the field infrastructure. SBM Offshore is the supplier of six out of the seven such systems contracted in West Africa to date and is confident to be able to maintain a high market share in the future.

Another element that weighed heavily in the definition of the Group's deepwater strategy is the vision of a growing need for 'tie-back' solutions. Indeed, the first move into deep areas is made on the basis of large reservoir economics that justify investment in capital intensive production facilities. Soon after, as production capacity becomes available on the main facility, the oil producers seek for development of adjacent, smaller reservoirs. The preference goes for satellite facilities tied-back to the main producing centre, as opposed to stand-alone

solutions. This evolution is characteristic of maturing oil provinces very much like what is happening in the North Sea and the Gulf of Mexico.

SBM Offshore's product line today is exactly geared to this concept and Management believes that a long period of sustained, high demand is coming up.

FPSOs

The engineering, supply and installation and operation of FPSOs is now the main component in the Group's activities. SBM Offshore holds the position of leader in the market of lease and operation of floating production facilities.

It is Management's intention to maintain that position and remain focused on the large, complex end of that business.

The merit of this activity is essentially that it provides long-term visibility of cash flows and earnings; the downside is the complex financial and contractual risks associated with it. The Company started this activity as a pioneer in 1979 and has acquired over the last 25 years a large experience; as a result it now operates safely and comfortably in this environment. The risks are further analysed in this report.

Lease and operation of such facilities is a capital intensive business and the strategy of the group is to continue to approach this activity prudently. Management has defined a series of principles which continue to be respected in a most rigorous manner:

- No investment on speculation, invest only on the basis of a contract in hand, except for the acquisition of existing tankers suitable for conversion into an FPSO.
- Obtain firm commitments for lease periods (ideally) in excess of five years.
- Bareboat revenues not exposed to oil price variations or reservoir risks.
- Put interest rate swap in place upon contract award.
- Finance design and construction phase from Revolving Credit Facility (RCF).
- Substitute RCF financing by Project Financing for at least 80% of FPSO capex towards first oil date.
- Project debt fully serviced by guaranteed lease income.
- Apply conservative policy with respect to depreciation.
- Manage fleet operations in-house.
- Engage all senior staff for the fleet under direct employment.
- Place safety and environmental protection as a primary concern.

Under these conditions, Management has decided that the lease and operate business should remain a major component of the future growth.

Of course, in addition, the Company will continue to be present in the market of FPSOs on a sale basis. This market is now changing as oil companies do invite from time to time Korean shipyards for delivery of turnkey facilities using major engineering companies as partners or subcontractors. The decision to go after turnkey sale prospects will be carefully made before efforts are invested in proposal developments. SBM Offshore will only pursue turnkey contracts when execution is on a lumpsum turnkey basis and when the client specifies the performance rather than drives the engineering effort. In that manner, it can bring value to its clients by offering fit-for-purpose, quality units with firm delivery time commitment on which the Company has an excellent track record.

Partnership

Sometimes, Management considers partnership as an efficient way to pursue and acquire business. In the lease and operate segment, the partners are in general 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. Partnership is only engaged when it both enhances the chances to secure the business and in the long run adds value to the Company's performance.

Gas industry sector

The world's energy supply has been primarily dependent on oil in the last century. The rising oil price and the growing concerns about environmental impact are the basic drivers for the search for new alternatives. Natural gas has always been considered as an important energy source for the future because it is clean and cost competitive compared to oil and its resources are abundant. When looking at the number and size of gas related projects committed in recent years on a world-wide basis then the conclusion can only be that gas will be of prime importance for the future of the energy industry.

For gas fields that lack access to existing infrastructure or gas pipeline systems, LNG has proven to be reliable, safe and economically attractive. The International Energy Agency (IEA) predicts in its most recent energy outlook impressive growth figures for LNG in the short and the longer term. LNG demand will continue to rise in established LNG markets in southern Europe and northeastern Asia. Furthermore, it will be an important fuel source for new markets experiencing strong economic growth such as China and India. Another

significant LNG driver is the inability of some key countries, like the USA and UK, to maintain and/or provide sufficient gas to meet domestic demand.

In order to deliver the LNG to the end customer a chain of production, transportation and transfer facilities are needed. Since onshore and near-shore terminals will not be able to handle all the projected growth, there is an increasing interest in offshore solutions. In order to provide dedicated focus to this segment of the market the Company has created a Gas Business Development Group (SBM Gas & Power). It is the Company's clear objective to become one of the worldwide leaders in the new market for floating gas processing and transfer facilities through the following actions:

- To reinforce the Group's position in the market of LPG FSOs and LPG FPSOs. The delivery of the Sanha LPG FPSO will be a significant step for the Company into floating gas processing and will set a new benchmark for the industry. The unit is the first to have a purpose built LPG processing plant installed on a floating structure. Its size of 135,000m³ (850,000 bbl) makes it the largest new-built floating storage facility for LPG products and it has some of the largest and first-of-its-kind equipment installed onboard. The unit will be operated jointly with ChevronTexaco.
- To lead the development of the Floating Storage and Regasification Unit (FSRU). The FSRU allows delivery of LNG in areas where onshore terminals are not perceived feasible for local permitting, schedule, economic or other reasons. Although there is no FSRU in operation in the world to date, each element of the unit is successfully proven in its own respect and the combination has received approval-in-principle from Classification Societies.

A small FSRU converted from a LNG carrier moored by an external turret



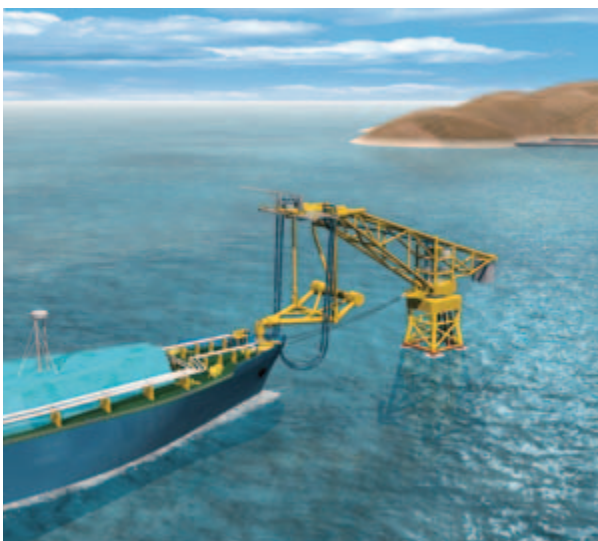


A large new build FSRU, moored by an internal turret, with an LNG carrier discharging cargo moored alongside

Throughout 2004, SBM Offshore has completed its internal FSRU development programme with a particular focus on project execution, system operation and availability performance. In addition various engineering studies have been performed for oil and gas majors, utility and gas distribution companies and even for governmental development programmes. The result being that the Group is now confident to bid for FSRU projects on a turnkey supply or lease-and-operation basis and it is discussing involvement on some serious projects.

In its marketing strategy the Group has recognized the importance of taking a 'gas supply chain approach' and subsequently has invested in setting-up partnerships with world players in LNG supply, LNG shipping, local gas distribution and gas marketing.

A COOL™ terminal concept for loading or discharge of an LNG carrier offshore



- To lead the development of offshore LNG transfer systems. Following in the footsteps of crude oil (off)loading operations, such systems can revolutionise LNG distribution around the world. In particular, these systems should allow safe transfer of cryogenic fluids between (1) two vessels, for example LNG FPSO to LNG Carrier or LNG Carrier to FSRU, and (2) between a vessel and a Cryogenic Offshore Off-Loading (COOL™) terminal with a high uptime.

In 2004 the development efforts on such systems have mainly concentrated on obtaining technical and operational acceptance from the major players within the gas industry, since this is a prerequisite before being able to discuss a serious involvement in specific projects.

Further information on these systems and required components is presented in the Research and Development section.

- For the development of large stranded gas reserves the Company aims to provide key, specialized components such as LNG offloading systems, turrets, swivels and mooring systems for floating LNG plants. These projects will require multi-billion dollar investments and the construction of large scale LNG plants will most likely be managed by the oil and gas majors themselves. These stranded gas reserves are remotely located in deep water and are not expected to be developed before the end of the decade.

In summary, next to developing an attractive portfolio of offshore solutions for the gas market, the Company is also actively pursuing marketing strategies that are tailored to gas industry practice and which are beyond

the Group's traditional business of FPSOs, turret mooring systems and offloading terminals. Combining an attractive product line with a corresponding marketing approach will provide SBM Offshore a strong position to become a successful player in the new market of offshore gas processing and transfer facilities.

After sales services and offshore contracting

The large number of offshore terminals and of mooring systems for FPSOs and FSOs supplied by the Group over the last decades, have created a vast basis for after sales services such as spare parts sales and overhauls with their related offshore contracting activities. In order to place a larger emphasis on these services and to ensure a more focused management attention, these activities have been grouped within a separate business unit which provides an important contribution to the earnings of the Group. Increased marketing efforts will be deployed to grow this business element even further. This will be supported by the addition to the fleet of the offshore construction and installation vessel 'Normand Installer' which, when not occupied in the context of the execution of turnkey contracts of Group companies, will be marketed to perform offshore contracting services for third parties.

Financial Outlook 2005

The Group's projected net profit for 2005 under IFRS is US\$ 125 million. No residual impact from the sale of the Shipbuilding division is expected.

The lease fleet at the beginning of 2005 numbers fourteen units in operation of which eleven are FPSOs. The average size, complexity, value and cashflows of the units in service continue to increase.

In 2005 the Sanha LPG FPSO for ChevronTexaco in Angola is scheduled to come on-hire during the second quarter. This unit is the third owned and operated by the Group's Sonasing joint venture with Sonangol.

Before year-end the Extended Well Test system for Petronas Turkmenistan is also due to come on-hire. In addition to the units in operation, the Group owns one FSO which is available for conversion or sale with two VLCC hulls available for conversion.

In respect of the turnkey business, the Group is busy on a number of large projects including the Kashagan compression barges for Agip KCO Kazakhstan, the Independence Hub semi-submersible in the Gulf of Mexico and the turret for the Enfield FPSO for Woodside, as well as the completion of the Group's scope of work on the SNEPCO Bonga, ExxonMobil Yoho and Husky White Rose projects. Gross profit contributions from these projects and from contracts awarded during 2005 will be recognized on a percentage of completion basis under IFRS.



The two components of the EWT offshore Turkmenistan: a Mobile Offshore Production Unit and an FSO

Forecast investments

During 2005 the Group expects to invest a further US\$ 550 million in fixed assets including principally the Golfinho FPSO, the Extended Well Test system for Turkmenistan and the first expenditures for the Kikeh FPSO (SBM share), plus a limited estimated investment on prospective lease awards in 2005. Total budgeted investments also include the Group's share of the new offshore construction vessel 'Normand Installer' to be jointly owned and operated by the joint venture with Solstad Shipping A/S of Norway.

Investment in Research & Development will continue to increase in 2005, with special focus upon the Gas Business Development Group.

Balance Sheet

Despite the loss of the Shipbuilding division's equity, the late order intake and consequent low level of capital expenditure in 2004 eased the pressure on the balance sheet gearing, and bank covenants were comfortably met at the year-end and will continue to be met with considerable margins throughout 2005. Net gearing is expected to increase to around 175% with the introduction of IFRS, and will remain at this level assuming one and a half to two new lease contracts are awarded to the Group each year. The Group considers that net gearing of 175% is an acceptable level given the size and stability of the lease revenues, and unless more than two new lease contracts for fully owned FPSOs are awarded on average per annum, the Group believes that an additional equity issue should not be required.

Number of employees

The number of direct and indirect employees fell to 2,500 with the sale of the Shipbuilding division at the beginning of 2005. Over the remainder of the year and with the expected heavy workload, additional engineering and project execution capacity will be hired, although as always temporary peaks will be managed through recourse to temporary contracts and freelance personnel. FPSO fleet personnel numbers will increase marginally with the start-up of the Sanha LPG FPSO.

Research and Development

SBM Offshore is active in the development of new systems and components to enable the safe and economic energy recovery from offshore areas. The major focus of the present R&D effort is on deepwater floating production and LNG delivery systems.

Direct R&D expenditures totalled US\$ 7 million in 2004. 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.

The Group's technology continually pushes back the frontiers of oil and gas production, storage and offloading enabling economic development in any offshore areas.

The list of current R&D activities includes:

- Deepwater systems:
 - Steel risers,
 - Mid-water pipes,
 - TLP depth extension,
 - Installation systems,
 - Mooring systems.
- LNG transfer and storage systems:
 - Floating storage and regasification,
 - Ship-to-ship transfer of standard LNG carriers in harsh environments,
 - Cryogenic fluid swivels.

Examples of achievements in these areas are described below:

Deepwater systems

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 SCRs. SCR

bending fatigue concerns in this use have been addressed and shown not to be a problem in mild to moderate environments.

Further internal R&D studies are underway to reduce the SCR installation costs by placing the installation means on the FPSO thus enabling SCR use without lay barge mobilization for remote offshore areas. Major equipment and interfaces for this installation operation, which uses an SCR pull-out method, have been identified. Further studies are being progressed to improve the laying operation, fatigue life and riser strength.

Mooring Systems

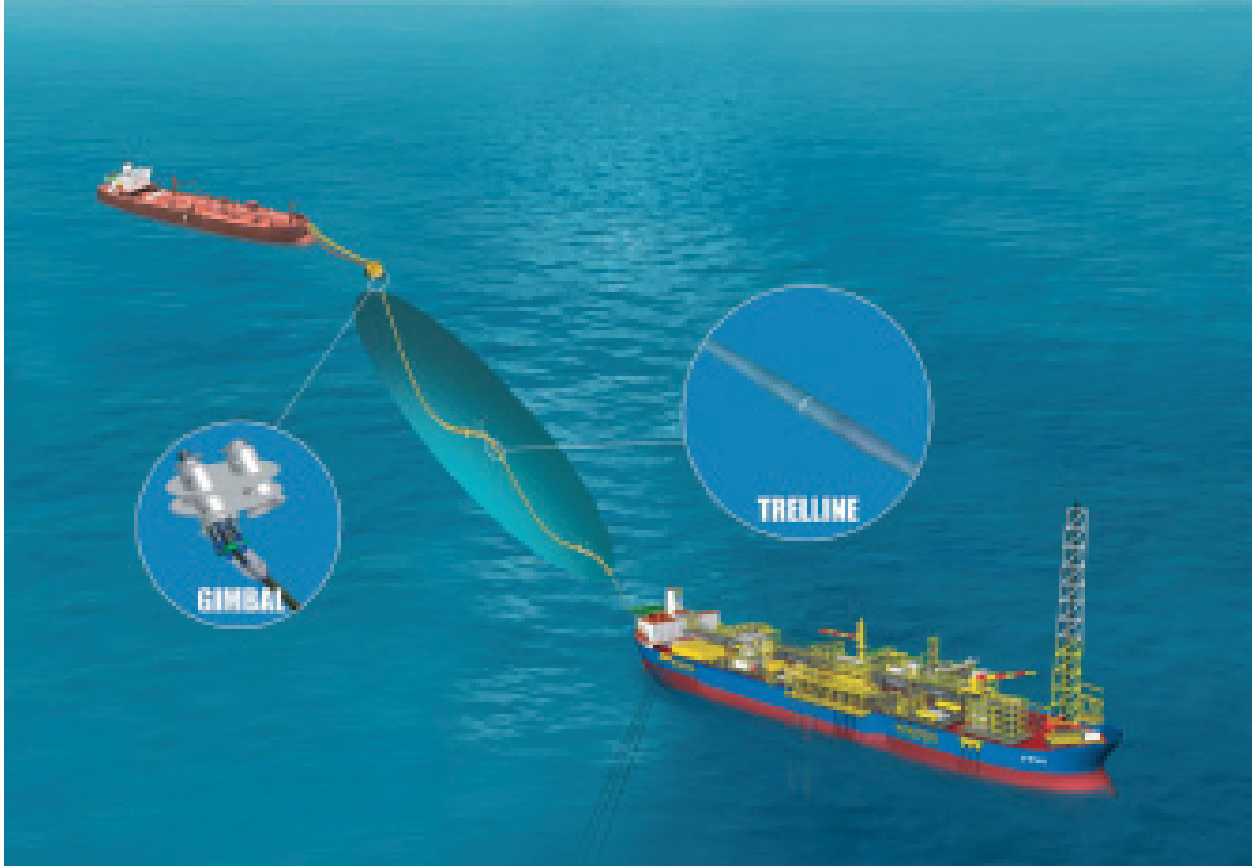
Clients are demanding ever larger turrets, with increasing water depths and numbers of risers up to one hundred. SBM Offshore has demonstrated through the recent progression of internal turret designs that these new arrangements can be achieved.

The capacity increase has been made possible by using the bogey bearing instead of the elastomeric pad system.

For this new type of turret the number of decks required has been reduced, and as a consequence the height of the gantry can be substantially reduced from 60 to 30 metres. Contributory factors for this rationalized design include a radical review of the selected piping, manifold and equipment installed within the turrets, while still ensuring the operability and maintainability of the more compact design.

SBM's testing facilities in the South of France





Application of the 'Trelline' system for the oil transfer from a spread moored FPSO to a deepwater export buoy

Mid-water pipe systems

Product transfer between floating systems in deep and ultra deep water is often more efficient if handled at minimal depth by mid-water pipe systems. Two such systems having distinct uses are being developed. These are the Trelline for large diameter flexible lines used in the transfer of stabilized crude from FPSOs to export buoys and the Gravity Actuated Pipe (GAP™) for the transfer of multiple live produced fluids between gathering satellites and an FPSO used for processing of the hydrocarbon production.

The Trelline is a joint development between Trelleborg and SBM Offshore for the qualification of a large diameter bonded hose capable of much higher internal and external pressure and tension than standard submarine

loading hoses. This hose received the API 17K certification by Bureau Veritas in 2003. Work in 2004 has focused on the analytical modeling of the hose carcass and the fatigue testing of the first hose section connected to the buoy which is subject to high cyclic loading. Completion of this work will make this hose and its advantages a good alternative to steel or unbonded flexible solutions. Hose advantages are superior bending fatigue, large diameter availability and installation without the use of expensive lay vessels.

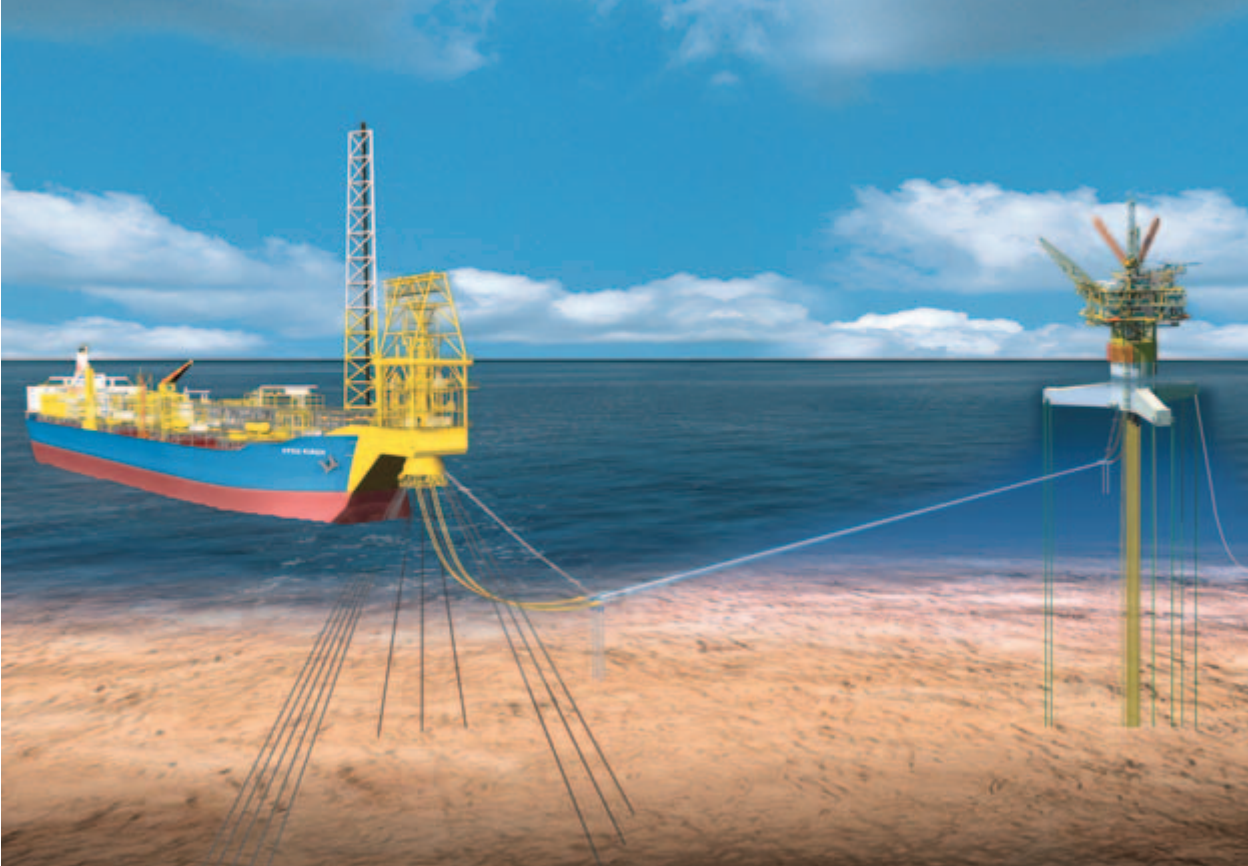
The GAP™ consists of a neutrally buoyant bundle of steel pipes supported and tensioned at a near surface depth by chains and weights attached to floating systems. The floating systems transfer production fluids through the pipe bundle via flexible lines. This near surface transfer greatly reduces flow assurance problems of hydrates and waxing that would occur with a sea bottom-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 of tie-ins from two to thirty kilometres have shown the GAP™ to be applicable in any deepwater production area of the world.

TLP Depth Extension

The use of TLPs has been thought to be limited to depths up to 1,500 metres. This limit is a consequence of the TLP mooring physics. The longer vertical mooring tendon stiffness reduces as the depth increases, causing the TLP mass / spring system to move to longer periods. These longer periods are excited by commonly occurring short waves causing fatigue in the tendons. Increasing tendon size to reduce periods adds weight to the structure and cost to the tendons thus making the TLP less competitive in deep water.



Full scale fatigue test of the Trelline Gimbal hose in SBM's testing facilities



The GAP™ fluid transfer system between a TLP and an FPSO

A passive air damping system that can be placed in the TLP columns which damps out the dynamics these longer tendons cause, has been developed, tested and patented by Atlantia. Work is progressing to incorporate this air damping system in the TLP. Once this system is integrated in the TLP, longer lighter tendons will enable TLPs to be economically designed for water depths up to 3,000 metres.

In early 2004, when Atlantia was competing for the contract for the Independence Hub in the Gulf of Mexico, this technology was not yet ready for industrial application. For this reason, Atlantia developed the deep-draft semi-submersible for which a contract was obtained.

Installation Systems

For deepwater installation of our products, i.e. FPSOs and TLPs, SBM Offshore is building in a joint venture with Solstad Shipping A/S of Norway, a new installation vessel which will be ready early 2006. To make this vessel capable of performing installations to 3,000 metres internal developments are being carried out for pile driving and lowering means in these depths.

For pile driving a propellant burning pile driver is being developed in association with IHC Hydrohammer. This pile driver uses fast burning propellant to supply driving energy for piles and plate anchors at great depth. This fuel eliminates the need for a costly and hard to handle umbilical to supply driving energy.

For lowering of large subsea packages a Decoupled Air Vessel Installation Tool (DAVIT) is being developed. The DAVIT uses standard small diameter steel rope to lower a heave decoupled, variable buoyancy vessel with subsea

payload to any depth up to 3,000 metres. The decoupled air vessel is light as it is pressure balanced and fully reusable with any payload up to its maximum buoyancy.

LNG transfer and storage systems

Commercial, environmental and legislative factors are making increased LNG production a reality. Recent orders for LNG carriers herald the imminent increase in the worldwide trade of this product. In-shore and near-shore terminals presently existing in the US and other parts of the world will not be able to handle all this projected growth.

LNG Floating Storage and Regasification Unit (FSRU) and FRU

To handle the projected surplus growth, alternative offshore FSRU and FRU systems have been developed.

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

In special areas having offshore subterranean salt deposits like the Gulf of Mexico, Floating Regasification Units (FRUs) can be used to offload and regasify LNG, sending the gas directly to a subsea salt cavern storage and/or pipeline. These FRUs have much larger heat exchangers to rapidly warm the offloaded gases. The



An FRU for receipt and regasification of LNG and subsequent storage of gas in subterranean salt caverns

system can also be combined with partial storage as on an FSRU to reduce the size of the regasification system.

Ship-to-Ship Transfer of Standard LNG Carriers

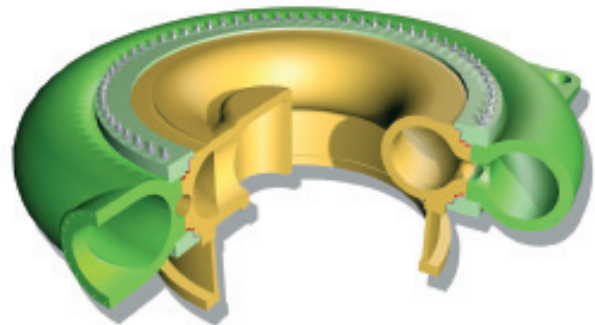
The offloading of standard carriers must be done using mid-ship manifolds. Presently the lack of cryogenic hose technology requires this offloading to be done in a side-by-side mode with cryogenic loading arms. Side-by-side mooring and loading arms presently have only been proven for relatively mild sea states.

To increase the applicability of the FSRUs to more than the benign proven sea states, internal developments are aiming at increasing the wave threshold for this offloading operation.

A Soft Quay Mooring (SQM) system that increases both the safety of the berthing operation as well as the offloading sea state threshold is under development. The SQM consists of a weighted quay suspended from articulated arms held 20 to 30 metres away from the side of the FSRU. This quay holds the carrier at a much greater distance than possible with normal side-by-side mooring fenders. This distance provides an ample space to avoid carrier/FSRU contact both during berthing and offloading operations. Should the berthing carrier approach the SQM too fast, then the articulating arms will deflect and absorb the carrier momentum without suffering any damage.

The higher sea states possible with this new side-by-side SQM will result in much higher differential motions for the cryogenic loading arms transferring the cargo. Presently there are no commercially available loading arms that can

achieve these larger requirements. To make loading arms available for these higher sea states a separate loading arm development is being progressed jointly with a loading arm manufacturer.

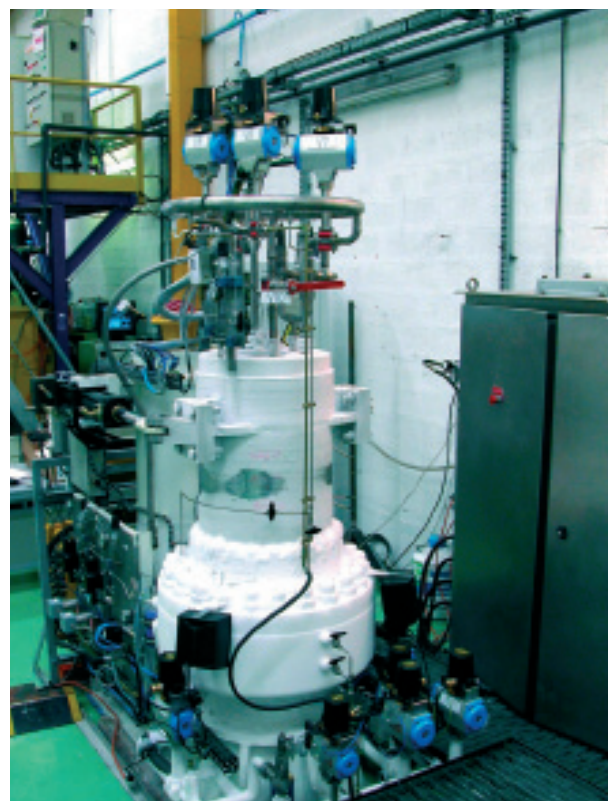


3-D model of the cryogenic toroidal swivel

Cryogenic Swivels

Cryogenic swivels capable of long continuous operation at cryogenic temperatures below the minus 162 degree Celsius temperature of LNG are required in LNG loading arms as well as swivels for LNG Single Point Mooring systems. An in-line LNG swivel was tested last year for a five year simulated life with LNG. This test was used to qualify the seals and materials for a larger toroidal LNG swivel required for our LNG SPM loading systems. In 2005 we will fabricate and test this large diameter toroidal LNG swivel.

In-line cryogenic LNG swivel during testing



Company Business Drivers and Competitive Position

Business drivers

- Increase in demand encourages exploration activity, especially in the South Atlantic;
- Hydrocarbon discoveries in deep and ultra deepwater offshore;
- 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;
- Persistently high oil price;
- Continuing demand for oil transportation, loading and offloading;
- Opening of the Gulf of Mexico to FPSOs/FSOs;
- Zero flaring policy driving offshore gas technology;
- Increased market for LPG and LNG transport, storage and import facilities;
- Movement towards floating offshore LNG plants;
- Dry completion option in deepwater.

Competitive edge

- Flexibility in execution with three engineering centres, all construction outsourced;
- Comprehensive toolbox for deepwater developments, mainly with patented technology;
- In-house competence to supply, install and operate complete, complex FPSOs;
- 'Fit-for-purpose' FPSO concept, based on twenty four years of operating experience;
- Patented technology on LNG components and ultra-deepwater facilities;
- 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.

Competitive disadvantages (to be overcome)

- Limited home market (now growing in the USA);
- Difficult to keep competitive edge on the low end of the FPSO market;
- High Euro cost of European based engineers.

Threats

- Increasing competition, including from the Korean shipyards for large turnkey FPSO projects;
- Eventual move to more recent tonnage for FPSOs/FSOs;
- Increasing construction prices due to high workload in ship/fabrication yards;
- Pressure on balance sheet due to expanding lease fleet.

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 business is critical to the Group's continuing realisation of its operational and financial targets, as well as ensuring compliance with relevant legislation and regulations.

For many years, the Group has systematically reported on its approach to the management of risk. During 2004 significant new steps were taken in harmonising management and control procedures in all subsidiaries and with further development of monitoring and reporting systems planned in 2005, the Group considers that its risk control system is increasingly effective. A presentation of the key business risk management processes was made to the Supervisory Board during the year while for every major project which the Group intends to accept, a presentation of the main features is made to the Supervisory Board, including the risks and actions to mitigate them.

SBM Offshore has a thorough internal control process that requires:

- performance of periodic risk analysis
- designing and embedding controls for relevant risks
- system of monitoring and reporting
- transparency regarding the adequacy and effectiveness of such risk and control system towards stakeholders

These principles are collectively covered in the description of the Group's systems for management of risk described below.

The major categories of risks which the Group has to address and which are briefly described are:

- I Project Specific Risk
- II Structural Risk
- III Treasury Risk
- IV Other Risks

I Project Specific Risk **Turnkey Supply**

Technical risk

One of the fundamental elements of the Group's strategy is to provide custom built solutions to clients' requirements, and the technical risk carried by each project is therefore a major preoccupation.

This is addressed by:

- use of the Group's considerable resources, experience, and know how (including inhouse procedures, proprietary know how and patents) to manage the technical aspects of each project, in terms of engineering, project management, procurement and subcontracting

- 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 of an offer to the client, the detailed cost 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 progress of the execution is constantly monitored during the execution phase, through a detailed monthly reporting and forecast procedure to prevent execution delays and budget overrun. The consequences of problems in execution, except faulty design, are always insured.

The financial viability of major vendors and sub-contractors is always independently verified.

Payment risk

Before the acceptance of each contract, a detailed review of its terms and conditions is carried out from a commercial, financial, and legal point of view. Bank or parent company guarantees are negotiated with customers and if there remain any doubts as to the financial strength of specific customers, payments due in respect of supply contracts are covered by Letters of Credit.

FPSO/FSO Lease and Operation

The risk management in the construction of FPSOs and FSOs for its own fleet, to be leased to and operated for oil company clients is identical to that described under 'Turnkey Supply'. In addition, the lease and operation of the units brings a new set of risks:

FPSO/FSO Lease Operational risk

- Pollution risk

There has been in fact no major pollution incident involving FPSOs or FSOs anywhere in the world. Within the Group, management of pollution risk is addressed in three ways:

- (1) internal policy to maintain the general integrity of the fleet.
 - strict operating procedures and preventive maintenance programmes
 - 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

- (2) indemnification by client above a limited reasonable ceiling.
- (3) pollution insurance for the maximum available from a P&I club.

- Performance and payment risk

Compensation rates may 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 2004, the Group has operated around one hundred and five vessel years for FPSOs/FSOs, with a total operating downtime of less than 1%, well below the average contractual downtime allowance. Insurance cover for loss of earnings is contracted if considered appropriate.

- 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 FPSOs/FSOs:

- 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 FPSOs 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 FPSOs and FSOs of the Group.

FPSO/FSO Lease Financial risk

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

- Client risk
- Reservoir risk
- Country risk
- Residual value risk

If the client is a company of sufficient financial strength to guarantee 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 look for limited recourse project finance in order to transfer most of reservoir and country risks to the international banking world where they belong.

Finally, residual value risk relates to the portion of the unit which is not amortised when 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 technical reusability of the unit and the future demand in the market. The Group maintains a realistic but cautious approach when establishing this key parameter.

Over the twenty five years of experience in this business, except for the Nkossa FSO, all lease and operate contracts have been extended and no unit has been redelivered with a book value higher than the scrap market price. This provides considerable comfort and indicates that contract extensions are inherent to the oil companies contracting model whereby initial periods are established systematically in the most conservative manner.

The Group has built for its own fleet a total of twenty FPSOs and FSOs. Until today, the contracts of ten from the twenty have been extended, by periods from one to nine years. The remaining units have not yet reached the end of their original charters. This provides considerable comfort in respect of the residual value risk.

Periodic risk analysis and control

As can be seen from the above, risk analysis is a continuous process. The process is also sometimes reinforced by audits of a project of one Group company by experts from another Group company or from a specialist third party.

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

System of Monitoring and Reporting

Every FPSO/FSO lease and operate contract as well as every project under construction is reported on a monthly basis 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, who is responsible to ensure that important variances are brought to the attention of the Board of Management. Once per quarter, the status of the Group's major projects are reported to the Supervisory Board of SBM Offshore. In respect of compliance with procedures on tendering activity, the Group's internal auditor reports on a monthly basis to the Board of Management.

II Structural Risk **Irregular order intake**

This is one business risk which is inherent to the capital goods business and particularly in the oil and gas

industry. SBM Offshore mitigates this risk by having developed the right strategy through the years, the main principles being:

- Employ directly a (large) core of competent engineers and project managers around which a large proportion of temporary staff can be utilised (up to one third of total capacity).
- Develop the FPSO lease and operate business, to generate a substantial long-term cash flow and predictable earnings. Presently the fleet of FPSOs represents 6-1/2 years average portfolio.
- Continue to grow the fly wheel of after sales services. The Group has sold more than 350 terminals to the global market and the demand for spare parts and services represents regular, quasi predictable order intake and it generates substantial earnings.
- Outsource all construction work. The group does not own any shipyard or fabrication plant and therefore does not run the risk of irregular utilisation of construction capacity.

Imbalance between supply and lease contracts

Supply contracts are attractive in that they generate profit immediately, and 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/operate FPSOs, there are no progress payments, and large amounts of capital are tied up. Nonetheless, when they come onstream, lease contracts contribute immediately to cash flow. The fleet presently contracted provides a 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 contracts. As mentioned, this puts pressure on the balance sheet, but provides excellent visibility of earnings and cashflow.

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 capacity to bid on a supply basis for the very large new-build FPSO projects provides the ability to seize all the market opportunities to balance the activities between supply and lease.

III Treasury Risk

SBM Offshore has considerable exposure to financial market risk, mainly relating to currencies and interest rates. The functional and reporting currency of the Company is US Dollars, and almost all offshore revenues are in US Dollars. There are however significant cost elements and some investments in Euros and other non-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 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. 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. The market value of financial instruments as at year-end 2004 is reported in the Notes to the Financial Statements and the future accounting treatment of these instruments is explained in the Financial Review.

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 and are updated as changes in the exposures are recognised. Treasury reports monthly to the Board of Management of SBM Offshore 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 policy of full hedging, the Euro based equity and profit from activities in the Netherlands have not been hedged. These items are not considered material in the context of the Group. However volatility in the €/US\$ exchange rate will result in some volatility in the Group's reported profit and equity. This subject is developed further in the Financial Review.

IV Other Risks

With respect to integrity of offshore units meant to remain at sea over long periods of time (in excess of fifteen years), without dry-docking possibility, the choice of the hull is quite critical.

Over the past twenty-five years, SBM Offshore has on most occasions converted tankers that were retired from trading service. The vessels bought for conversion were carefully selected, particularly after the learning experience of the Kuito project.

All units presently owned by the Group have a service life that goes far beyond their contractual commitments. Today however, tankers of good standard and low price are extremely rare. The Group currently has three units available for conversion, and beyond these three, other solutions will have to be found. The Management has developed a clear strategy to tackle this delicate problem, where the combination of hull quality and price level has to be carefully optimised.

Sustainable Development

SBM Offshore is conscious of the fact that the oil and gas industry has a high impact on society and the environment. The Company realises that it is essential to conduct its business in a sustainable way.

The Company's commitment to socially and environmentally responsible business is expressed in the Code of Conduct published by IHC Caland 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 accountable for compliance with this code. An update of the Code of Conduct will be published by SBM Offshore in the second half of 2005.



Seals sunbathing on the oil transfer hose of the FSO Okha offshore Sakhalin

To address these responsibilities a Group Management System has been put in place. This covers the combined activities of Quality Assurance, Health Safety & Environment and Security. The Management System has been designed to be compliant with the requirements of the following International Standards:

- ISO 9001: 2000 Quality Management
- ISO 14000 Environmental Management
- OSHA 18001 Health & Safety
- the ISPS Code for ship security
- the ISM Code for the safe management and operation of ships and for pollution prevention.

The highest HSE standards are achieved through a process of training, competence, risk identification and control, supplemented by communication to all employees and contractors of the Group.

For the management and operation of the FPSO and FSO fleet, a policy and a set of objectives specific to the production activities has been developed and the Group established a Safety and Environment Protection (SEP)

Management System based on the requirements of Det Norske Veritas (DNV) rules of the 'Management of Safe Ship Operation and Pollution Prevention', in order to implement the policy and objectives.

Myanmar Project

For contractual reasons previously 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, SBM Offshore is giving financial support to two programmes under the umbrella of the United Nations organisations UNAIDS, UNICEF and the National AIDS Programme:

- a HIV/AIDS awareness programme at the Maritime Institute of Yangon. This education programme, which has been supported by the Group for the last three years, has been given to 9,939 seafarers with a potential of 60,000 seafarers that could be reached through this effort. Targets to reach another 4,000 seafarers have been set for 2005.
- a HIV/AIDS awareness programme reached 4,104 employees in eleven Yangon garment factories mainly populated by young females, and five small enterprises in 2004. Indirect beneficiaries from this training could number approximately 15,000 people from families and communities. This programme, which has been supported by the Group since mid-year 2003, proposes to complete the education of 4,000 to 4,500 factory and industry workers and ten businesses in 2005.

Ongoing audits of accounts and management meetings are held to reconfirm both the legitimacy and the effectiveness of these programmes with respect to SBM Offshore's sponsorship.

In 2003, the Company 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 the Group's suppliers and sub suppliers in relation to forced labour and child labour.

The Management of the Company has undertaken to visit the Myanmar ambassador to the United Kingdom in London during the second quarter of 2005, accompanied by representatives of the Dutch trade unions. A similar visit was made in 2003. Management will strongly reiterate its request that the government of Myanmar should respect the stated objectives of various international bodies in respect of human rights, child labour etc...

Skill Transfer and Community Development

In other parts of the world, SBM Offshore participates in projects for transfer of skills and the support of local communities. Some examples are described hereafter:

As previously reported, SBM entered in 2003 into a partnership to take the responsibility for the operation, management, marketing and development of all ongoing and future activities of ESSA (Empresa de Serviços e Sondagens de Angola Limitada), a training centre in Luanda developed and owned by Sonangol.

The centre offers to the local industry mainly language and safety training courses and major investments were made in 2004 by all parties involved, to modernize and expand the existing infrastructure. Presently, the centre can take up to 250 students.

The goal of ESSA is to become an Angolan Training Centre of Excellence by introducing into Angola internationally recognized, accredited, certified and specialized training programmes for the benefit of the Angolan industry in general and with a particular priority for the oil and gas industry. The participation of SBM in the ESSA training centre allows the Company to increase the involvement of national resources in its operations.



Helicopter crash survival training at the ESSA centre in Luanda

In 2004, the yard of Nigerdock in Nigeria has decided to build a training school to increase the skills of its employees. This will enable Nigerdock to employ a work force from the local communities neighbouring the yard and provide them with the professional skills required to work for a shipyard and with revenues to allow an improvement in their standard of living.

The effort was concluded with the opening of a construction and welding school in early 2005. The first students graduated on 17 February 2005. SBM contributed to this 'skill transfer' project with technical



A student of the welding school at the Nigerdock yard

assistance for the construction of the school and substantial financing.

In Angola, a country which is being rebuilt after 28 years of civil war, as much assistance as possible is needed to assist its children. SBM provides support to two projects: 'Casa dos Rapazes do Palanca', a school and workshop for boys in Luanda and 'Lar Nossa Senhora das Dores', a girls' orphanage in Lubango.

Over recent years, SBM has also been providing support to the Sakhalin Orphanage on Sakhalin Island where the company operates the FSO Okha.

Health and Safety

As health and safety becomes increasingly important and a spotlight is placed upon the HSE performance of the Group, along with its competitors, the demands and expectations of our stakeholders and clients are becoming more exacting. To meet this welcome prioritization of HSE performance the development of a suitable Group HSE Management system, as an integral part of the Group Management arrangements, has continued during 2004. The different activities undertaken within the Group require that common HSE objectives and standards are instigated throughout the Group to meet the competitive requirements of today's offshore market. Unified HSE performance standards are being applied throughout the Group companies thereby ensuring that employees, visitors and members of the public are not put at risk, and that irrespective of the location and nature of the undertaking, the name of SBM Offshore can be relied upon to set and maintain the highest standards of protection.

The year 2004 saw further challenges to our ability to control the hazards inherent in our operations in various parts of the world. We are pleased to report that, on every project, our goals and targets for HSE performance during 2004 were met, and in most cases exceeded by a comfortable margin.

The Group's oil and gas construction and installation activities recorded no fatalities, however, two Lost Time Incidents (LTIs), accidents requiring more than one day away from work, were recorded for a total of 2.35 million man hours expended. This notable reduction from six LTIs in 2003 includes some admirable achievements in HSE performance, particularly in the hazardous work carried out during offshore installation campaigns, and during our construction operations in West Africa. This improvement is a direct result of the commitment of senior management and focused safety promotion and incentive schemes.



Work on deck of the 'Dynamic Installer' during a CALM buoy installation

The adoption of common HSE standards and increased cooperation with our clients and subcontractors, together with additional supervision, have helped to develop a culture of safety, adjusted to local conditions, that is necessary for continual improvement in the health and safety performance that we strive to achieve. Locally employed professional safety staff and organised safety incentive schemes have helped to engender a more positive approach to safety and proactive policies have contributed to the prevention of diseases such as Malaria and other occupational illnesses.

The Group is continuously updating its policies in respect of health and safety in its fleet operations. SBM has been the first FPSO 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.

An outstanding rate of reliability and safety on board FPSOs compares favourably with the offshore industry as a whole. Lost Time Accident Frequency (LTAF) in the year 2004 was 0,51, i.e. there were ten Lost Time Accidents (LTAs) involving a loss of work time exceeding 24 hours,

for the 3,884,673 manhours worked during the year. At the close of the year 2004, seven of the Company's units had passed the milestone of one year without LTA. From these seven units the FSO Yetagun had passed the milestone of five years without LTA, and the FPSO Tantawan the commendable milestone of seven years without LTA.

In the dredger and specialised shipbuilding activities 0.19% of the available production manhours were lost due to accidents during the year 2004, a significant improvement over 2003 when this figure was 0.24%. No fatalities were recorded.

Human Resources

General

The Group continues to maintain a remuneration system that is attractive, consistent and motivating. Our Human Resource policies continue to ensure the implementation of corporate resource planning so that the Company is adequately staffed with competent people. Our Human Resource managers try to ensure that staff are satisfied with their positions and that necessary training and development is identified to continue working in a safe and healthy manner.

At the end of 2004, the Offshore division of IHC Caland, the present SBM Offshore, employed 2,500 people. The head count in the three main centres of activity was 660 in Monaco, 340 in Schiedam and 350 in Houston. A further 50 were employed in marketing and sales offices and shorebases worldwide. The above total includes also 1,100 crew members of the FPSO/FSO fleet. The composition of this number is: 360 directly employed by the Group, 290 through manning agencies and 450 locally hired national staff. The employees represent 40 nationalities, spread over 21 countries.

Labour markets

2004 was a quieter year in terms of recruitment than 2003, less new recruits being hired by the Offshore division for the first time in the new millennium, but new project awards in the last quarter changed this situation and 2005 will be a time of increased employment.

The intake of graduates from our internship programme has continued to supply very bright young minds from top flight universities and engineering schools. The benefit of this programme is starting to be felt with a constant source of new talent feeding the workforce and providing stimulus.

Career path development using the competency system

All operating units have completely re-evaluated their staff using a world renowned staff evaluation system

and linked this to the implementation of a competency system. Now, not only what staff do, but how they do it can be measured at the annual performance appraisal and career path planning and succession management implemented in a meaningful manner. The competency system is also used to aid the recruitment process and provides critical input, where deficiencies are noted, by remedial training.

Staff in all of the three main centres of Monaco, Schiedam or Houston are now classified under the same system allowing recognition of similar skills and efficient transfer of staff when necessary.



Young recruits of SBM in Monaco

Absenteeism

Absenteeism in the SBM Offshore operating units remained low at 1.8%, a slight increase from 1.5% in 2003.

Remuneration

The Group maintains its policy towards remuneration, which is to provide a comprehensive package including salary, bonus and, in certain senior positions, stock options. Fringe benefits provide staff with a unique and attractive reward combination. The Employee Share Ownership Plan continues to function successfully, improving motivation and involvement in the Group by encouraging employees to invest in SBM Offshore shares.

Competency assessment on the offshore units

The Company is committed to providing trained and competent persons to operate its worldwide fleet of FPSOs and FSOs. To this end, SBM has set standards of performance and training for each offshore discipline and has incorporated these standards into its offshore procedures and Safety Management System. All personnel receive a vessel specific induction and training appropriate to their discipline. After recruitment and basic training, or promotion, offshore operating staff are assessed using the SBM Competence Assessment System, which is based upon accepted UK national standards of performance. Actual assessment is carried out in the workplace through a process of observation by a trained assessor against the predefined standards and

procedures and using pre-written questionnaires to assess knowledge. The range of knowledge covered is specified and questions include reference to operating and safety procedures. If the Competence Assurance System highlights the need for additional training for the individual, it will be planned and developed as appropriate.

This system ensures operational integrity and, among other processes, internal and external verification (auditing) of competence and supervision of training progress is carried out, leading to a robust and auditable system.

Training of nationals in developing countries

As the Group continues to expand its operations all around the world, the recruitment, training and promotion of local employees is an increasingly high priority. It is a way to give something valuable back to the countries where we are doing business.

The education and training programme of the Angolan Employees of Sonasing/OPS, the Sonangol/SBM joint venture operating three FPSOs in Angola, continues with the basic education and technical courses in a South African College. One hundred and sixty employees of Sonasing/OPS have started this three-year education programme in 2003 and 2004. Another one hundred employees will start the same course in 2005. We expect to have the first trainees completing their three years programme in 2005 and to position these employees on board the joint venture FPSOs before the end of the year.



Sonasing's students of the South African College visiting the Sanha LPG FPSO during a stopover in Cape Town en route for Angola

The Group has now invested in a process simulator which will be installed mid 2005 in the premises of Senai, in Macae, Brazil. Senai is a governmental Brazilian Training Institution which will develop, together with SBM Competence Assurance specialists, training modules for our process operators. The training of our Brazilian FPSOs employees will be performed by the Senai instructors in Macae. The plan is to have each year twelve groups of eight trainees for periods of five days. This training action has been implemented to allow SBM to achieve its nationalisation target, which is 60% of its offshore crew in 2005, 70% in 2006 and 80% in 2008.

Corporate Governance

Corporate governance structure

The Company is a Naamloze Vennootschap (public limited company) incorporated under Dutch law with its statutory seat in Schiedam. After the sale of the Dutch shipyards, a change of the articles of association has been effected in the spring of 2005, transferring additional decision making authority to the general meeting of shareholders.

The authorised share capital is divided into 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 one statutory member and three other members. No members of the Board of Management are members of the Supervisory Board of any other listed company and the Group has not granted personal loans or guarantees or other financial support to any of its Board of Management members and will refrain from doing so in the future. None of the members of the Board of Management had a conflict of interest with the Group during the year except for Mr van Dooremalen as explained in the Report of the Supervisory Board, and the relevant best practice provisions of the Dutch corporate governance code will apply should such circumstances arise.

The Company also has a Supervisory Board, consisting of six persons. The Supervisory Board has established an Audit Committee, a Remuneration Committee and a Selection and Appointment Committee.

The Company follows the developments on corporate governance carefully and adapts its policy and structure if this is considered appropriate. This is a continuing process and any significant changes will be submitted to the General Meeting of Shareholders.

Dutch corporate governance code

Already last year the Company announced that it agreed with the principles of the Dutch corporate governance code ('the Code') and the applicable best practice provisions, which became effective on 1 January 2004.

In the report of the Board of Management and of the Supervisory Board and also elsewhere in this Annual Report all information (other than as set out below) that is

required by the Code is provided. The information that is required to be made available on the Group's website has also been published, notably:

- Supervisory Board rules (including the profile of the Supervisory Board).
- Rules for reporting of alleged irregularities of a general, operational or financial nature.
- Regulations governing ownership and transactions in securities other than the Group's own securities by members of the Supervisory Board and Board of Management.
- Remuneration policy (as part of this Annual Report).

Certain of the best practice provisions can only be implemented once appropriate changes in Dutch law have been effected. Provisions about one tier board and depositary receipts of shares are not applicable to the Company.

The Company reserves the right to change its position as to the compliance with the best practice provisions if circumstances would require it to do so. In such cases non compliance would be explained to the shareholders.

There are currently some cases of non compliance with best practice provisions:

- Options allocated to Board of Management members are not currently subject to performance criteria. A proposed revision to the remuneration policy will address this item.
- The Group will announce meetings with analysts and important presentations to institutional investors and press conferences using its website and will also make the presentations available on the website. Making these presentations available by webcasting is currently under study.
- Proxy voting is possible, but not yet electronically. There are no means provided for shareholders to communicate with other shareholders.
- The present CEO has no specific term of appointment stipulated in his employment contract, which was concluded before publication of the Code.

Although the Code requires establishing formal rules and regulations and providing increased volumes of information, the Group feels that corporate governance is more than this. It is about good and transparent management, supervision and communication with and involvement of the shareholders. It is a learning process, both for the Group and for our shareholders.

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 SBM Offshore, or otherwise to act against the best

interests of SBM Offshore 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.' (name currently being modified in accordance with the change in the Company's own name) 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.

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 N.V., Mr. P.J. Groenenboom, a former CEO of Imtech N.V., Mr. J.C.M. Hovers, a former CEO of Stork N.V. and of Océ N.V. 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 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 the Company as defined in the 'Fondsenreglement' of the Euronext Amsterdam Stock Exchange.

Developments in operating units



SINGLE BUOY MOORINGS GROUP OF COMPANIES

Management:

D. Keller, *Chief Executive Officer*

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

F. Blanchelande, *President, SBM Production Contractors*

Profile

The Single Buoy Moorings (SBM) Group of Companies with its operating offices in Monaco is by far the largest operating unit of the Group. Its product line is the supply of facilities and services for the development and production of offshore oil and gas fields as well as the systems relevant to the mooring technology at large. SBM is the owner and operator of the FPSO fleet.

The SBM head office in Switzerland and the engineering office in Monaco coordinate research & development, marketing & sales and project execution of the Group's activities in Monaco, Schiedam and Houston. 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, SBM Offshore Services for after sales services and offshore contracting and SBM Gas & Power for offshore technology applications in the LPG and LNG industry.

With the combined activities of its business units, SBM controls the total chain from contracting and design until operating a fleet of FPSOs. This gives SBM a clear competitive advantage in the industry. The 25 years permanent feedback between the Company's operating units and its projects under construction is unique in the FPSO contracting industry.

Developments 2004

The activity level in the SBM group was satisfactory throughout the year, primarily with the construction of three large FPSOs, two of which were completed and put into service during the first half-year. In addition, a significant number of projects on a sales basis were completed and delivered during the year.

SBM Systems

SBM Systems is responsible for the design, engineering and construction of offshore systems on both sales and lease basis. In-house staff is in charge of the design, engineering and project management.

Construction is outsourced to shipyards worldwide offering the best combination of safety, quality and price.

New orders

Notwithstanding a slow start to the year the total order intake has been substantial and includes:

- The full contract scope for the supply of a disconnectable riser turret mooring for the Enfield FPSO of Woodside, Australia.
- The contract from Petronas Carigali (Turkmenistan) Sdn. Bhd. for the provision, under a three year lease and operate contract, of an Extended Well Test system (EWT) for offshore Turkmenistan in the Caspian Sea. The EWT will consist of a purpose built jack-up production barge and a small turret moored FSO.
- The order from Agip KCO for the design and supply of three flash gas compression barges for the development of the shallow water Kashagan field offshore Kazakhstan in the Caspian Sea.
- The contract from Petrobras in December 2004 for the supply on a lease and operate basis of a large FPSO to produce oil and gas on the Golfinho field offshore Brazil. The contract is for an initial period of seven years with options for three additional one year extensions. The lease will commence second quarter 2006.
- A total of seven orders for the supply of CALM buoys and of complete CALM systems from clients in China, Korea, UAE, Indonesia, Nigeria and Ghana.



The CALM buoy supplied to Shell Nigeria at the Bonny terminal



The Okono FPSO started operation for Agip Nigeria in January 2004

Deliveries and ongoing orders

On the execution side the following projects were completed in the course of the year:

- Delivery and start-up of the Okono FPSO for Agip Nigeria.
- Delivery and start-up of the Marlim Sul FPSO for Petrobras in Brazil.
- A deepwater export system for the Kizomba A development of ExxonMobil offshore Angola.

A number of other major orders occupying capacity in 2004 for completion in 2005 include:

- The FPSO mooring and deepwater export system for the Bonga field of SNEPCO offshore Nigeria.
- The FSO for the Yoho field of ExxonMobil offshore Nigeria.
- Deepwater export buoys for ExxonMobil for the Kizomba B development offshore Angola and the Erha field off Nigeria, both with a large content of local construction.

The FPSO Xikomba during an offloading operation



- The construction of the Sanha LPG FPSO in Japan, installed for ChevronTexaco offshore Angola in the first quarter of 2005.

SBM Production Contractors

SBM Production Contractors (SBM PC) leads the market 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 2004, a total of 1.25 billion barrels of oil had passed through the storage systems of the Group's units. This oil was offloaded through more than 2,200 offloading operations performed by the production and marine crews of SBM. This represents more than 105 years of cumulative experience in operating FPSO and FSO units. The focus is on safe, professional and cost effective fleet operations, with a high level of commitment to safety and environment protection.

Fleet operations

During the first half of 2004, the Okono FPSO in Nigeria and the FPSO Marlim Sul in Brazil started producing oil. The Jamestown FPSO has been sold during the year 2004, while the FSO XV is available for sale or for conversion for upcoming projects.

In early 2005, contract extensions were obtained for two units in operation:

- 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 2006.
- Extension of the lease and operate contract for the FPSO for Agip's Aquila field. The contract will continue until June 2005, with further extensions under discussion.

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 of engineers. This group handles the start-up during the project execution, and becomes the operational support in country when the unit starts producing.

In addition to the routine operations of the fleet, special attention was required in 2004 on the oil and gas production of FPSOs having recently started their operational life:

- Xikomba FPSO
- Okono FPSO
- Marlim Sul FPSO

The production ramp-up of new units has to be carefully monitored, particularly the fine-tuning of rotating equip-

ment used for power generation, gas compression and water injection.

Competence Assessment

In order to maintain the performance of the Company's production and marine crews to the highest standard, a comprehensive Competence Assurance Training programme is now in place. 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.

Asset Management

In order to protect the value of the fleet of FSOs and FPSOs and maintain these to the highest standards, an Asset Management Group is now firmly 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.
- 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.
- monitoring the efficiencies of FPSO process plants through a system of daily reported Key Performance Indicators.
- management of surveillance programmes agreed with Clients in order to support their production targets in a cost effective manner.

SBM Production Contractors' 2005 outlook

2005 is again expected to present a heavy workload for SBM PC. The Sanha LPG FPSO is anticipated to be ready to receive gas in April in Angola, while the Turkmenistan Extended Well Test system is scheduled for first oil in November 2005. Preparation for the operation of the Kikeh and Golfinho FPSOs will continue throughout 2005.

SBM Offshore Services

In 2004 SBM Offshore Services has comfortably met its turnover target and exceeded the profit target in all activities: after-sales services including spare parts sales, offshore contracting and fabrication of standard SBM systems.

In 2004, the main achievements were:

- the overhaul of a disconnectable Turret Mooring System completed in Singapore, and another one underway in China.
- swivel stacks completed for three FPSO projects. Completion of two others is planned for early 2005.
- the delivery of seven CALM buoys in 2004 while orders for seven units have been received for delivery in 2005.
- the 'Dynamic Installer' has been occupied as targeted and has successfully undergone its fifth special survey in South Africa.
- the 'Normand Progress', under charter from Solstad, has been busy most of the year on the Bonga field except for a few weeks at the end of the year where she went to drydock in Gibraltar.
- major offshore work has included the installation of the Yoho FSO for ExxonMobil and deepwater construction work on the Bonga field for Shell.
- contract for fabrication of the new Deep Water Installation Vessel (named 'Normand Installer') signed in August with Ulstein. The vessel will be delivered to ADSI (joint venture between Solstad and SBM) within the first quarter of 2006.

The 'Normand Progress' and 'Dynamic Installer' during the installation of the Bonga deepwater export buoy





SBM-IMODCO Inc.

Management:

B. Van Leggelo, *President*

Profile

SBM-Imodco is based in Houston and supports the SBM Group of Companies in marketing and sales and in the execution of floating production, storage and offloading system projects (FPSOs/FSOs) including LNG import and 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. Additionally, it works with its sister company in Houston, Atlantia Offshore, on the design, procurement and fabrication of the topsides facilities for their products, thus enabling 'complete floating facility' solutions to be offered to their clients.

It is expected that FPSOs 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.

Developments 2004

During this year, the company has worked predominantly on the execution of an FSO project as well as several turret and CALM terminal projects, making a positive contribution to Group profits. A significant amount of work was executed together with SBM-Imodco's sister company, Atlantia Offshore, on several TLP projects for the Gulf of Mexico as well as other worldwide locations. This culminated in the award of a FEED study for a complete TLP for the Gulf of Mexico. Additionally, effort was employed on the development and preparation of proposals for future major FPSO/FPU projects.

This year has seen further consolidation of SBM-Imodco's operating procedures and practices with its sister companies in Houston (Atlantia Offshore and GustoMSC Inc).

The Yoho FSO installed for ExxonMobil offshore Nigeria



New, ongoing and delivered orders

The following major orders were obtained in 2004:

- The supply of a CALM buoy for EIL/ONGC, India.
- Major overhaul of two CALM buoys for ITS on behalf of Pemex, Mexico.
- The design and equipment supply for a buoy for Paradip, India.
- FEED for topsides facility for Atlantia Offshore's Neptune TLP project.

The following work was also 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. The turret was integrated into the FPSO vessel at a Korean shipyard. The mooring components including subsea buoy were installed offshore Canada.
- Continuation of the design and project management for the supply of an FSO for ExxonMobil's Yoho field offshore Nigeria. The FSO was delivered from the shipyard and installed in the field in Nigeria.
- Proposal preparation for various FPSO projects.

Orders delivered in 2004:

- A CALM buoy for Cairn Energy offshore India.
- A CALM buoy for Gujarat Adani Port offshore India.
- The turret for MISC/Petronas for an FPSO installed offshore Malaysia.
- The turret for Unocal/Teekay Shipping offshore Thailand delivered and integrated onto the FSO vessel.
- New spare CALM for inventory.
- A significant number of orders for maintenance spare parts for existing systems.

Technological highlights

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

- Development of a Floating Regasification Unit (FRU) for offshore LNG carrier offloading and regasification to gas for subsea salt cavern storage.
- Development of a deep-draft export buoy having motion responses that gives long fatigue life for steel Oil Offloading Lines (OOLs) commonly used for spread moored FPSOs.
- Ongoing development of SCR J-lay self installation from Floating Production Units (FPUs) for the connection of seabed wells and other subsea facilities in ultra deepwater.
- Ongoing development of the Deepwater Air Vessel Installation Tool (DAVIT), an ultra deepwater heavy subsea hardware deployment system using conventional proven equipment.



The external turret mooring system of the 'Bunga Kertas' FPSO of MISC



GUSTOMSC COMPANIES

Gusto BV

Management:

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

Marine Structure Consultants (MSC) BV

Management:

C.J. Mommaas, *Managing Director*

GustoMSC Inc

Management:

Bui V. Dao, *President*

Profiles

The Companies provide design, engineering and consultancy services, mainly for the offshore oil industry.

Gusto BV

The core competence of 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, like 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 new-build or conversion engineering for floating production, storage and offloading systems, as well as mechanical engineering for specific critical components.



The offloading hose reel of the FPSO Marlim Sul designed and supplied by Gusto

Marine Structure Consultants (MSC) BV

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 Inc

GustoMSC Inc. has an outstanding reputation in the design and modification of jack-up drilling units and semi-submersible drilling units. GustoMSC Inc in addition provides design and engineering for platform-drilling rigs. As the USA office of the GustoMSC alliance, GustoMSC Inc also offers the proprietary designs of Gusto and MSC to the US based clients.

Developments 2004

The markets for drilling and construction showed a significant recovery in comparison with 2003 reflecting in a satisfactory occupancy level of the three sister companies, in particular in the second half of the year. This has resulted in a positive contribution to the Group's profit.

New, ongoing and delivered orders

Engineering

- Gusto carried out substantial engineering assistance to the SBM group for the AGIP KCO project for the compression barges for the Kashagan field development, for the Petronas project for the Mobile Offshore Production Unit and the FSO for Turkmenistan and for the Golfinho FPSO for Petrobras. For all units, Gusto's involvement consisted of vessel conversion/new-build and topsides engineering.
- The 6,000 tons launch barge designed by Gusto for COOEC last year successfully performed its first launch. COOEC awarded Gusto a new design study for a 30,000 tons launch barge.
- MISC awarded an engineering study to Gusto for design assistance for the Talisman FSO.
- Gusto carried out various design and engineering activities on drillships, pipelay vessels and crane barges, such as upgrades and modifications to Pride International's 'Pride Africa' and 'Pride Angola', Allseas' 'Solitaire', Stolt's 'LB 200', McDermott's 'DB 101' and Technip's 'Deep Blue'.
- The second MSC CJ70-150MC cantilever drilling jack-up, 'Maersk Inspirer', was delivered to Maersk Contractors.
- MSC carried out various upgrade and modifications studies on Mobile Drilling Units such as Stena Drilling's 'Stena Tay', Transocean's 'Searex IV', VSP's 'Tam Dao' and Pride International's 'Pride Montana'.



GustoMSC Inc was responsible for the upgrade engineering of the 'Homer Ferrington' semi-submersible drilling rig of Noble Drilling

- MSC completed concept studies for production jack-ups for Woodside and SBM and an accommodation jack-up for Total.
- MSC carried out the engineering for the conversion of the drilling jack-up 'Amina' into the accommodation jack-up 'Atlantic Esbjerg' for Atlantic Marine Services.
- MSC completed the FEED verification studies on Petrobras's P51 and P52 for KeppelFels.
- GustoMSC Inc completed upgrade engineering on Noble Drilling's 'Homer Ferrington'.
- GustoMSC Inc carried out numerous upgrade and modification engineering projects for Atwood Oceanics, Noble Drilling, Transocean and ENSCO.
- GustoMSC Inc together with and through Atlantia was successful in obtaining the FEED and eventually the contract for the design of the production semi-submersible for the Independence Hub.
- GustoMSC Inc completed a concept study for a production jack-up for Amerada Hess.

Proprietary Design

- Based on an internal development within Gusto for a well-intervention vessel, Gusto designed a DP - well intervention vessel for Stena Drilling, to be used for intervention and well-maintenance up to 2,000 m water depth.
- MSC developed the deepwater drilling semi-submersible DSS21 together with KeppelFels for Maersk Contractors.

- On the basis of MSC's CJ-series of cantilever drilling jack-ups, MSC developed the MSC CJ50-X100MC for Maersk Contractors.

Hardware

Gusto received a number of orders involving engineering and turnkey delivery of hardware components:

- For Siemens, the delivery of a compressor package for Bapetco in Egypt.
- For MPI, the delivery of an up-ending/guidance tool for 600-ton windmill foundation piles for the installation vessel 'Resolution'.
- For Stolt Offshore, the upgrade of the gantry cranes on the pipelay barge 'LB-200'.
- MSC received an order for the supply of the hydraulic jacking system for SBM's Mobile Offshore Production Unit for Petronas Turkmenistan.

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 2,000 metres.
- Gusto developed a series of pipelay / heavy lift vessel designs for intermediate to deep water pipelay and lifting operations.
- For SBM, Gusto assists in the development of the LNG-FSRU concept. The scope of work comprises the design of the hull with LNG containment system and topsides.
- MSC further developed the jack-up Booster, a subsea structure to enable smaller jack-ups to operate in deeper waters.
- MSC continued the development of a jack-up unit for the construction and maintenance of offshore wind farms.
- GustoMSC Inc completed the development of a series of self-propelled jack-ups for the Liftboat market on the basis of MSC's NG-series.

The windmill installation vessel 'Resolution'





ATLANTIA OFFSHORE LIMITED

Management:

A. Mace, *President*

Profile

Atlantia Offshore Limited (Atlantia) is involved in the engineering, procurement, construction and installation of deepwater floating production systems. The company's primary business strategy is to offer these deepwater floating solutions for project development on a turnkey basis to the worldwide marketplace.

To date, the company has successfully executed four deepwater projects in the Gulf of Mexico utilizing the SeaStar® mono-column Tension Leg Platform (TLP) concept. 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. In cooperation with its sister company, GustoMSC Inc, Atlantia has developed a deep-draft semi-submersible Floating Production System (FPS) for ultra-deepwater development in the Gulf of Mexico.

Developments 2004

Due to the low opening portfolio and the continuing sluggish market for deepwater floating systems, Atlantia did not expect to achieve a profitable year and the delay of major projects that were originally expected to be awarded mid-2004 confirmed this negative result.

The development of the deep-draft semi-submersible was however rewarded with the award of a turnkey hull and mooring contract for a project that will be the deepest FPS in the world when installed. The success in this effort has led to Atlantia being seen as a provider of deepwater solutions and not just products. This perception will be invaluable in positioning Atlantia for serious consideration in future deepwater developments.

The further development of the SeaStar® Generation 3 (Gen 3) concept led to Atlantia being asked to bid on a turnkey basis for Dry Tree Units (DTUs) in West Africa and Southeast Asia. Although unsuccessful, these tenders provided Atlantia with the opportunity to gain invaluable experience in international bids, and showed that the company can be competitive in the international market. The considerable technical effort expended on these tenders also allowed Atlantia to significantly progress the level of detailed engineering and confidence in the cost and feasibility of this concept.

The consolidation of company operating procedures and processes for project execution and the synergy created by moving Atlantia and its sister Houston companies (SBM-Imodco and GustoMSC Inc) into a single office building has allowed the company to successfully offer the total range of capabilities required for achieving its business strategy.

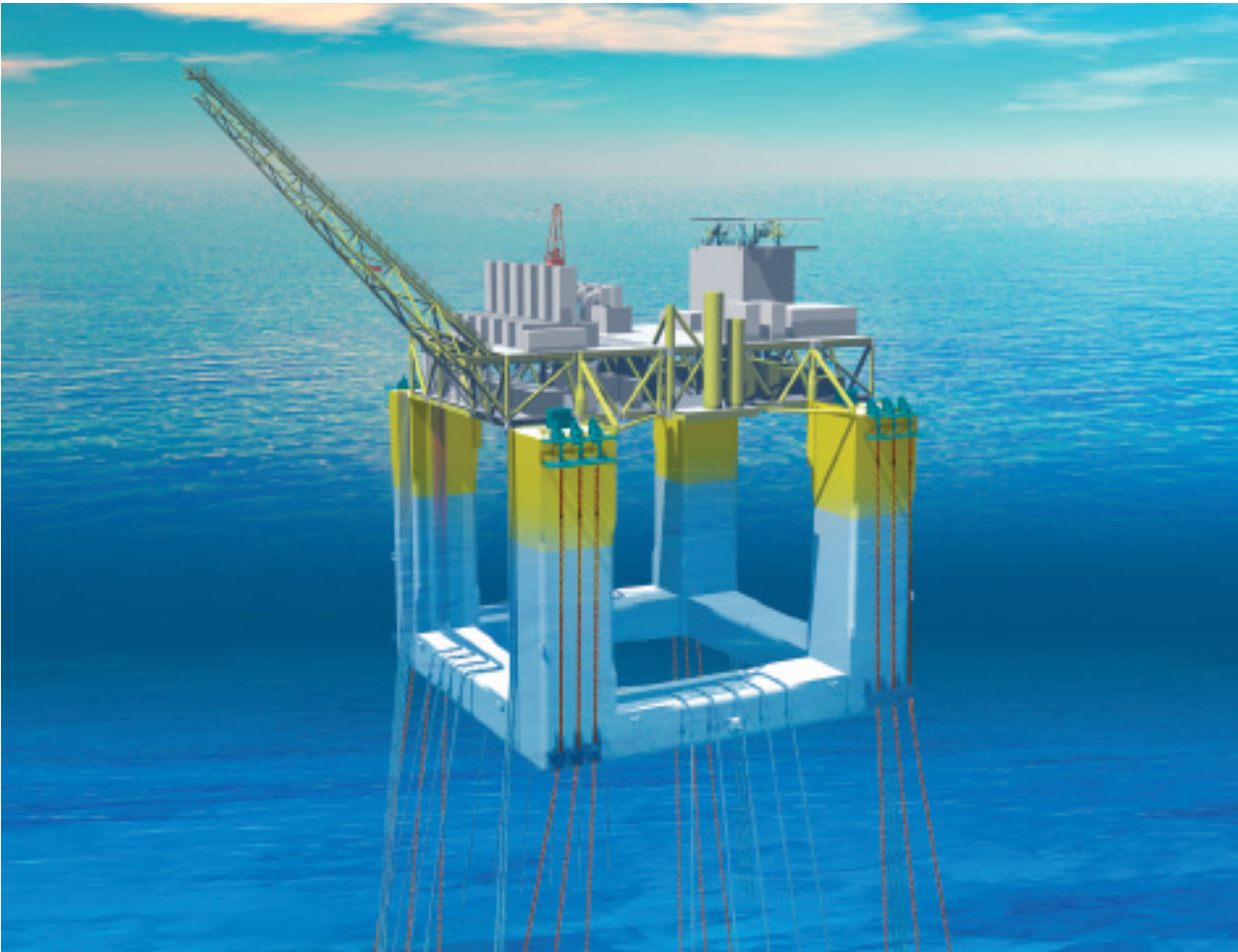
New and ongoing orders

The following major orders were obtained in 2004:

- The turnkey supply of hull and moorings for the Independence Hub deep-draft semi-submersible FPS for Enterprise Products LLP. This project in 2,400 metre water depth in the Gulf of Mexico provides a gas gathering and production system for remote deepwater subsea wells from several different oil and gas operators that comprise the Atwater Valley Partners consortium. The hull supports a topside which processes 850 mmscfd of gas as well as the import and export SCR flowlines. All major mooring component purchase orders have been issued and the hull subcontract has been executed with Jurong Shipyard in Singapore. When installed in the summer of 2006, this platform will be the deepest FPS in the world.
- A FEED contract with BHP Billiton for their Neptune project in 1,400 metre water depth in the Gulf of Mexico. The FEED is based on a SeaStar® TLP with topsides and will provide definition of project costs and schedule to enable a decision on sanction to be made by mid-2005. The FEED is expected to lead to a turnkey contract for a SeaStar®.

The following were major ongoing developments during the year:

- The warranty period for the Matterhorn project expired in late 2004 with all warranty issues resolved within the project budget. Hurricane Ivan passed very near the platform, but resulted in minimal damage. This contrasted with significant damage to other fixed and floating platforms in the Gulf of Mexico. Total was very pleased with the reliability and durability of the SeaStar® during this extreme weather event.
- Atlantia was selected by Amerada Hess as one of three TLP providers to perform a paid design competition/tender for two DTUs offshore Equatorial Guinea, enabling the company to develop detailed engineering for our Gen 3 Wellhead TLP utilising fully integrated topsides and permitting offshore installation without the use of a heavy-lift derrick barge.
- Atlantia was selected as one of four FPS providers to perform a paid design competition/tender for a DTU for Murphy's Kikeh field offshore Malaysia. The SeaStar® TLP proposed was a Gen 3 with Tender Assisted Drilling capability.



The deep-draft semi-submersible hull for the Independence Hub in the Gulf of Mexico

- Many studies for deepwater development were performed for various oil and gas operators based on both the SeaStar® and deep-draft semi-submersibles. It is expected that several of these studies will lead to FEEDs and/or tenders for turnkey supply contracts during 2005.
- Atlantia continues to provide technical and asset management support to the owners of the four SeaStar® platforms in the Gulf of Mexico. These after sales services enhance the company's considerable database of knowledge about deepwater platform performance and inspection and maintenance requirements. This work also enables Atlantia to continue its relationship with the client for many years after completion of the construction phase.
- In cooperation with SBM in Monaco, Atlantia has been involved in the equipment specifications for SBM's deepwater installation vessel currently under construction. The vessel was proposed in bids for deepwater installations for SeaStar® Gen 3 TLP's and the deep-draft semi-submersible FPS.
- The development of the Generation 4 SeaStar® continued, with extensive model testing planned for mid-2005. This concept will facilitate the use of a dry-tree TLP in ultra-deepwater (3,000 metre water depth).
- An R&D effort was initiated for the development of a small semi-submersible FPS for marginal fields in the deepwater Gulf of Mexico.

Technological highlights

Some of the accomplishments in 2004 are:

- The further development of the Gen 3 SeaStar®. This concept now accommodates much larger payloads in both a dry-tree and wet-tree mode. The Gen 3 SeaStar® has also been designed as a dry-tree Wellhead platform to be used in conjunction with a Tender Assisted Drilling Semi-submersible and an FPSO to accommodate the processing of hydrocarbons.



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 (PBBs).

Since 1974 the group has been involved in more than 400 airport projects, around the world and has a leading position in this market.

The core competence of the NKI Group lies in the design, engineering, manufacture and project management of world wide airport terminal interiors and passenger boarding bridges as well as major signage projects for railway stations.

The core business activities include the engineering, manufacture and installation of:

- Passenger Boarding Bridges (PBBs) in aluminium and steel
- Nose loaders
- Aprondrive bridges
- Over the wing bridges (OTWs)
- Complete check-in island facilities
- All other special counters
- Custom made interiors and products for airport terminals
- Static and dynamic signage
- Taxiway-guidance signs

Developments 2004

Despite ongoing strong competition and a very limited number of new projects in the airport market as well as the impact of the Iraq war and the volatility and depreciation of the US\$ against the Euro, 2004 was a profitable year for the NKI Group.

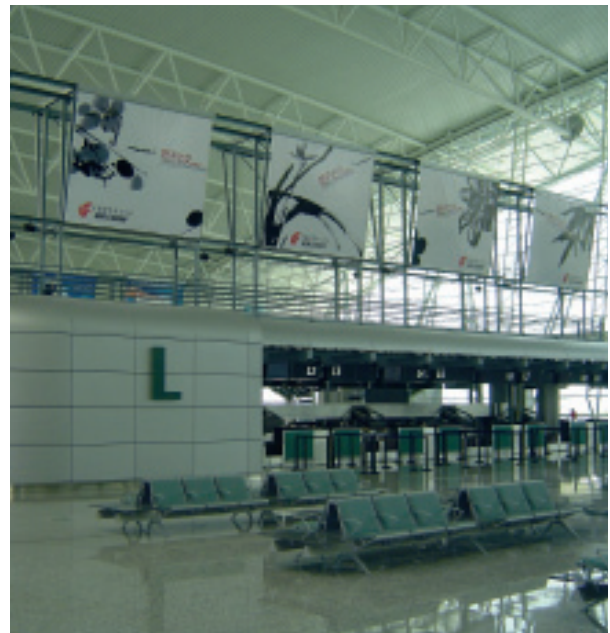
In 2004 the NKI Group re-organised its commercial activities throughout the world. Asian activities have been concentrated in Hong Kong, American activities are concentrated in New York and the remaining regions, as well as the overall coordination are handled from the head office in the Netherlands.

The NKI Group is confident that there will be a strong recovery of the market in 2005 and barring further unexpected negative developments, expects that 2005 will also be a profitable year.

New orders

The following orders were booked in 2004:

- Contracts for the delivery and installation of counters for the new South Terminal of Miami Airport (USA), Chengdu Airport (China), Anadyr Airport (Russia), Palma de Mallorca (Spain), Domodedovo Airport (Russia).
- A contract for the delivery and installation of interiors at Schiphol Airport, the Netherlands.
- Contracts for the renovation of Passenger Boarding Bridges at Schiphol Airport, the Netherlands and at Heathrow, UK.
- A contract for the delivery and installation of Passenger Boarding Bridges for the new terminal at Rostock-Laage Airport, Germany.



Check-in island facilities at the Guangzhou airport

Deliveries

In 2004 the following orders were completed:

- A major contract for the complete signage of all stations on the new KCRC Eastrail line, Hong Kong.
- A contract for the delivery and installation of glass fibre reinforced polyester (GRP) ports at the new Barajas Airport, Madrid, Spain.
- A contract for the delivery and installation of check-in island facilities for the New Guangzhou airport, China.
- Contracts for the delivery and installation of counters for a new terminal at Harrisburg Airport (USA), North Terminal at Miami Airport (USA), Chengdu Airport (China), Domodedovo Airport (Russia).
- A contract for the delivery and installation of interiors at Schiphol Airport, the Netherlands.
- A contract for the renovation of Passenger Boarding Bridges (PBBs) at Heathrow Airport, U.K.
- A contract for the delivery and installation of Passenger Boarding Bridges at the E-pier, Schiphol Airport, the Netherlands.

Financial Review

FINANCIAL ANALYSIS

General

The Group achieved under Dutch accounting principles a net profit for 2004 of US\$ 46.8 million. This result is net of a charge of US\$ 67.6 million in respect of the sale of the Shipbuilding division.

The overall order intake was higher than last year despite a slow start in all markets in which the Group is active. Offshore new booked orders in particular accelerated during the second half-year.

Net turnover was low, due to a limited number of turnkey deliveries as major projects slipped into 2005.

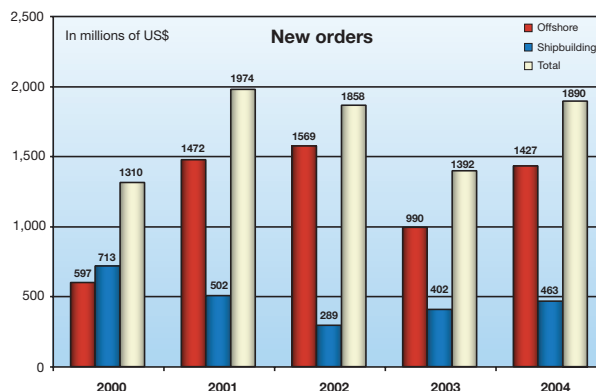
Operating profit (EBIT) margin increased to 9.3% compared to 3.5% in 2003, as a consequence of the relatively high share of turnover from the lease fleet. On low turnover, net profit margin increased to 3.5% from 2.5% in 2003 despite the exceptional charge related to the shipbuilding sale.

One large FPSO was completed during the year, while construction and commissioning continued on an LPG FPSO and construction commenced on one new FPSO and one Extended Well Test system. The total investment in fixed assets in 2004 amounted to US\$ 241 million, which is lower than in 2003 (US\$ 530 million) mainly due to the fact that there were fewer units under construction.

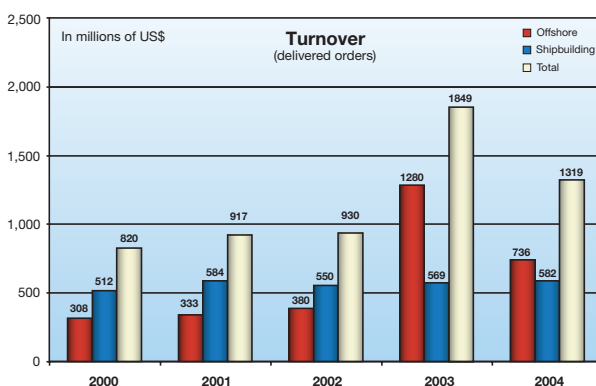
Segmental information in respect of the two core businesses of the Group during 2004 is provided in the detailed financial analysis which follows. Turnover by geographical area is included in the Notes to the Consolidated Financial Statements.

Offshore oil activities comprise the SBM Group, SBM-Imdoco, Atlantia Offshore, Gusto BV, MSC and GustoMSC Inc. Dredger/shipbuilding activities include IHC Holland, Merwede Shipyard, van der Giessen-de Noord, with NKI (airport interior outfitting, and signage) also being included.

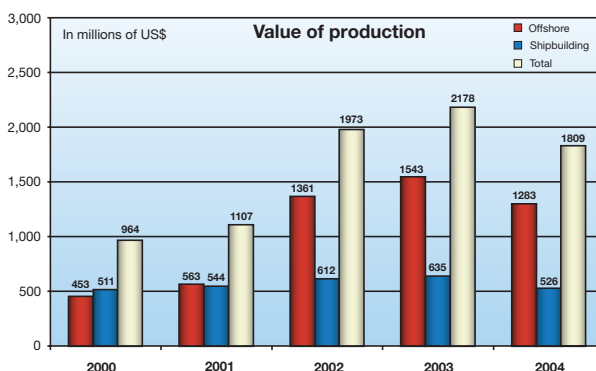
Order portfolio



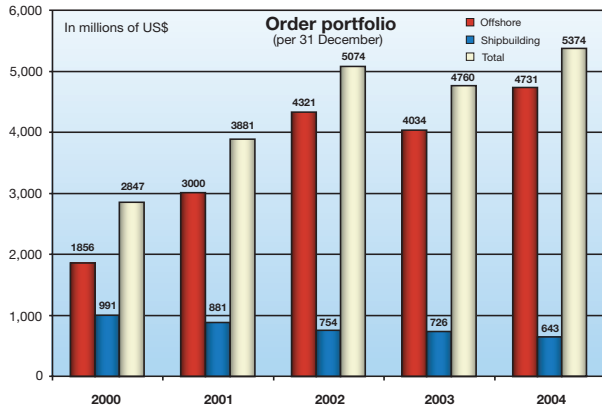
Total new booked orders for 2004 amounted to US\$ 1,890 million, which was higher than in recent years. The Shipbuilding division had an order intake amounting to US\$ 463 million.



Total Group turnover decreased significantly when compared with 2003, as a result of significantly lower turnkey deliveries in the Offshore division where the completion of the SNEPCO Bonga and ExxonMobil Yoho projects moved into 2005.



Value of production fell to US\$ 1.8 billion, from the US\$ 2.2 billion record level of 2003. An amount of US\$ 187 million was capitalized in the year as 'own work capitalized' (2003: US\$ 462 million). This figure represents mainly the completion of the Marlim Sul FPSO for Petrobras and significant investment in the Sanha LPG FPSO. The reduced level of activity in both the Offshore and Shipbuilding divisions resulted in lower overrecovery of indirect costs than in previous years.

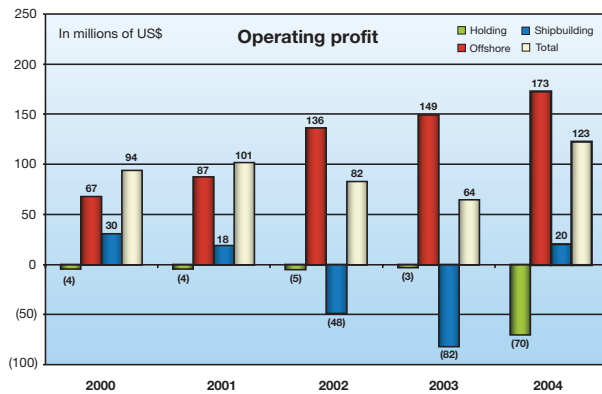


The year-end order portfolio at US\$ 5.4 billion is a record level and significantly higher than last year's level of US\$ 4.8 billion. The order backlog in the offshore oil activities increased because of increased order intake combined with the low value of turnkey deliveries. The current order portfolio includes US\$ 3.6 billion (2003: US\$ 3.3 billion) for the non-discounted value of future revenues from the long-term charters of the Group's fleet of F(P)SOs, of which US\$ 2.7 billion represents the bareboat element of such revenues. The order backlog in shipbuilding decreased.

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.



Operating profit before exceptional charges increased considerably compared to 2003. The increase resulted from:

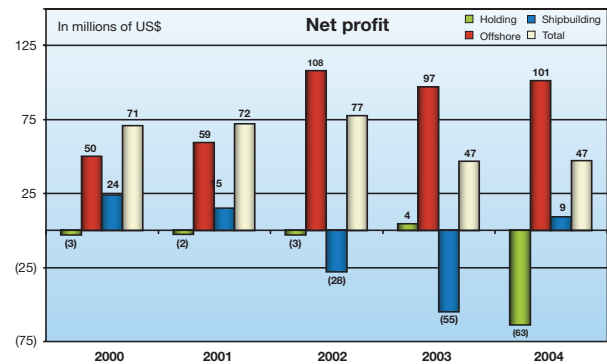
- a growing contribution from the Offshore division's lease fleet as a result of the start-up of one more FPSO and a full year operation of the units having entered service during 2003.
- sale of the FPSO Jamestown and of the Krimpen and Alblaserdam North real estate of van der Giessen-de Noord.
- the profit contribution from turnkey deliveries.

- limited overrecovery of indirect costs in the offshore division.
- return to profitability of shipbuilding operations.

As a percentage of turnover, operating profit increased to 9.3% (2003: 3.5%)

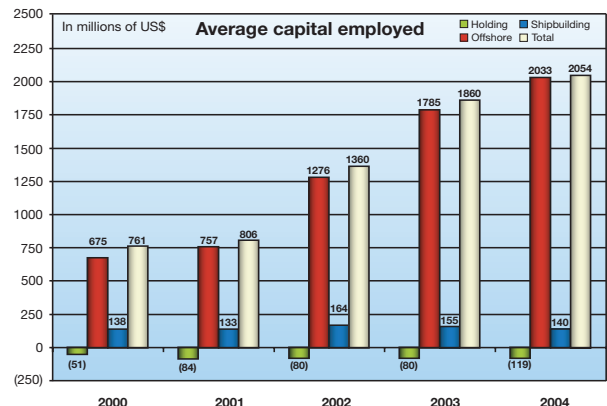
The Shipbuilding division was sold for total consideration of US\$ 10.2 million. After providing for certain carve-out items, net proceeds were reduced to close to zero, and the 2004 accounts reflect a US\$ 67.6 million net impairment charge equivalent to the entire equity value of the division of US\$ 87.9 million, less release from the corresponding currency reserve of US\$ 20.3 million.

The relatively low tax burden in the offshore activities combined with standard rate tax on Dutch profits and the non-deductible nature of the shipbuilding impairment loss resulted in a net tax charge of US\$ 11.0 million (19% of pre-tax profit), compared to a credit of US\$ 34.5 million (275%) in 2003. The tax burden for the Group in its new, purely offshore composition, is expected to average between 5% and 10% of pre-tax profits for the foreseeable future.

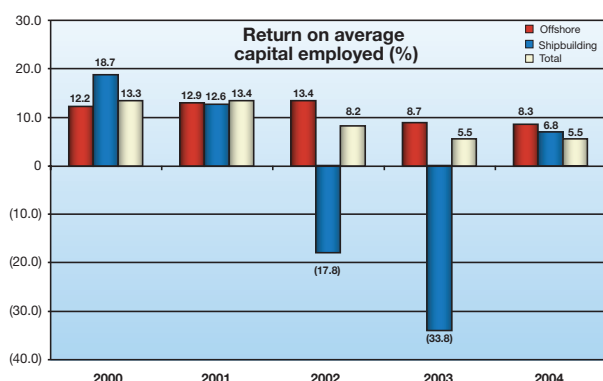


The Offshore division delivered US\$ 101 million to net income, with the now sold shipbuilding activities (excluding real estate sales) contributing US\$ 5 million. As a result of the shipbuilding impairment, total net profit was virtually unchanged at US\$ 46.8 million (2003: US\$ 46.6 million). This takes into account higher interest charges on the long-term debt portfolio, where most of the units being financed are now operational.

Return On average Capital Employed



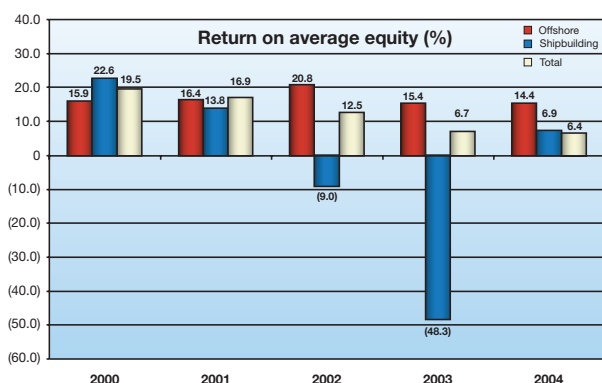
The relative share of the Group's capital employed in the offshore oil activities continued to increase, with the investment in new FPSOs for the lease fleet and the impairment of the Shipbuilding division's equity based upon the sale transaction concluded in early 2005. The calculation of Return On Capital Employed is made on a time-weighted basis. The impact of any change in the US\$/Euro exchange rate is negligible.



Return On average Capital Employed was stable at 5.5%. This is the combined result of two main factors, namely:

- impairment of shipbuilding equity.
- the increased long term debt levels.

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 at 6.4% slightly lower than 2003, as a result of the low level of net profits. The ROE in the offshore division was 14.4%.

Cash flow/liquidities

| US\$ million | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------------------|-------|-------|-------|-------|-------|
| Net profit | 70.8 | 71.8 | 77.4 | 46.6 | 46.8 |
| Depreciation and amortisation | 87.2 | 87.2 | 97.8 | 154.8 | 195.5 |
| Cash flow | 158.0 | 159.0 | 175.3 | 201.4 | 242.3 |
| EBITDA | 182.3 | 189.3 | 180.2 | 219.2 | 318.1 |
| Net liquidities/securities | 253.7 | 185.4 | 212.4 | 167.3 | 145.2 |
| Cash flow from operations* | 238.7 | 149.0 | 145.8 | 296.6 | 110.8 |
| Price : cash flow ratio at 31/12 | 8.4 | 8.6 | 9.5 | 8.6 | 8.7 |

* As per the consolidated statement of cash flows

As predicted, cash flow and EBITDA were significantly higher at US\$ 242 million and US\$ 318 million respectively, as a result of additions to the lease fleet in 2003 and 2004.

Net liquidities were lower at US\$ 145 million, as a result of ongoing investments, combined with lower profits.

The price to cash flow ratio was stable.

Balance sheet

| US\$ million | 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------------------------------|-------|-------|--------|--------|--------|
| Capital employed | 816.2 | 942.1 | 1686.2 | 2005.2 | 2089.0 |
| Shareholders' equity | 406.0 | 553.5 | 679.9 | 710.6 | 747.8 |
| Working capital | 82.2 | 51.6 | 96.0 | 5.5 | 159.0 |
| Net gearing (%) | 37 | 36 | 115 | 150 | 159 |
| Net Debt : EBITDA ratio | 0.8 | 1.1 | 4.3 | 3.8 | 3.1 |
| EBITDA interest cover ratio | 18.6 | 9.5 | 8.8 | 5.4 | 6.1 |
| Investment in tangible fixed assets | 191.0 | 200.2 | 701.3 | 530.0 | 240.8 |
| Current ratio | 1.02 | 1.03 | 1.16 | 1.01 | 1.25 |

The slow market conditions meant that the Company did not take on major new debt other than for FPSO Marlim Sul and FPSO Sanha, while continuing to service its existing debt. The increase in long-term debt to US\$ 1,329 million (2003: US\$ 1,231 million), which includes US\$ 45 million for shipbuilding, was accordingly lower than originally expected.

Shareholders' equity increased by 5.2% to US\$ 747.8 million despite the loss of the entire Shipbuilding division equity. The dividend payout in 2005 will again be based upon the 'operational profit' excluding the impairment loss on the sale of shipbuilding.

Management remains clearly focused on the Group's gearing and other balance sheet ratios. The relevant banking covenants are set out in the Notes to the Financial Statements.

Some specific remarks relating to the year-end 2004 balance sheet are as follows:

- Capital employed increased with the addition of new long-term debt and better than expected operational profits, and despite the loss of the entire Shipbuilding division equity.
- All banking covenants were comfortably met. The EBITDA based ratios are calculated prior to the impairment charge against Shipbuilding division's equity, which is considered to be of an extraordinary nature.
- Long-term debt includes the entire debt burden related to the FPSO Sanha, although the unit was transferred to the group's 50/50 joint venture with Sonangol during the first quarter of 2005, and only half of the project debt will be consolidated going forward. Without this timing issue the Group's net gearing ratio would have been lower than at year-end 2003.
- There continues to be no off-balance sheet financing.

Transition to International Financial Reporting Standards (IFRS)

During 2004, the Group continued its implementation of IFRS, building upon the high-level issues identification performed the previous year. The principal impacts for the Group of the transition from Dutch GAAP to IFRS are:

- Straight-line depreciation under IFRS replaces the interest equalisation method.
- Marketing and general overheads are no longer capitalised into fixed asset values under IFRS, reducing fixed cost recoveries but lowering depreciation.
- Turnkey project profits are recognised on a percentage of completion basis under IFRS instead of at completion.
- Goodwill is no longer depreciated under IFRS but subject to annual impairment testing.
- Stock options are expensed under IFRS.
- Financial instruments are to be included at market value in the balance sheet with changes in such value being recognised in the P&L account or in equity depending upon the use of hedge accounting. This item is more fully addressed in the section Treasury Management and Reporting.

The net effect of the above changes is expected to be a reduction of shareholders' equity at 31 December 2004 of over US\$ 50 million. A full reconciliation of the IFRS impact on the opening 2004 balance sheet, 2004 results and the 31 December 2004 balance sheet will be provided, after audit, with the Group's 2005 interim

report and annual report respectively, as stipulated in the transition provisions of IFRS.

As mentioned earlier, the 2005 expectation of net profit has been developed under IFRS. Under the Group's existing accounting principles it is estimated that the projected profit would have been approximately US\$ 10 million higher (US\$ 135 million). It is expected however that the combined effect of IFRS adjustments will have a generally positive effect on the Group profits from 2006 onwards, particularly in respect of the lease fleet results. Earnings volatility will be higher under IFRS.

The 31 December 2004 portfolio reported earlier still reflects the completed contract accounting method for turnkey projects. Under IFRS such projects will be accounted for using the percentage of completion method, under which the year-end order portfolio would have been more than US\$ 500 million lower due to the stage of completion of several projects to be delivered from 2005 onwards.

Following the sale of the Shipbuilding division the Group will change its segmental reporting analysis and will in 2005 provide IFRS disclosures for the lease business on one hand and the turnkey sale business on the other.

TREASURY MANAGEMENT AND REPORTING

General

The fundamental objectives of Treasury are to minimise volatility in Group equity and profits. The new IFRS standard, IAS 39, imposes very strict rules in respect of reporting financial instruments and even stricter rules in order to qualify for hedge accounting and thereby matching hedge results to the hedged transaction. Treasury has installed and implemented a new treasury management tool in order to effectively deal with the increased frequency of valuation and monitoring requirements as well as the increased volume and complexity of the accounting entries. Implementing IAS 39 is at a cost but this is preferable to the alternative of recording changes in the market value of all hedges in the Profit and Loss account in each accounting period irrespective of the timing of the hedge and hedged transaction. The new treasury system and accounting system provide the benefit of a strict treasury and accounting framework and increased transparency.

Under IFRS as from 1 January 2005, the market value of all financial instruments, including those not yet matured must be recorded in the balance sheet as either an asset or a liability. In the case of effective hedges qualifying for hedge accounting, the periodic revaluation of the instrument will be recorded in equity until such time as the underlying hedged transaction is booked. In the case of small hedges which do not justify the work required to

qualify for hedge accounting and hedges which become ineffective because of significant changes in the underlying exposures, the revaluation gain or loss will be recorded immediately in Financial Income and Expenses and thereby cause some unavoidable volatility in the financial results of the Company. Ineffective hedges are expected to comprise up to twenty percent of all hedges although the profit and loss impact is dependent on future market rates and is impossible to estimate.

The market value of the existing financial instrument portfolio has benefited from the higher €/US\$ exchange rate and rising interest rates. Under the application of IFRS in 2005, this market value will be recorded as an asset as of 1 January 2005 with a corresponding increase in Group equity.

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.

Under IFRS as from 1 January 2005, invoices in non US Dollar currency will not be booked at hedge rates but will be booked at spot rates or a surrogate rate approximating spot rates. In most cases, where the hedging undertaken qualifies for hedge accounting under IFRS, the hedge results will be recorded to the same accounting line as the invoice relating to that hedge. The net result will in most cases be similar to booking non-US Dollar invoices at hedge rate.

Currency exposure management - Shipbuilding and other Netherlands based activities

The Group's activities in the Netherlands report in Euros. Due to their limited contribution to profits and the illiquid characteristic of equity, no hedging of these items is undertaken. This is an exception to the otherwise full hedging policy, but considering the low values involved, and the sale of the Group's dredgerbuilding activities, the effect on Group profits and equity resulting from foreign exchange rate movements is 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 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 2004 amounted to US\$ 241 million (2003: US\$ 530 million). A total of US\$ 227 million (2003: US\$ 512 million) is related to new investment in the FPSO lease fleet for which the major elements are:

LPG FPSO for ChevronTexaco's Sanha Field, Angola

Construction work continued throughout the year, with the tow from the Far East to site commencing in November. Ownership of the FPSO was transferred to the Group's Sonasing joint venture with Sonangol in March 2005, and final acceptance of the unit is scheduled for second quarter 2005 when the eight-year charter will commence.

FPSO for Petrobras' Marlim Sul Field, Brazil

The Group's third complex FPSO for Petrobras, based on a 270,000 dwt VLCC was completed, commissioned and start-up achieved on schedule in June 2004. The unit is currently producing around 60,000 barrels of oil per day under a 94-month lease and operate contract.

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 a limited overhead allocation. 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.



Financial Statements 2004



Consolidated profit and loss account

in thousands of US dollars

| | Notes | 2004 | 2003 |
|---|-------|--------------------|--------------------|
| Net turnover | 2 | 1,318,558 | 1,848,656 |
| Changes in stocks and work in progress | | 303,959 | (132,850) |
| Own work capitalised | | 186,550 | 461,980 |
| Other operating income | | 19,449 | 14,767 |
| Operating income | | 1,828,516 | 2,192,553 |
| External costs | 3 | (1,148,386) | (1,643,652) |
| Wages and salaries | 4 | (229,542) | (227,789) |
| Social security costs | 5 | (50,406) | (51,620) |
| Amortisation intangible fixed assets | 11 | (2,965) | (3,446) |
| Depreciation tangible fixed assets | 6/12 | (192,579) | (151,356) |
| Other operating costs | 7 | (14,562) | (50,255) |
| Impairment loss shipbuilding activities | 1 | (67,553) | – |
| Operating costs | | (1,705,993) | (2,128,118) |
| Operating profit | 8 | 122,523 | 64,435 |
| Share of results of associated companies | 13 | 342 | 340 |
| Other financial income / (expense) | 9 | (63,667) | (52,220) |
| Financial income / (expense) | | (63,325) | (51,880) |
| Profit before taxation | | 59,198 | 12,555 |
| Taxation | 10 | (10,990) | 34,547 |
| | | 48,208 | 47,102 |
| Minority interests | | (1,405) | (493) |
| Net profit | | 46,803 | 46,609 |
| Weighted average number of shares outstanding | | 33,061,022 | 32,125,097 |
| Net profit per share | | US\$ 1.42 | US\$ 1.45 |
| Fully diluted net profit per share (calculated in accordance with IAS 33) | | US\$ 1.41 | US\$ 1.44 |

Consolidated balance sheet

in thousands of US dollars (before appropriation of profit)

| | Notes | 31 December 2004 | 31 December 2003 |
|--|-------|-------------------|-------------------|
| Fixed assets | | | |
| Intangible fixed assets | 11 | 33,095 | 36,061 |
| Tangible fixed assets | 12 | 1,837,629 | 1,896,772 |
| Financial fixed assets | 13 | 59,320 | 66,940 |
| | 18 | <u>1,930,044</u> | <u>1,999,773</u> |
| Current assets | | | |
| Stocks | | 51,544 | 42,312 |
| Work in progress less instalments received | 14 | 323,060 | 191,534 |
| | | <u>374,604</u> | <u>233,846</u> |
| Receivables | 15 | 259,217 | 325,342 |
| Securities | 16 | 2,707 | 3,078 |
| Cash and cash equivalents | 17 | 171,160 | 224,377 |
| | 18 | <u>807,688</u> | <u>786,643</u> |
| Current liabilities | 19/23 | <u>(648,690)</u> | <u>(781,227)</u> |
| Net current assets | | <u>158,998</u> | <u>5,416</u> |
| Net assets | | <u>2,089,042</u> | <u>2,005,189</u> |
| Long-term debt | 20/23 | 1,329,478 | 1,231,294 |
| Provisions | 21/23 | 7,032 | 58,597 |
| Investment premium equalisation account | 22/23 | 1,966 | 2,027 |
| Group equity | | | |
| Shareholders' equity | 24 | 700,965 | 663,925 |
| Result current year | | 46,803 | 46,609 |
| Minority interests | | 2,798 | 2,737 |
| | | <u>750,566</u> | <u>713,271</u> |
| Capital employed | | <u>2,089,042</u> | <u>2,005,189</u> |

Consolidated statement of cash flows

in thousands of US dollars

| | 2004 | 2003 |
|--|------------------|-------------------|
| Operations | | |
| Trade debtors | 1,573,408 | 1,625,325 |
| Trade creditors | (1,009,856) | (1,206,088) |
| Wages and salaries, social security costs | (297,829) | (272,376) |
| Vessel operating costs | (119,875) | (71,501) |
| Other operating costs | (185,528) | (226,226) |
| Other payments, net | (36,083) | (14,537) |
| | <u>(75,763)</u> | <u>(165,403)</u> |
| Own work capitalised (included in Investments in tangible fixed assets) | 186,550 | 461,980 |
| Cash flow from operations | 110,787 | 296,577 |
| Dividends from associated companies | 263 | 181 |
| Interest income | 3,885 | 7,592 |
| Interest expense | (69,619) | (73,502) |
| | <u>(65,471)</u> | <u>(65,729)</u> |
| Taxation | (13,891) | 20,554 |
| | <u>31,425</u> | <u>251,402</u> |
| Investments | | |
| Investments in intangible fixed assets | - | (30) |
| Investments in tangible fixed assets | (237,481) | (518,804) |
| Disposals of tangible fixed assets | 61,767 | 36,336 |
| Investments in associated companies | - | (235) |
| Disposals / repayments associated companies | - | 7 |
| | <u>(175,714)</u> | <u>(482,726)</u> |
| | <u>(144,289)</u> | <u>(231,324)</u> |
| Financing | | |
| Issue of share capital | 36,468 | 796 |
| Dividends paid | (28,253) | (33,205) |
| Additions to long-term debt | 420,545 | 371,076 |
| Reductions in long-term debt | (325,794) | (138,154) |
| Investments in other financial fixed assets | (10,888) | (32,903) |
| Disposals / repayments other financial fixed assets | 20,084 | 612 |
| | <u>112,162</u> | <u>168,222</u> |
| Net outflow | (32,127) | (63,102) |
| Currency differences | 10,034 | 17,953 |
| Decrease in cash and cash equivalents and securities less short-term bank debts | <u>(22,093)</u> | <u>(45,149)</u> |
| Reconciliation | | |
| Operating profit | 122,523 | 64,435 |
| Operating profit / Cash flow from operations | 195,544 | 154,802 |
| EBITDA | 318,067 | 219,237 |
| Increase in stocks and work in progress less instalments received | (140,758) | (20,137) |
| (Increase) / decrease in receivables | 66,125 | (66,686) |
| Increase / (decrease) in current liabilities | (132,537) | 178,469 |
| | <u>(207,170)</u> | <u>91,646</u> |
| Movement in other net current assets Included in movement in other net current assets, but not related to operations | (110) | (14,306) |
| Cash flow from operations | <u>110,787</u> | <u>296,577</u> |

Accounting principles

General

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

The functional currency of the offshore oil and gas activities is the US Dollar and since 2003 the US Dollar has been used as the reporting currency of the Group.

Consolidation

The Consolidated Financial Statements 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.

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

The Group's shipbuilding activities, which were sold after 31 December 2004 have been fully consolidated. As set out in note 1 an impairment charge against the realisable value of the shipyards net assets has been recorded as a separate item within operating costs, with a reduction in fixed asset values.

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

Foreign currencies and hedging policy

Income and expense items denominated in foreign currencies are 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\$ 1.358 (2003: US\$ 1.261).

Currency translation differences resulting from the application of this principle are included in Other reserves. For 2004 the revaluation effect of the result for the year on Other reserves is US\$ 1.2 million positive (2003: US\$ 5.5 million negative).

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.

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.

PRINCIPLES FOR THE VALUATION OF ASSETS AND LIABILITIES

General

The Financial Statements 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, 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 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.

Fixed assets owned by companies within the shipbuilding division, which have been sold subsequent to 31 December 2004, are stated net of an impairment charge based upon net sales proceeds (see note 1).

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. are 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; | 6-15 years |

Exceptionally, where lease rates have a special profile, e.g. to match projected field production, depreciation will follow this profile.

| | |
|--------------------------------|------------|
| <i>Machinery and equipment</i> | 5-20 years |
| <i>Other fixed assets</i> | 2-20 years |

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'.

Receivables

Receivables are carried at face value less any provisions considered necessary. Receivables include deferred tax claims to the extent these are considered realizable.

Securities

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

Cash and cash equivalents

Cash and cash equivalents consist primarily of highly liquid investments, such as bank deposits.

Provisions

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

Reorganisation

The provision for reorganisation costs relates to costs for termination of employment and onerous contracts.

Deferred taxation

The provision for deferred taxation is determined on the basis of the differences between commercial and tax valuations of assets and liabilities, at the applicable tax rate.

Pensions

Provision is taken for any unfunded obligations of defined benefit pension schemes in which the Group participates.

Environmental liability

The provision for environmental liability relates to costs for clean-up of soil contamination required under present legislation.

Investment premium equalisation account

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

Minority interests

Minority interests are carried at the third parties' share of the underlying shareholders' equity of the group company concerned.

PRINCIPLES FOR THE DETERMINATION OF RESULTS**Revenue recognition**

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.

Turnover (the total of the earned day-rates) and profit of long-term F(P)SO lease and operate contracts are reported annually once the systems have been brought into service.

External costs

External costs comprise materials supplied and services rendered by third parties, including subcontracts. External costs are net of government grants.

Direct research costs are included in external costs. Besides this, considerable research is also carried out during the sales effort for orders, which are often custom-built. In such cases, when the sales effort results in an order the related costs are charged directly to the order result.

Wages, salaries and social security costs

These categories concern all personnel having an employment contract with the Group. Costs of free lance and agency personnel are recognised under 'other operating costs'.

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 realized.

PRINCIPLES UNDERLYING THE STATEMENT OF CASH FLOWS**Cash flow from operations**

The cash flow from operations is presented using the direct method. Cash flows denominated in foreign currencies are translated using the exchange rates at the respective balance sheet dates.

Cash flow from investments

Cash flow from investments are those arising from investments in fixed assets, from the acquisition and divestments of subsidiaries and business activities.

Cash flow from financing

Cash flow from financing includes the proceeds from issue and repayments of equity and debt instruments.

Notes to the Consolidated Financial Statements

1. Impairment loss shipbuilding activities

As already mentioned in the Annual Report 2003, the Board of Management decided to split-off of its shipbuilding activities by sale or separate listing in 2004, due to a strategic decision to focus on pure offshore services and operations.

In August 2004 it was decided to sell the shipbuilding activities. A sale agreement was signed in January 2005 and the transaction including the transfer of the shares to IHC B.V. was completed on 1 March 2005.

At 31 December 2004 the shipbuilding group comprised assets (before an impairment loss) of US\$ 307 million (31 December 2003: US\$ 287 million) less liabilities (excluding provisions) of US\$ 211 million (31 December 2003: US\$ 207 million). During the year ended 31 December 2004 the shipbuilding group had a total operating income of US\$ 502.2 million (2003: US\$ 573.8 million), total operating costs of US\$ 491.8 million (2003: US\$ 593.8 million) and net financial income of US\$ -1.8 million (2003: US\$ 0.7 million), resulting in a profit before taxation of US\$ 8.6 million (2003: US\$ -19.3 million) and a net profit of US\$ 5.0 million (2003: US\$ -11.8 million).

A net impairment loss of US\$ 67.6 million (being a book loss of US\$ 87.9 million less release of the related currency reserve of US\$ 20.3 million) on the measurement of the disposal of shipbuilding group to fair value less cost to sell has been recognised and is included in operating costs 2004, with a reduction in fixed asset values of US\$ 74.6 million. Other obligations in respect of the sale have been included in current liabilities for a combined total of US\$ 13.3 million.

During the year ended 31 December 2004 the shipbuilding group had cash inflows from operating activities of US\$ 11.9 million (2003: US\$ -50.8 million), cash outflows from investing activities of US\$ 4.0 million (2003: US\$ 8.5 million) and cash flows from financing activities of US\$ 0.7 million (2003: US\$ -5.7 million).

The carrying amount of the companies to be disposed of, net of impairment, is US\$ 10.2 million at 31 December 2004. The total impairment loss as charged to the P&L in 2004 amounts to US\$ 67.6 million as explained before.

2. Net turnover

| By business segment: | | 2004 | | 2003 | |
|------------------------------------|------------------|------------|-----------|------|--|
| | | % | | % | |
| Offshore | 736,369 | 56 | 1,280,136 | 69 | |
| Dredger / specialised shipbuilding | 582,189 | 44 | 568,520 | 31 | |
| | 1,318,558 | 100 | 1,848,656 | 100 | |
| <hr/> | | | | | |
| By geographical area: | | 2004 | | 2003 | |
| | | % | | % | |
| The Netherlands | 58,597 | 4 | 91,602 | 5 | |
| Rest of Europe | 375,147 | 29 | 339,388 | 18 | |
| North, Middle and South America | 203,644 | 15 | 333,434 | 18 | |
| Africa | 396,997 | 30 | 821,010 | 45 | |
| Middle-East / Asia / Australia | 284,173 | 22 | 263,222 | 14 | |
| | 1,318,558 | 100 | 1,848,656 | 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.

3. External costs

Direct research costs (excluding research costs charged to orders) amounted to US\$ 12.4 million (2003: US\$ 16.2 million).

4. Wages and salaries

The remuneration of the Managing Directors of the Company, including pension costs and performance related bonuses, amounted to US\$ 3.4 million (2003: US\$ 5.0 million). The performance related part of the remuneration equals 14% (2003: 24%).

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

| | 2004 | | | 2003 | |
|-------------------------------|-----------------------|------------|---------------|--------------|--------------|
| | Salary and emoluments | Bonus | Pension costs | Total | Total |
| J.J.C.M. van Dooremalen | 563 | 181 | 181 | 925 | 1,972 |
| G. Docherty (to 30 June 2004) | 256 | 154 | 152 | 562 | 1,520 |
| D.H. Keller | 505 | 154 | 1,247 | 1,906 | 1,510 |
| | <u>1,324</u> | <u>489</u> | <u>1,580</u> | <u>3,393</u> | <u>5,002</u> |

The bonus is performance related in respect of the previous year, based on Economic Profit. The pension costs include the estimated impact of backservice charges in respect of salary adjustments.

The above costs do not include, for Mr. J.J.C.M. van Dooremalen, commitments of the Group under a remuneration agreement concluded in the context of the sale of the Group's shipbuilding activities. This remuneration agreement provides that the Group will pay a top-up salary to maintain Mr. Van Dooremalen's remuneration at its 2004 level until his normal retirement date of 1 September 2006, and pay corresponding pension premiums. Bonus and options will be due in 2005 based upon 2004 results, but will not be due in respect of later years. All costs relating to this settlement, amounting to US\$ 1.1 million, have been provided for in 2004 as part of the impairment loss.

The remuneration of the Supervisory Board amounted to US\$ 282,000 (2003: US\$ 257,000) and can be specified as follows:

| | | 2004 | 2003 |
|------------------------------|---------------------|------------|------------|
| A.P.H. van Baardewijk | Chairman | 46 | 42 |
| H. Langman | | - | 16 |
| A.G. Jacobs ¹ | Vice-Chairman | 46 | 37 |
| J.D.R.A. Bax ¹ | | 41 | 34 |
| D.J.C.N. Goguel-Nyegaard | (until 14 May 2004) | 13 | 33 |
| R.H. Matzke ² | | 73 | 74 |
| H.C. Rothermund ¹ | | 40 | 21 |
| L.J.A.M. Ligthart | (from 14 May 2004) | 23 | - |
| | | <u>282</u> | <u>257</u> |

¹ Including additional remuneration in 2004 in respect of the Audit Committee of US\$ 5,000.

² Including allowance for travel from the USA.

The number of direct employees was as follows:

| By business segment: | 2004 | | 2003 | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | Average | Year-end | Average | Year-end |
| Offshore | 1,890 | 1,875 | 1,690 | 1,838 |
| Dredger / specialised shipbuilding | 2,111 | 1,933 | 2,524 | 2,289 |
| Holding | 22 | 22 | 21 | 21 |
| | <u>4,023</u> | <u>3,830</u> | <u>4,235</u> | <u>4,148</u> |

| By geographical area: | 2004 | | 2003 | |
|-----------------------|--------------|--------------|--------------|--------------|
| | Average | Year-end | Average | Year-end |
| The Netherlands | 2,132 | 1,960 | 2,496 | 2,304 |
| Abroad | 1,891 | 1,870 | 1,739 | 1,844 |
| | <u>4,023</u> | <u>3,830</u> | <u>4,235</u> | <u>4,148</u> |

5. Social security costs

Included are pension premiums amounting to US\$ 23.0 million (2003: US\$ 22.5 million).

The 2003 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' (PME).

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

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

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.

6. Depreciation tangible fixed assets

| By business segment: | 2004 | | 2003 | |
|------------------------------------|----------------|------------|----------------|------------|
| | | % | | % |
| Offshore | 182,280 | 95 | 140,025 | 93 |
| Dredger / specialised shipbuilding | 10,323 | 5 | 11,355 | 7 |
| Holding | (24) | - | (24) | - |
| | <u>192,579</u> | <u>100</u> | <u>151,356</u> | <u>100</u> |

7. Other operating costs

Included in 2003 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.

| 8. Operating profit | By business segment: | 2004 | 2003 |
|------------------------------------|----------------------|------------|---------------|
| | | % | % |
| Offshore | 172,614 | 91 | 148,829 |
| Dredger / specialised shipbuilding | 19,912 | 10 | (81,685) |
| Holding | (2,450) | (1) | (2,709) |
| | <u>190,076</u> | <u>100</u> | <u>64,435</u> |
| Impairment loss | (67,553) | | |
| Total Operating Profit | <u>122,523</u> | | <u>100</u> |

| 9. Other financial income / (expense) | 2004 | 2003 |
|---------------------------------------|-----------------|-----------------|
| Income from financial fixed assets | 884 | 1,391 |
| Interest received | 3,414 | 5,534 |
| Interest paid * | (67,965) | (59,145) |
| | <u>(63,667)</u> | <u>(52,220)</u> |

* Net of US\$ 5,213 (2003: US\$ 15,246) capitalised.

| 10. Taxation | 2004 | 2003 |
|--|-----------------|---------------|
| Tax credit / (charge) | (10,977) | 35,400 |
| Movement provision for deferred taxation | (13) | (853) |
| | <u>(10,990)</u> | <u>34,547</u> |

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-deductible costs, result in an effective tax burden of 19% (2003: credit of 275%), calculated as 'Taxation' divided by 'Profit before taxation' in the profit and loss account. In 2003 the overall tax credit was 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: | 2004 | 2003 | | |
|------------------------------------|------------------------|-----------------|-----------|---------------|
| | Profit before taxation | Taxation | % | % |
| Offshore | 106,118 | (4,816) | 5 | (3) |
| Dredger / specialised shipbuilding | 16,259 | (5,908) | 36 | 34 |
| Holding | (63,179) | (266) | - | (1,403) |
| | <u>59,198</u> | <u>(10,990)</u> | <u>19</u> | <u>(275)</u> |

The Group has approximately US\$ 67 million (2003: US\$ 53 million) available in tax losses in the Netherlands and the United States of America, a part of which has been valued and capitalised in the balance sheet.

| 11. Intangible fixed assets | Goodwill | Patents | Total |
|-------------------------------|-----------------|---------------|-----------------|
| Balance at 1 January | | | |
| 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> |
| Movements | | | |
| Other movements | (1) | – | (1) |
| Amortisation | (2,083) | (882) | (2,965) |
| | <u>(2,084)</u> | <u>(882)</u> | <u>(2,966)</u> |
| Balance at 31 December | | | |
| Cost | 29,251 | 13,236 | 42,487 |
| Accumulated amortisation | (6,303) | (3,089) | (9,392) |
| Book value | <u>22,948</u> | <u>10,147</u> | <u>33,095</u> |

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

| 12. Tangible fixed assets | Land and buildings | Vessels and floating equipment | Machinery and equipment | Other fixed assets | Under construction | Total |
|-------------------------------|-----------------------|--------------------------------------|-------------------------------|--------------------------|-----------------------|------------------|
| Balance at 1 January | | | | | | |
| 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> |
| Movements | | | | | | |
| Investments | 1,822 | 419,225 | 3,884 | 8,517 | (192,656) | 240,792 |
| Disposals | (43,841) | (253) | (250) | (395) | (7) | (44,746) |
| Depreciation | (4,623) | (176,953) | (3,862) | (7,130) | (11) | (192,579) |
| Currency differences | 6,675 | 2,490 | 1,610 | 1,984 | 82 | 12,841 |
| Impairment | (16,842) | (30,567) | (17,738) | (8,929) | (581) | (74,657) |
| Other movements | 19,020 | (14,452) | (9,962) | (9,383) | 13,983 | (794) |
| | <u>(37,789)</u> | <u>199,490</u> | <u>(26,318)</u> | <u>(15,336)</u> | <u>(179,190)</u> | <u>(59,143)</u> |
| Balance at 31 December | | | | | | |
| Cost | 217,526 | 2,266,040 | 85,011 | 78,506 | 157,018 | 2,804,101 |
| Accumulated depreciation | (145,023) | (680,015) | (82,360) | (58,493) | (581) | (966,472) |
| Book value | <u>72,503</u> | <u>1,586,025</u> | <u>2,651</u> | <u>20,013</u> | <u>156,437</u> | <u>1,837,629</u> |

'Land and buildings' includes harbours and slipways.

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

- eleven integrated floating production, storage and offloading systems (FPSOs), each consisting of a converted tanker, a processing plant and a mooring system;
- four floating storage and offloading systems (FSOs), 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\$ 4,153 (2003: US\$ 11,212) third party interest has been capitalised during the financial year under review.

The book value of the FPSOs is considered not to exceed the potential market value, taking into account future prospective use beyond the fixed initial lease period.

The nominal value of the future expected bareboat receipts in respect of lease/operate contracts are:

| | 2004 | 2003 |
|-----------------------|----------------------|---------------|
| Within 1 year | 416 million | 384 million |
| Between 1 and 5 years | 1,676 million | 1,520 million |
| After 5 years | 589 million | 628 million |

These figures do not yet include the Kikeh FPSO lease revenues, for which the contract was awarded after 31 December 2004.

| | 2004 | | 2003 | |
|------------------------------------|----------------|------------|-------------|-----|
| Investments by business segment: | | % | | % |
| Offshore | 233,615 | 97 | 518,500 | 98 |
| Dredger / specialised shipbuilding | 6,665 | 3 | 11,152 | 2 |
| Holding | 512 | – | 364 | – |
| | 240,792 | 100 | 530,016 | 100 |

| | 2004 | | 2003 | |
|-----------------------------------|----------------|------------|-------------|-----|
| Investments by geographical area: | | % | | % |
| Europe | 15,147 | 6 | 25,219 | 5 |
| North, Middle and South America | 91,567 | 38 | 199,791 | 38 |
| Africa | 110,386 | 46 | 304,481 | 57 |
| Middle-East / Asia / Australia | 23,692 | 10 | 525 | – |
| | 240,792 | 100 | 530,016 | 100 |

| | 2004 | | 2003 | |
|------------------------------------|------------------|------------|-------------|-----|
| Book value by business segment: | | % | | % |
| Offshore | 1,822,010 | 99 | 1,769,738 | 93 |
| Dredger / specialised shipbuilding | 13,876 | 1 | 126,716 | 7 |
| Holding | 1,743 | – | 318 | – |
| | 1,837,629 | 100 | 1,896,772 | 100 |

| | 2004 | | 2003 | |
|----------------------------------|------------------|------------|-------------|-----|
| Book value by geographical area: | | % | | % |
| Europe | 112,547 | 6 | 218,276 | 12 |
| North, Middle and South America | 698,955 | 38 | 665,612 | 35 |
| Africa | 853,376 | 47 | 839,079 | 44 |
| Middle-East / Asia / Australia | 172,751 | 9 | 173,805 | 9 |
| | 1,837,629 | 100 | 1,896,772 | 100 |

13. Financial fixed assets

| | Participations in associated companies | Other receivables | Total |
|---------------------------|--|----------------------|----------------------|
| Book value at 1 January | 2,186 | 64,754 | 66,940 |
| Investments | – | 10,888 | 10,888 |
| Disposals / repayments | – | (20,084) | (20,084) |
| Share of results | 342 | – | 342 |
| Dividends | (263) | – | (263) |
| Currency differences | 192 | 1,305 | 1,497 |
| Book value at 31 December | <u>2,457</u> | <u>56,863</u> | <u>59,320</u> |

The key associated companies are Boogaard Sliedrecht CV, Hydro France BV, and Multi NV, all of which are within the shipbuilding division, which has been sold subsequent to 31 December 2004.

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

14. Work in progress less instalments received

| | 2004 | 2003 |
|----------------------|-----------------------|----------------|
| Work in progress | 996,524 | 701,797 |
| Instalments received | (673,465) | (510,263) |
| | <u>323,060</u> | <u>191,534</u> |

15. Receivables

| | | |
|--|-----------------------|----------------|
| Trade debtors | 127,066 | 134,647 |
| Other receivables | 45,801 | 59,518 |
| Corporate income tax | 31,775 | 23,938 |
| Receivables in respect of delivered orders | 19,009 | 68,242 |
| Other prepayments and accrued income | 35,566 | 38,997 |
| | <u>259,217</u> | <u>325,342</u> |

The item 'Corporate income tax' includes deferred tax assets in respect of tax losses and other temporary valuation differences amounting to US\$ 17 million (2003: US\$ 16 million).

Apart from deferred taxation no receivables have a duration of more than 1 year.

16. Securities

| | 2004 | 2003 |
|------------------|---------------------|--------------|
| Bonds and shares | 2,222 | 2,213 |
| Other securities | 485 | 865 |
| | <u>2,707</u> | <u>3,078</u> |

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 and shares at year-end amounts to US\$ 2.3 million (2003: US\$ 2.3 million).

| 17. Cash and cash equivalents | 2004 | 2003 |
|--------------------------------------|-----------------------|----------------|
| Cash and bank balances | 79,361 | 96,494 |
| Short-term deposits | 91,799 | 127,883 |
| | <u>171,160</u> | <u>224,377</u> |

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 2005 reference is made to item 20.

| 18. Assets | By business segment: | | 2004 | 2003 |
|------------------------------------|-------------------------|-------------------|------------------|------------|
| | | % | | % |
| Offshore | 2,446,427 | 89 | 2,386,619 | 86 |
| Dredger / specialised shipbuilding | 289,807 | 11 | 413,645 | 15 |
| Holding | 1,498 | - | (13,848) | (1) |
| | <u>2,737,732</u> | <u>100</u> | <u>2,786,416</u> | <u>100</u> |

| 19. Current liabilities | 2004 | 2003 |
|---|-----------------------|----------------|
| Short-term bank debts | 28,705 | 60,200 |
| Trade creditors | 128,312 | 208,674 |
| Personnel costs | 45,709 | 50,266 |
| Taxation and social security costs | 16,230 | 14,232 |
| Corporate income tax | 9,204 | 5,439 |
| Pension costs | 3,830 | 15,071 |
| Reorganisation costs | 990 | 3,947 |
| Unrealised forex results | 17,584 | 26,593 |
| Advance payments in respect of orders | 110,186 | 66,947 |
| Accruals in respect of delivered orders | 62,609 | 135,000 |
| Repair and maintenance | 40,234 | 42,008 |
| Other creditors, accruals and deferred income | 185,097 | 152,850 |
| | <u>648,690</u> | <u>781,227</u> |

| 20. Long-term debt | The movement in the amounts owed to credit institutions is as follows: | |
|---------------------------|--|---------------|
| Balance at 1 January | 1,231,294 , of which due after more than 5 years: | 23,649 |
| Additions | 420,545 | |
| Reductions | (325,541) | |
| Currency differences | 3,180 | |
| | <u>1,329,478 , of which due after more than 5 years:</u> | <u>73,415</u> |

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 / April and June 2004 | 10 years 5 years 6 years 4 years 6 years 7½ years | 8.94 % 10.981 % 7.74 % 6.9625% 6.03 % 6.465 % | 28,888 52,045 123,235 44,910 84,534 228,737 |
| | | | | 562,349 |
| US\$ guaranteed project finance facilities | June 2002 / February 2003 April 2004 | 5 years 6 years | 6.29 % 4.233 % | 125,320 222,845 |
| US\$ 500 million revolving credit facility | | 5 years | variable | 369,000 |
| € financial lease | | 5 years | 5.73 % | 35,081 |
| Other long-term debt, including mortgage | | | | 14,883 |
| | | | | <u>1,329,478</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 2005 included above total US\$ 218.9 million.

Interest paid on long-term debt during 2004 amounted to US\$ 65.3 million (2003: US\$ 55.1 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 certain items, as defined in the relevant financing facilities:

- Minimum tangible net worth of IHC Inc. S.A. of US\$ 490 million.
Actual tangible net worth is US\$ 680 million.
Minimum tangible net worth of IHC Caland N.V. of US\$ 570 million.
Actual tangible net worth is US\$ 715 million;
- Leverage (net debt : EBITDA ratio) of maximum 3.75 : 1 at year-end 2004.
Actual leverage is 3.26 and 3.21 for IHC Inc. S.A. and IHC Caland N.V. respectively;
- Operating leverage (adjusted for construction financing) of maximum 3.0 : 1.
Actual operating leverage is 2.33 and 2.34 for IHC Inc. S.A. and IHC Caland N.V. respectively;
- Interest cover ratio (EBITDA : net interest expense) of minimum 5.0 : 1.
Actual interest cover ratio is 5.7 and 5.8 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.

21. Provisions

| | Reorga- nisation | Deferred taxation | Pensions | Environ- mental liability | Total |
|------------------------|---------------------|----------------------|--------------|---------------------------------|---------------------|
| Balance at 1 January | 52,579 | 4,231 | 357 | 1,430 | 58,597 |
| Additions | - | - | 682 | - | 682 |
| Release | - | (1,834) | - | - | (1,834) |
| Payments | (50,303) | - | - | - | (50,303) |
| Currency differences | (578) | 335 | 23 | 110 | (110) |
| Balance at 31 December | <u>1,698</u> | <u>2,732</u> | <u>1,062</u> | <u>1,540</u> | <u>7,032</u> |

The provision for reorganisation costs was established in 2003 in relation to the closure of van der Giessen-de Noord N.V., for which the obligations were substantially discharged during 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.

All provisions are predominantly of a long-term nature.

22. Investment premium equalisation account

| | 2004 | 2003 |
|------------------------|---------------------|--------------|
| Balance at 1 January | 2,027 | 8,011 |
| Release | (199) | (7,185) |
| Currency differences | 138 | 1,201 |
| Balance at 31 December | <u>1,966</u> | <u>2,027</u> |

The release of the investment premium equalisation account in 2003 related almost entirely to van der Giessen-de Noord N.V.

23. Liabilities

| By business segment: | 2004 | | 2003 | |
|------------------------------------|-------------------------|-------------------|------------------|------------|
| | | % | | % |
| Offshore | 1,684,189 | 85 | 1,688,347 | 81 |
| Dredger / specialised shipbuilding | 248,541 | 13 | 346,729 | 17 |
| Holding | 54,436 | 3 | 38,069 | 2 |
| | <u>1,987,166</u> | <u>100</u> | <u>2,073,145</u> | <u>100</u> |

24. Shareholders' equity

Reference is made to item 6. of the Notes to the Company financial statements.

25. 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:

| | | | | 2004 | 2003 |
|-------------------|---------------|---------------|---------------|----------------------|---------------|
| | < 1 year | 1 - 5 years | > 5 years | Total | Total |
| Operational lease | 4,589 | 5,961 | 443 | 10,993 | 9,714 |
| Rental | 8,078 | 25,063 | 16,869 | 50,010 | 57,836 |
| Leasehold | 327 | 1,071 | 1,502 | 2,900 | 13,387 |
| | <u>12,994</u> | <u>32,095</u> | <u>18,814</u> | <u>63,903</u> | <u>80,937</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.

At 31 December 2004 bank guarantees have been issued for US\$ 317 million.

Certain investment commitments have been entered into in respect of the Golfinho FPSO and the Turkmenistan EWT system.

Certain legal disputes with customers or subcontractors exist. Management is of the opinion that provisions made for these disputes are adequate.

26. 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 only used to hedge closely correlated underlying business transactions.

In respect of controlling interest rate risk, the floating interest rates of long-term loans are swapped into fixed rates for the entire maturity period. This is usually achieved by using interest rate swaps. The revolving credit facility is intended for the fluctuating needs of construction financing of F(P)SOs and bears interest at floating rates. Considering the fluctuating cash flows as a consequence of the nature of the business, available cash funds are usually invested only for the short-term.

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 2004, calculated at the exchange rates prevailing at the end of the financial year amounts to US\$ 581.1 million, and the nominal value of US\$ 533.1 million. Taking into account the currency losses already recognised in the Financial Statements, the remaining unrealised positive result amounts to US\$ 59.1 million.

The long-term debt portfolio is comprised of only floating rate debt and the market value is equal to the nominal value. The market value of the related interest rate swaps that have been put in place, as at 31 December 2004 is US\$ 21.5 million lower than the nominal value.

Company balance sheet

in thousands of US dollars (before appropriation of profit)

| | Notes | 31 December 2004 | 31 December 2003 |
|-----------------------------|-------|------------------|------------------|
| Fixed assets | | | |
| Tangible fixed assets | 1 | 21 | 9,688 |
| Financial fixed assets | 2/5 | 757,511 | 768,659 |
| | | <u>757,532</u> | <u>778,347</u> |
| Current assets | | | |
| Receivables | 3 | 33,841 | 6,145 |
| Cash and cash equivalents | | 6,169 | 5,956 |
| | | <u>40,010</u> | <u>12,101</u> |
| Current liabilities | | | |
| | 4 | (49,774) | (57,561) |
| Net current assets | | | |
| | | <u>(9,764)</u> | <u>(45,460)</u> |
| Net assets | | | |
| | | <u>747,768</u> | <u>732,887</u> |
| Provisions | | | |
| | 5/2 | - | 22,353 |
| Shareholders' equity | | | |
| Issued capital | 6 | 45,573 | 40,761 |
| Share premium account | | 295,983 | 261,006 |
| Other reserves | | 359,409 | 362,158 |
| | | <u>700,965</u> | <u>663,925</u> |
| Result current year | | 46,803 | 46,609 |
| | | <u>747,768</u> | <u>710,534</u> |
| Capital employed | | | |
| | | <u>747,768</u> | <u>732,887</u> |

Company profit and loss account *

in thousands of US dollars

| | Notes | 2004 | 2003 |
|---|-------|---------------|---------------|
| Company result | | (3,527) | (3,709) |
| Results Group companies and impairment loss | 2/7 | 50,330 | 50,318 |
| Net profit | | | |
| | | <u>46,803</u> | <u>46,609</u> |

* 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 Financial Statements

1. Tangible fixed assets

| | Land and buildings | Other fixed assets | Total |
|-------------------------------|--------------------|--------------------|--------------|
| Balance at 1 January | | | |
| Cost | 9,650 | 275 | 9,925 |
| Accumulated depreciation | – | (237) | (237) |
| Book value | 9,650 | 38 | 9,688 |
| Movements | | | |
| Currency differences | 277 | 3 | 280 |
| Disposals | (9,927) | – | (9,927) |
| Depreciation | – | (20) | (20) |
| | (9,650) | (17) | (9,667) |
| Balance at 31 December | | | |
| Cost | – | 278 | 278 |
| Accumulated depreciation | – | (257) | (257) |
| Book value | – | 21 | 21 |

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

2. Financial fixed assets

| | 2004 | 2003 |
|-----------------------------------|----------------|---------|
| Participations in Group companies | 754,060 | 765,455 |
| Amounts owed by Group companies | 3,451 | 3,204 |
| | 757,511 | 768,659 |

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

| | | |
|-----------------------------------|--|----------------|
| Balance at 1 January | | |
| Participations in Group companies | | 765,455 |
| Provisions | | (50,055) |
| | | 715,400 |
| Movements | | |
| Results | | 117,883 |
| Investments and other changes | | 2,939 |
| Impairment | | (74,657) |
| Dividends | | (63,747) |
| Currency differences | | 5,430 |
| | | (12,152) |
| Balance at 31 December | | |
| Participations in Group companies | | 754,060 |
| Provisions | | (50,812) |
| | | 703,248 |

| | | | |
|-----------------------|---------------------------------|---------------|-------------|
| 3. Receivables | | 2004 | 2003 |
| | Amounts owed by Group companies | 26,018 | 4,101 |
| | Other debtors | 7,823 | 2,044 |
| | | 33,841 | 6,145 |

| | | | |
|-------------------------------|------------------------------------|---------------|--------|
| 4. Current liabilities | Amounts owed to Group companies | 10,841 | 30,054 |
| | Taxation and social security costs | 16,349 | 25,478 |
| | Other creditors | 22,584 | 2,029 |
| | | 49,774 | 57,561 |

Included in 'other creditors' are payment commitments in relation to the split-off of shipbuilding.

| | | | |
|----------------------|--------------------------------|-----------------|----------|
| 5. Provisions | Participation in Group company | 50,812 | 50,055 |
| | Amounts owed by Group company | (50,812) | (27,702) |
| | | - | 22,353 |

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

6. Shareholders' equity

| | Outstanding number of shares | Issued share capital | Share premium reserve | Non distributable reserve for translation differences | Other reserves | Total |
|---|------------------------------------|----------------------------|-----------------------------|---|-------------------|----------------|
| Balance at 1 January 2003 (restated) | 31,868,318 | 33,309 | 260,728 | - | 385,841 | 679,878 |
| Stock dividend | 434,662 | 494 | (494) | - | - | - |
| Share options exercised | 21,450 | 24 | 772 | - | - | 796 |
| Cash dividend | | - | - | - | (33,218) | (33,218) |
| Other movements | | - | - | - | 2,865 | 2,865 |
| Translation differences | | 6,934 | - | 12,673 | (6,003) | 13,604 |
| Balance at 31 December 2003 (restated) | 32,324,430 | 40,761 | 261,006 | 12,673 | 349,485 | 663,925 |
| Stock dividend | 425,876 | 513 | (513) | - | - | - |
| Share options exercised | 148,400 | 182 | 5,829 | - | - | 6,011 |
| Earnings 2003 | | - | - | - | 46,609 | 46,609 |
| Cash dividend | | - | - | - | (28,258) | (28,258) |
| Other movements | 3,721 | 5 | 167 | (20,369) | (8,230) | (28,427) |
| Share issue | 656,551 | 792 | 29,494 | - | - | 30,286 |
| Translation differences | | 3,320 | - | 5,430 | 2,069 | 10,819 |
| Balance at 31 December 2004 | 33,558,978 | 45,573 | 295,983 | (2,266) | 361,675 | 700,965 |

Included in 'other movements' in 2004 is the release of the cumulative balance of currency revaluations on the shipyards' equity and results of US\$ 20.3 million as part of the total impairment loss.

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 148,400 new ordinary shares were issued in respect of the exercise of employee share options and 3,721 new ordinary shares in respect of share-based part of management bonus.

The total number of ordinary shares outstanding at the end of the year was 33,558,978, of which 7,064 were held by Managing Directors in office as at 31 December 2004

The share premium reserve is fully available for distribution free of taxes for private investors, and amounts to € 278.6 million.

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 Financial Statements 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 230,500 share options were issued. The opportunity cost of options exercised during 2004 (being the difference between market value and strike price at the time of exercise) amounts to US\$ 1.5 million.

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

| Year of issue | Number | Strike price | Expiry date |
|---------------|------------------|--------------|---------------|
| 2000 | 250,250 | 44.70 | 31 March 2005 |
| 2001 | 274,510 | 57.00 | 30 March 2006 |
| 2002 | 307,240 | 55.50 | 4 April 2007 |
| 2003 | 309,815 | 39.22 | 23 April 2008 |
| 2004 | 230,500 | 37.97 | 11 June 2009 |
| | <u>1,372,315</u> | | |

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

| | 1 January | Issued | Exercised | 31 December |
|-------------------------|----------------|---------------|---------------|----------------|
| J.J.C.M. van Dooremalen | 90,000 | 10,000 | 15,000 | 85,000 |
| G. Docherty* | 75,000 | 10,000 | 15,000 | 70,000 |
| D.H. Keller | 69,500 | 10,000 | 12,500 | 67,000 |
| | <u>234,500</u> | <u>30,000</u> | <u>42,500</u> | <u>222,000</u> |

* Retired in the course of 2004.

| | | |
|--|--|-----------|
| 7. Result Group companies and impairment loss | Impairment loss on shipbuilding subsidiaries | (74,657) |
| | Other obligations in respect of the sale | (13,265) |
| | | <hr/> |
| | | (87,922) |
| | Less: charged against currency reserve | 20,369 |
| | | <hr/> |
| | Net impairment loss | (67,553) |
| | Results Group companies | 117,883 |
| | | <hr/> |
| | | 50,330 |
| | | <hr/> |

8. 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, 1 April 2005

Board of Management

D.H. Keller, President, CEO
F. Blanchelande
D.J. van der Zee
M.A.S. Miles, CFO

Supervisory Board

A.P.H. van Baardewijk, Chairman
A.G. Jacobs, Vice-Chairman
J.D.R.A. Bax
R.H. Matzke
H.C. Rothermund
L.J.A.M. Ligthart

Other information

Appropriation of profit

With regard to the appropriation of profit, article 29 of the Articles of Association states:

1. When drawing up the annual 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. Any distribution of profits pursuant to the provisions of this article shall be made after the adoption of the annual financial statements from which it appears that the same is permitted.
The company may make distributions to the shareholders and to other persons entitled to distributable profits only to the extent that its shareholders' equity exceeds the sum of the amount of the paid and called up part of the capital and the reserves which must be maintained under the law.
A deficit may be offset against the statutory reserves only to the extent permitted by law.
3. a. The profit shall, if sufficient, be applied first in payment to the holders of preference shares of a percentage as specified in b. below of the compulsory amount due on these shares as at the commencement of the financial year for which the distribution is made.
b. The percentage referred to above in subparagraph a. shall be equal to the average of the Euribor interest charged for loans with a term of twelve months – weighted by the number of days for which this interest was applicable – during the financial year for which the distribution is made, increased by two hundred basis points.
4. The Board of Management is authorised, subject to the approval of the Supervisory Board, to determine each year what part of the profits shall be transferred to the reserves, after the provisions of the preceding paragraph have been applied.
5. 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 share holding.
6. The residue of the profit shall be at the disposal of the general meeting of shareholders.
7. The general meeting of shareholders may only resolve to distribute any reserves upon the proposal of the Board of Management, subject to 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 | 46,803,000 |
| In accordance with Article 29 clause 5 holders of ordinary shares will receive a dividend of 4% on the nominal value of their shares i.e. 4% of € 33,558,978 | 1,823,000 |
| At the disposal of the General Meeting of Shareholders | <u>44,980,000</u> |

Pursuant to the provisions of Article 29 of the Articles of Association, it is proposed that a dividend of equal to 50% of the net profit excluding the US\$ 67,553,000 impairment loss be distributed among the shareholders. This dividend is payable from the net profit and from reserves to the extent the proposed dividend exceeds the net profit. 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 20 May 2005.

Auditors' report

Introduction We have audited the financial statements of IHC Caland N.V., Schiedam, for the year 2004. 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 2004 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, 1 April 2005
KPMG Accountants N.V.

Key figures

in millions of US dollars, unless stated otherwise

| | Notes | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|-------|----------------|---------|---------|---------|---------|
| Value of production | | 1809.1 | 2177.8 | 1972.8 | 1106.9 | 964.5 |
| Net turnover (delivered orders) | | 1318.6 | 1848.7 | 929.5 | 917.3 | 820.5 |
| New orders | | 1889.7 | 1392.3 | 1858.4 | 1973.5 | 1309.5 |
| Order portfolio at 31 December | | 5374.3 | 4760.1 | 5074.4 | 3880.9 | 2847.0 |
| Results | | | | | | |
| Net profit | | 46.8 | 46.6 | 77.4 | 71.8 | 70.8 |
| Dividend | | 57.1 | 45.3 | 50.0 | 38.0 | 36.1 |
| Shareholders' equity at 31 December | | 747.8 | 710.5 | 679.9 | 553.5 | 406.0 |
| Cash flow | | 242.3 | 201.4 | 175.3 | 159.0 | 158.0 |
| Investments in tangible fixed assets | | 240.8 | 530.0 | 701.3 | 200.2 | 191.0 |
| Depreciation and amortisation | | 195.5 | 154.8 | 97.9 | 87.2 | 87.2 |
| Number of employees (average) | | 4023 | 4235 | 4151 | 3798 | 3520 |
| Wages and salaries, social security costs | | 279.9 | 279.4 | 233.9 | 181.4 | 162.0 |
| Ratios (%) | | | | | | |
| Shareholders' equity : net assets | | 36 | 35 | 40 | 59 | 50 |
| Current ratio | | 125 | 101 | 116 | 103 | 102 |
| Return on average capital employed | | 5.5 | 5.5 | 8.2 | 13.4 | 13.3 |
| Return on average equity | | 6.4 | 6.7 | 12.5 | 16.9 | 19.5 |
| Operating profit : net turnover | | 9.3 | 3.5 | 8.9 | 11.0 | 11.4 |
| Net profit : net turnover | | 3.5 | 2.5 | 8.3 | 7.8 | 8.6 |
| Cash flow : average equity | | 33 | 29 | 28 | 36 | 42 |
| Cash flow : average capital employed | | 13 | 11 | 14 | 20 | 21 |
| Net long-term debt : shareholders' equity | | 159 | 150 | 115 | 36 | 37 |
| Shareholders' equity : value of production | | 41 | 33 | 34 | 50 | 42 |
| Shareholders' equity : new orders | | 40 | 51 | 37 | 28 | 31 |
| Information per share (US\$) | | | | | | |
| Net profit | 1 | 1.42 | 1.45 | 2.44 | 2.46 | 2.52 |
| Dividend | 2 | 1.70 | 1.40 | 1.57 | 1.21 | 1.28 |
| Shareholders' equity at 31 December | 2 | 22.28 | 21.98 | 21.33 | 17.62 | 14.41 |
| Cash flow | 1 | 7.33 | 6.27 | 5.53 | 5.44 | 5.62 |
| Share price (€) – 31 December | | 46.74 | 43.00 | 50.30 | 52.50 | 50.00 |
| – highest | | 47.08 | 52.25 | 64.95 | 65.50 | 61.40 |
| – lowest | | 33.56 | 33.53 | 41.32 | 40.60 | 31.00 |
| Price / earnings ratio | 2 | 45.5 | 37.6 | 21.6 | 19.0 | 18.7 |
| Net profit : market capitalisation at 31 December (%) | | 2.2 | 2.7 | 4.6 | 4.9 | 5.3 |
| Number of shares issued (x 1,000) | | 33559 | 32324 | 31868 | 31414 | 28185 |
| Market capitalisation (US\$ mln) | | 2130.1 | 1752.7 | 1675.4 | 1467.8 | 1327.7 |
| Turnover by volume (x 1,000) | | 59305 | 42858 | 26893 | 27342 | 24209 |
| Number of options exercised | | 148,400 | 21,450 | 188,475 | 132,300 | 241,550 |
| Number of shares issued re stock dividend | | 425,876 | 434,662 | 265,991 | 243,728 | 277,302 |

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
SBM Offshore N.V.

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

Binding
Combi Bind b.v.
Benthuizen

This Annual Report
is printed on paper
without the use
of chlorine.
It is biodegradable
and recyclable.

SBM Offshore 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 sbm@sbmoffshore.com

Full information regarding
SBM Offshore is available
on the Company's website
at www.sbmoffshore.com





SBM OFFSHORE 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 sbm@sbmoffshore.com

Full information regarding
SBM Offshore is available
on the Company's website
at www.sbmoffshore.com