



Sif

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Sif Group H1 Results

Friday, 24th August 2018

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Leon Verweij: Good morning to all, welcome to the presentation of the notes to the Sif Holdings NV 2018 interim results, as published as of 07.00 this morning. Hello, my name is Leon Verweij and I'm already for 1.5 years the CFO of Sif and still acting CEO of Sif.

We are also joined here in this room today by Fred van Beers, who has been nominated for appointment as CEO of Sif. His likely appointment will be discussed at the shareholders' meeting, which is scheduled for around this time next week. I would also like to welcome all the analysts in attendance today who track the Sif stock price.

I will comment on the results through a presentation you can view at our website, and on completion of the presentation you will also have the opportunity to follow the Q&A session with analysts through our website, or to ask questions using the chat function in the webcast.

However, let me first remind you of Sif's direction and its historical context. Over the past 70 years, Sif has evolved from a local metalworking company and expert producer of mainly rod steel to one of the largest global manufacturers of steel foundations for the offshore wind industry, and the oil and gas industry. Since 1972, the company has mainly served the oil and gas market and it has been operating in the offshore wind energy market since 2000.

In 2015, Sif, backed by private equity, decided to invest in an assembly facility in Rotterdam which increased its production capacity for the total offshore wind and oil and gas to a maximum of 300 kilotons per year. Sif went public in 2016 and its strategy is to create sustainable and appealing value for the company and its stakeholders by operating in attractive markets for foundations at the behest of mainly tier one energy producers. Until 2018 the company focused mainly on improving its price leadership position and optimising the organisation so as to prepare Sif for the expected demand for offshore foundations. During the period from 2019–2021, Sif must generate growth by extending its product range or the geographic markets in which they operate. From 2022 onwards, the focus will be on strengthening our market position in a sustainable way. The next slide shows what this market looks like.

The market for offshore wind energy continues to develop faster than many would expect. Whereas analysts back in 2015 estimated an LCOE of €19/MWh by 2030, we have already passed this stage, and as projected by BFG and Associates and others, are heading towards €60/MWh around 2030. These levels ensure the development of a steady flow of offshore wind projects in Europe. However, the market remains volatile due to the difficulty of planning mainly large to very large projects. Current projections reveal that there is a reasonable consensus amongst analysts regarding the addition of an annual average of around 4GW to the European capacity. Nearly 60GW of grid-connected capacity in Europe is expected, by WindEurope, MAKE Consultants and others, to increase to 25GW by 2020. The European offshore wind energy market can now be regarded as mature. This is not the case yet in Japan, Taiwan and the United States and several other countries, where initial projects were launched or contracted with suppliers only recently. These markets are at the start of the cycle, although progress has exceeded the expectations of roughly three years ago. We will get back to that issue later today.

At the same time we are also witness to rapid advances in technology, measured in terms of capacity. Turbines are currently being installed with capacities of 9.5MW and 12MW turbines will be tested shortly, and models for 13–15MW are on the drawing board. This also poses certain challenges for foundations. Investments by manufacturers of foundations have already made it possible for capacity to increase. Larger turbines are no problem for them now that monopiles can be produced with a diameter of 11 metres and a length of 120 metres. Weight reductions pursued by owners and developers will impose new production challenges on manufacturers like Sif.

In addition, the outcome of investigations in the UK into the protection of monopiles against corrosion may lead to more extensive blasting and coating scopes. As a consequence, Sif might – may decide to invest approximately €8 million to €8–14 million in extra coating facilities in Rotterdam.

We are also seeing innovation in foundations. Suction buckets are being tested, along with slip joints and alternative installation methods, such as BLUE Piling. Sif is involved in both these initiatives. Due to these developments, monopiles are expected to remain the preferred foundation. Monopiles currently account for 87% of foundations in the market and jackets for 9%. The next slides show for which 2018 projects they supplied.

One of the projects manufactured by Sif was the Hohe See wind farm in the North Sea. This project required a large number of conversions in our production lines related to the scale of the project. The project is now completed and 71 monopiles and transition pieces were and are still being loaded on Hohe See barges and transported to their destinations.

This coincided with the Trianel project, Borkum West, and as earlier reported, we were compelled to outsource production for this project due to delivery deadlines. And that's for the monopiles only. The production for this project has now been completed and has been accounted for in our revenues but is not reflected in the reported 81 kilotons production, since we didn't produce it. This was followed by slower time at our facility, during which we only worked on a couple of oil and gas projects, as shown on the next slide.

These oil and gas projects concerned parts for jackets, including Peregrino. Production was concentrated mostly in the first quarter and the first month of the second quarter. Our permanent staff subsequently carried out overdue and routine maintenance in our factories. Also during this time preparations were made for the Borssele 3&4 project, which were to launch in July 2018.

The Borssele 3&4 project was initially scheduled for production in 2019 totally until it was agreed with the client to bring the date forward to the second half of 2018. Most foundations for the project will now be manufactured in the second half of 2018. Sif was also commissioned for the Tyra project, with client Dragados, in the first half of 2018. The Tyra ESG and Tyra ESH jackets for the Tyra future development project will be installed in the Danish sector of the North Sea as part of the Maersk Oil-operated Tyra project. The materials still to be used for these oil and gas projects will be supplied by the client and will be bought by Sif.

After the first half of 2018, Sif entered into exclusive negotiations for projects in 2019. These projects will have a production level of around 115 kilotons. Unfortunately we are unable to provide details on the clients yet, or the projects' identities, at this stage, since we are under NDA restrictions.

The composition of the order book changed due to these changes in production planning. We will explain the new order book later on in this presentation. In August, the new BLUE Hammer technology for piling was tested by the Carbon Trust and Fistuca. Sif was a participant in this innovative project that will result in noise reduction and reduction of fatigue. This will enable new designs, with less steel and integrated monopiles and transition pieces. In July, Sif announced that Fred van Beers would be nominated for appointment to the general meeting of shareholders as the new CEO in succession of Jan Bruggenthijs. This AGM is scheduled for 31st August.

Production expressed in kilotons were 81 kilotons versus 108 kilotons in the first half of 2017. This significantly slight decrease in revenue is related to the earlier-communicated outsourcing of Trianel. This project was accounted for in the revenues but not in kilotons production. This is also – this also cut into profit margins, due to the loss of coverage. However, the alternative would have been missing the deadline for delivery. Sif wants to avoid jeopardising its clients and risking its own reputation in terms of timely delivery. This would – also would have made the company liable to pay liquidated damages.

EBITDA reached €14 million for the first half of 2018. This is mainly due to a slow market – to the slow market conditions in 2018. There was a lack of contracts and the industry as a whole was faced with shortfall capacity utilisation. The company was able to carry out maintenance work during this time, which was both good and essential, and the production levels of the past few years have led to this overdue maintenance.

Contribution nearly reached the 2015 level. Contribution per tonne fell from €688 during the first half of 2017 to €561 in the first half of 2018. As before, the factors here include the outsourced project and under-utilisation of production capacity. While workforce was reduced substantially, this could not maintain contribution per tonne at the same level as the previous years. This also led to a lower EBITDA.

Working capital requirements over the time is still stable. Working capital requirements during the first half of 2018 reflect the unusual market conditions, specifically a low level of activity.

The market for offshore wind energy is growing. Estimates are adjusted almost annually and many consultants and others currently expect the European market to grow by more than 4GW per year between now and 2026. Estimated growth worldwide is nearly double this size. Production costs are falling and capacity is increasing. This means offshore wind energy remains an attractive source of energy, both from a sustainable perspective and a cost perspective.

In the past years we have already seen an increased demand for coating of monopiles. Recent developments in the industry require even higher levels of protection. Consequently, Sif will probably need to invest in extension of its coating facilities. This would require approximately €8–14 million CAPEX in the coming years, this is in addition to the normal annual €8 million maintenance CAPEX.

The order book for 2018 reflects the current volatility in our market. A small number of large projects can create fluctuations in production at individual companies. Tenders are currently being submitted and projects are being negotiated for the period after 2018. Sif already booked, or entered into, exclusive negotiations for 290 kilotons production for 2019 and 2020. Hereof, 115 kilotons approximately was booked or entered exclusive negotiations

post-reporting-date. This means the 2019 order book is currently well filled and the 2020 order book is filling up: a nice, solid foundation for the immediate future.

So, thank you for your attention and I guess we'll open the floor for any questions and I can drink some coffee.

Henk Veerman: Henk Veerman from – sorry, Henk Veerman of Kempen & Co. First question is on 2020, the order book of 200,000 kilotons. I was wondering, what does the production, let's say, agenda look like and do you still see 2019 as a year that you can actually achieve, still, close to peak capacity? Or does the agenda look, in a way, in such that there is actually no sort of time period that you can actually still fit in an order?

Leon Verweij: First of all, I think you are referring to 2019 and not 2020.

Henk Veerman: Yeah, sorry, 2019, yeah.

Leon Verweij: The 200 kilotons that we are now talking about for 2019 basically fills up the production in the wind part of our business in 2019.

Henk Veerman: Okay, and you still see potential to win orders in oil and gas for that year in order to reach, let's say –

Leon Verweij: There are – yeah, of course. Our production lines for oil and gas are filled too also in 2019 and to some point in 2020, yeah, but there is still room to get additional orders in on that side of the business. Looking at the wind business, if this is all transferred to – into contracts, which we never not managed to do –

Henk Veerman: Yeah.

Leon Verweij: – then basically our wind capacity is booked for 2019, based on – and we've said that before, I guess, on the schedule where we would work six days a week, 24 hours, leaving one day a week as some sort of spare capacity to have some room to manoeuvre if anything goes wrong – the lessons we've learned from 2016 and 2017, where we were working seven days a week, 24 hours. That means whenever something goes wrong, you immediately have an enormous problem.

Henk Veerman: Okay, thank you. The second question, also on 2019 – well, this is – I think there's another thing, actually: indeed, as you say, you fully booked the wind capacity. Shall we assume that also results in, like, significantly higher pricing because you fill it up, up to 100%, the backlog on wind?

Leon Verweij: We're still negotiating with clients.

Henk Veerman: Yeah, but is it reasonable to assume?

Leon Verweij: It's reasonable to assume that, say, contributions or margins, whatever you want to call it, are better than what we've seen in, let's say, the last year –

Henk Veerman: Okay.

Leon Verweij: – with some exceptions because, in 2017, of course we finished some jobs which were sold in 2015, etc., still under subsidy regimes, which of course then also had the high margins.

Henk Veerman: Okay, and for the second half of this year, you have Borssele 3&4. As you already mentioned before, we should expect lower pricing versus the first half of this year. Would you be able – to any extent be able to sort of quantify that for our analysts to make a forecast for the second half of this year? So to quantify the contribution per tonnage of this for the second half of this year?

Leon Verweij: No, we're not going to do that in this stage. What you might have seen, looking at the order book is that one of the effects we have in the second half of the year is that, due to reasons beyond our control, part of Borssele 3&4 shifts in to 2019 and cannot product in '18 totally. When we disclosed Borssele 3&4 in Q1, at the end of Q1, it was envisaged that the whole order, at least as far as black steel is concerned would be produced in 2018 and now some part of that order shifts into 2019 because we couldn't start the moment we wanted to, for reasons beyond Sif's control.

Henk Veerman: Okay, last question for now, on Asia actually. I think, firstly, you published a video on your website in collaboration with a Japanese party.

Leon Verweij: Yeah.

Henk Veerman: And secondly, I think one of your competitors actually announced that they were going through business in Taiwan, where actually I think before it was mentioned that they would skip sort of the monopile phase and go directly to jackets. Could you comment on both and what can we expect there for the upcoming 2–3 years?

Leon Verweij: Well, first of all, this little video was an excerpt from a television broadcast in Japan. I think that for everybody around the table it was nothing new. As far as we are concerned, it is not news but it's nice to have it on your website. Actually there was a first project negotiated, awarded in Japan. We were one of the last two. We didn't get it because, at the end of the day, they wanted us to give an additional discount – substantial discount on the price, which we didn't want to do given the fact that we had other, let's say, more interesting jobs in our pipeline. But we are still very much looking at Japan, it seems to be picking up. We're working on about eight, nine projects at the moment in tender phases and it might be very well that somewhere in the near future, we might pick up one job in Japan. At this stage, it's all envisaged that monopiles will be built here and then shipped to Japan.

Taiwan – we had a close look at Taiwan. From ourselves, we decided that although this first project will be a monopile project, it's not a monopile market, it's a jacket market given the problems with hurricanes they have there, given the soil conditions. It's probably far more a jacket market than a monopile market, so we decided not to pursue that road any further.

We have a presence there in the sense that we have a representative there. So if there is something to be done there on, let's say, a monopile business, we will, on an opportunistic basis, look at it and see whether it's of any interest. But that will always be on the basis of production in The Netherlands and shipping it to Taiwan.

Henk Veerman: Okay, thank you.

Leon Verweij: Okay.

Andre Mulder: Andre Mulder, Kepler. A question on your relative position. What is your feeling? How well filled are the backlogs of your competitors?

Leon Verweij: It's always difficult talking about your competitors.

Andre Mulder: It's a small market.

Leon Verweij: Yeah, I know for fact Steelwind will most likely close its factory up till May-June next year, totally close it, and then as of May-June, they will start producing part of the monopile for Taiwan. EEW got some quite substantial additional work from Ørsted, of course. So my estimate is that they are filled up for '19, let's say half of their production. For the rest, as far as we know, they don't have any work for '19 further on.

Andre Mulder: Have you seen any further efforts of Bladt to move into XL monopiles?

Leon Verweij: What we see now is that Bladt is picking up a job which normally we would have expected that it was a little bit too big a diameter for Bladt. They are going now to – I think it's about 8.4 metres diameter. That looks like, but we don't know, that they are somehow upgrading to – let's say on the bottom end of the XL do something, in the sense of monopiles.

Andre Mulder: And then a financial question. Looking at the development of EBITDA, looking at your forecast for the second half, it's not fully clear what you mean by half of production because I got the impression that the stated 300 kilotons might be up to, maybe, 320–325 kilotons. So that also makes, then, a difference on what kind of production you will make this year.

Leon Verweij: We always said our max production capacity is 300 kilotons. If diameters are right, etc., etc., it might come a little bit above that but then everything has to fit perfectly, so the maximum is 300 kilotons. That's based on if you work seven days a week at 100%. We don't want to do that again. We suffered during 2017 and partly 2016 out of that situation. So if you start calculating that against what we earlier said, ideally we would be producing at about 85% of your maximum production capacity, leaving room for normal maintenance, etc., so that things can carry. Then you are, of course, at a lower maximum production level. And that's including oil and gas, so you have to deduct part of oil and gas and that means that, basically, we're filled up for wind.

Andre Mulder: On to the financial part: you're pretty close to governance. Looking at the development of production in the second half, you might get even closer to that level, so what kind of arrangements have you made? Would you expect a covenant breach? Have you already talked to the banks on that? What kind of agreements are in place, then?

Leon Verweij: Andre, thank you for that question because we disclosed that already at Q1. This is – what happens now is exactly what we expected. So we already made arrangements with the banks, even at the end of '17, that if there is a covenant breach, that we have a holiday in place, so nothing changes. Those arrangements are already in place.

Andre Mulder: Do you expect to make use of that possibility, or would you say –

Leon Verweij: Well, like I said at Q1, I will always do my utmost not to need a holiday arrangement but I'm always happy when it's in place. So I've always said, if we're going to breach, it will be temporary and it will be in Q3 and probably not by the end of the year, because that's when your cash flow starts running again. And we – on Borssele 3&4 we disclosed it as well. First payments start, let's say, in October, we managed, with some suppliers, to also delay payments to them to manage that situation. But you know that if you are going – coming

out of the situation where you have no production and no cash flow at all, basically, you have this tendency to go towards your covenant, so that's why we have this insurance in place.

Andre Mulder: Yeah, but in your projections do you think you have to make use of that or would you steer clear of them?

Leon Verweij: If I look at the projections we made, we might have to use it for a month or two months. I think we manage just in the situation that we don't need it. But it will be – like you see now, it will be close but there's no reason for panic or whatever because what's happening is exactly what we expected and what we made arrangements for.

Job van Breukelen: Yes, good morning, Job van Breukelen, also Kepler Cheuvreux. Just on – I understood you had some problems with delivery of steel in the first half by Dillinger. What's the risk of that re-happening again going forward?

Leon Verweij: I don't know who you heard that from, but I can't deny it, one or two reasons that part of Borssele is shifting into the 2019 is that we have problems getting delivery of a certain type of plate from Dillinger. We are in close contact with Dillinger. We expect today, actually, to have a clear insight in what they can do and what they can't do. It is a problem on their side, it is nothing to do with Sif. And I think at this stage we have Borssele under control. We are now looking whether that could be – whether it could be an issue for other projects in '19. We don't expect to. But if it is, we have other measures in place to cover that.

Job van Breukelen: Thanks.

Tijs Hollestelle: ING, Tijs Hollestelle.

Leon Verweij: It's a nice thing if you're CFO and CEO, then you suddenly have to –

Tijs Hollestelle: All questions are directed to you.

Leon Verweij: Yeah, you have to know about steel and then...

Tijs Hollestelle: Yeah, as a follow-up on that comment, what are the compensations in place for such an event?

Leon Verweij: What do we mean by compensations?

Tijs Hollestelle: If you have, indeed, a major problem which you're planning for next year because of a delay of steel plates, then what is –

Leon Verweij: What I've said is we have that under control. There will not be an issue with our clients. And if there is any, let's say, financial negative effect –

Tijs Hollestelle: Yeah.

Leon Verweij: – then that will not be a negative effect for Sif.

Tijs Hollestelle: Okay, that is clear. Yeah and then your comments on the trade working capital. Is it significant pre-payments you're expecting in October you said, I believe, for the Borssele project?

Leon Verweij: Yeah, as you can imagine, we started up, let's say, beginning of August, so you have to get your steel in, etc., so it's a couple of months' steel. It's not as much hours, etc., but it's basically your steel.

Tijs Hollestelle: Yeah and your creditors are not looking stretched at the relative low levels, or that – it looks quite okay? I mean with the projects again coming in your working capital should also then quite quickly reduce.

Leon Verweij: Yeah, that's what I'm saying.

Tijs Hollestelle: Yeah.

Leon Verweij: I mean I expect that we will return to, let's say, the normally low levels that Sif has.

Tijs Hollestelle: Yeah, and the visibility is quite okay –

Leon Verweij: And if I look at the new projects also there, I see no changes in behaviour as far as payment terms are concerned, etc., etc. So I see no reason why the demand for working capital going forward would change from that what we had in the future. But we have now this specific situation, of course, where you have a couple of months, basically no money coming in. That means – and you are paying off your creditors in the meantime, so you have a disbalance in your working capital. And that will change then as of – let's say going forward from October on.

Tijs Hollestelle: Yeah, okay, clear. Then, the discussions on the price level. That is always difficult; everyone knows it's not as though you have a kind of a list where you can pick a price. But the – I think the way this room looks at it is that you, of course, in the past reached certain EBITDA per produced tonnage levels and now with the new factory in place you had a lot of difficulties with start-up cost. I think that most of these are now under control and you're able to price these long-term customers where you have taken measures, the rollers and safety measures, stuff like that.

Leon Verweij: We're still working on that. We're changing our logistical concept in Rotterdam, which will save us also a €1.5 million a year again in costs.

Tijs Hollestelle: Yeah, so do you think they are ongoing to improve efficiencies? I would say that with the new factory and the layout, it looks more efficient compared to the old factory. So in a kind of all things equal situation, you should be able to reach higher EBITDA levels and that you can then use to compensate potential price decreases. Is that a good way of looking at it, or can we get more enthusiastic if you have, let's say, an 85% to 90% utilisation rate in '19 and '20 that you will reach kind of all-time EBITDA levels?

Leon Verweij: Well, I'm not saying we're going to reach all-time highs.

Tijs Hollestelle: Is it possible?

Leon Verweij: It's possible if the trends as far as, let's say, pricing continues as we see now. There is a lot of demand in the market. There is limited capacity. So there is this effect, there's also a second effect, of course that the trend is starting to larger diameters. They have their own, let's say, questions and difficulties, so that those are possibilities for price discussions of course to the future as well. So if that trend continues, I think that we can go back to, let's say, old situations. But that means that we are working towards an all-time high and not able or not willing to say that yet.

Tijs Hollestelle: Okay. And then also as a follow-up on that and also on the Asia question, you have a full costing model on every project and everybody is speaking too safe in an early

phase, so you have a pretty good view of all the projects out there. So is the closure of the factory of Steelwind, is that spooking customers because they need to have a lot of foundations in the coming year, so that immediately in my view would you say that your pricing power improves, or is it too – am I too enthusiastic?

Leon Verweij: Tijs, I mean, I was happy that Steelwind got Taiwan job, because otherwise I have free capacity in the market with a competitor which might be and forcing himself to buy a job. EEW has a normal pricing policy. So I'd rather have working Steelwind than we have more stable pricing level and more stable situation in the market.

Tijs Hollestelle: Yeah, but that is now happening I guess.

Leon Verweij: That's what I'm saying. I was happy that they got the Taiwan job.

Tijs Hollestelle: Yeah, okay. For now it's okay. Thanks.

Thijs Berkelder: Thijs Berkelder, ABN AMRO. First question on the H1 results. Can you roughly indicate what outsourcing of Borkum West costed in terms of contribution margin? Is it around €10 million –

Leon Verweij: In comparison to what?

Thijs Berkelder: Doing it yourself.

Leon Verweij: No, it was a job with a low margin. So it would have cost us in terms of that maybe €6 million or so, €5 million, €6 million.

Thijs Berkelder: EBITDA but on gross margin?

Leon Verweij: Gross margin, because it was a small job because and already the monopiles and the monopiles were – because we still did the transition pieces and it was – I think it was something – let me see what I've even wrote it down. Yeah, it was 25 tonnes.

Thijs Berkelder: 25. Yeah, that was another question that this split in H1 in steel between offshore wind and oil and gas. It was 80 in total. What was oil and gas?

Leon Verweij: I can look it up for you. Yeah, I can look it up for you. That's a not big secret I have to tell.

Thijs Berkelder: I'm waiting a couple of seconds now.

Leon Verweij: Oil and gas first half year in tonnage was – oil and gas was... How much do you want beyond – it was, let's say, 18 kilo tonnes.

Thijs Berkelder: 18, okay. Thank you.

Then on your statements on capacity for 2019 and potential to add more orders. Can you remind me – I was under the impression that both Friesland, not an order yet as far as I know, but also Triton Knoll, potentially can be made in Roermond and not necessarily have to be made on the Maasvlakte. So in that sense your statement on offshore wind potential competitive for '19 in my impression is larger than what you're indicating and in that sense that you have more room to produce.

Leon Verweij: But Friesland there is not an issue for '19. So certainly not for '19 or beyond that.

Thijs Berkelder: So that's for '20 offshoring, yeah?

Leon Verweij: Yeah, but the question was about '19, so that's not an issue. Triton Knoll, if you want to do it effectively, we will have to use Rotterdam as well. It can be done. Then we have to do everything in Roermond. But then we're left with coating issue. Now we still have to bring it to Rotterdam for the coating. So you will still have to transport etc., so the most efficient way is to do it in Rotterdam. That's how we are planning it now. That's why I'm saying we're basically filled up for '19 in wind. Yeah. If something dramatically happens, we will look again. But at the moment, the way we look at it, we're filled up.

Thijs Berkelder: Okay. Then let's say on your capacity, and you communicated what kind of staff base you expect to need in '19 in terms of flexible staff base. You're now back to a minimal amount of people. At least at mid-year you were back at a minimal amount of people. What kind of average flexible staff base you expect to need in '19?

Leon Verweij: Average I don't know, but we will be building up. We're now, at half year, we were at a level of around 60. We will be building that up to around 120, 125.

Thijs Berkelder: Clear. Then just to check –

Leon Verweij: We will be building that up a little bit slower than average because we're shifting part – part of Borssele is shifting into '19 of course.

Thijs Berkelder: And for Borssele you – let's say, you – for just doing Borssele, you need 82, 100?

Leon Verweij: Yeah, we have to give [inaudible], etc. We're moving everything around that.

Thijs Berkelder: Yeah, clear.

Leon Verweij: So while we envisage first to do a larger part of Borssele with only own staff, they are also working now on Tyra, and Niask[?] gets temporary staff on the other side.

Thijs Berkelder: Okay. Then Dillinger Hütte, the supply problems are related to the steel factory of Dillinger, or is it their steel supplier to –

Leon Verweij: No, it's related to a specific type of plates coming out of their factory.

Thijs Berkelder: But it's not related to their supplier?

Leon Verweij: No.

Thijs Berkelder: Then do you encounter, in the supply chain, any difficulties in view of the dry weather situation and maybe the low –

Leon Verweij: We are already experiencing that. We have problems, our problems. We can't get our, for instance, the Tyra projects. We can't – they were envisaged to be loaded in Roermond, on the coaster, but can't happen because of the low water conditions. So we now have to take them by barge to Rotterdam and then load them in Rotterdam on the coaster. Well, we've experienced low water situations before when we had a problem beginning of this year. So as far as steel plate is getting to, almost we exactly know what to do and how to do it.

Thijs Berkelder: Clear. Then the –

Leon Verweij: And again, that's not – it's costing some money but it's not costing fortunes.

Thijs Berkelder: But Dillinger delay – Dillinger needs to compensate you for a lost profit?

Leon Verweij: This is still early stages here. What I said is we have the situation now for Borssele we think under control. Dillinger is doing an investigation in what they exactly when can supply also during '19 for those other jobs. We're getting that information this week, so latest today. And then we can see what consequences are. And of course yeah, if your supplier can't supply you with what you ordered in time, etc., and it has any, let's say, detrimental financial effects.

Thijs Berkelder: But you already indicate that part of Borssele 3 and 4 shifted to '19 and pricing of Borssele is lower than normal. So your profitability '19 in that sense is already impacted because you could have done other jobs for far better pricing in '19.

Leon Verweij: Okay.

Thijs Berkelder: So you won't be compensated for that effect or –

Leon Verweij: No, normally you will not be compensated for that effect, but I was surprised by the question. It's early days. It's clear that if jobs are going to cost us more money because of this situation, we will be compensated any other effect. You'll have to discuss with Dillinger Hütte.

Thijs Berkelder: Yeah, clear. Then how far are you in working with second steel suppliers? Previously Jan now and then talked about it having prepared Posco, Salzgitter. What is progress there?

Leon Verweij: Well, we did some jobs with Salzgitter, let's say, not a tremendous success. We had a lot of quality problems with Salzgitter. So for us as an alternative. Posco will now – we can use Posco. We've tried it. It's an alternative. But it has certain, let's say, detrimental effects that we don't like and we don't want. Of course there is a working capital effect because then I have to get all the steel in one ship to Roermond, instead of, let's say, deliveries as I want to have it.

Next to that they are only able to supply small plates and we need to do, let's say, some cutting on that on our side, which Dillinger Hütte now does for us. But it means that if we would want to do that on a structural basis, we would have to invest in doing that more efficiently. So we're still very much focussed on Dillinger. And like I said I think on the annual meeting as well, having a relationship like that has its downside but also has its upsides.

I mean, you can talk to Dillinger Hütte and say, okay, we're going to Borssele and we're not getting paid before the beginning of October, so we think you also not get paid beginning of October and I don't think you can say that to the Koreans that.

Thijs Berkelder: Clear. Any indications that Bladt and Steelwind/Dillinger Hütte are in talks?

Leon Verweij: Yeah, I cannot say who is talking to whom.

Thijs Berkelder: Because in principle the Steelwind Dillinger Hütte couple of years ago wanted to buy Sif and in – well, because they were denied in that search, let's say, they went to build Steelwind more or less to guarantee their – partly guarantee their, let's say, protection. So are things maybe there developing between Sif and Dillinger or Sif and Steelwind?

Leon Verweij: No, I can deny that.

Thijs Berkelder: Okay. Clear.

Leon Verweij: That's clear and that would also make no sense whatsoever for us.

Thijs Berkelder: Yeah, then we discussed already Taiwan and Japan. How about US and maybe other markets outside Europe?

Leon Verweij: Well, I think the US is the most interesting one. It's going to happen there. I think everybody was surprised that job Vineyard was not going to Ørsted. I thought they already encountered it little, more or less. We are now working on a consortium to make the offer for Vineyard now because it's now managed from Denmark. And we will be offering, together with partners, on the Vineyard job. That's the first concrete one, let's say, that we can work on. And we're still looking at the US markets. And now with Fred coming aboard again, we also have more capacity on looking on those new markets and how to position ourselves there.

Thijs Berkelder: Yeah. Clear. Then on the competition. My impression is that EEW and Steelwind already have more work than what you indicated, much more work than you indicated. My impression is as well that the French offshore wind farms still are not in the order book and/or in exclusive negotiations. So where can we expect French offshore winds to land then in terms of production?

Leon Verweij: In Europe.

Thijs Berkelder: Yeah. Can you confirm that France is still not in your order book?

Leon Verweij: No, I'm not confirming that. But I'm also not confirming that France in total is in our order book, and I'm saying too much. But if you have a close look on what happened on the order book, you can maybe make your own deductions. And France, you know we have a very good and intense relationship with Eiffage and with Smulders as well. Eiffage is still preferred – let's say, preferred supplier or supplier for, let's say, the first two wind farms there and we are in continuous talks with Eiffage, Smulders, etc., about those projects.

Thijs Berkelder: Okay, clear. Thank you.

Martijn den Drijver: Martijn Drijver here. One question about one of the graphs the outlook of the demand for offshore wind farms. '19 was up quite swiftly and '20 was down more or less in line with '18. Still you're very optimistic about the next two years. What's the difference between your view and what projections are?

Leon Verweij: I think that the predictions – I will have to check with our grid connections. Our grid does – the predictions are based on grid connection, which is of course always later than our projection. So if you see a low number in '20 that's basically the effect we have in '18 as far as production of monopiles is concerned.

Martijn den Drijver: Okay. And can you say something about oil markets, how demand is over there? Oil market.

Leon Verweij: Well, I said it before, keep reading in the press that – and I'm experiencing as well that oil prices are increasing. I keep reading that investments in oil and gas sector should start again. Then I take a step back and just look at what we are working on then what we see is that, well, we get tender requests for the new jacket from Sverdrup which just came in.

But more of those jackets will be built in the future. We don't think so, those giants. There is still a nice job of also market for piles, which is basically wind. So we don't see this upturn in

demand for oil and gas to leverage. We don't see it yet. If it's going to happen, it's nice because there I have room. And normally we will pick up after a year between 15 and 20 kilo tonnes. We will pick that up in small jobs.

Martijn den Drijver: Again, no real uptick?

Leon Verweij: We don't see it yet. I'm not saying it's not coming but we don't see it yet.

Sean McLoughlin: I have a question of – Sean McLoughlin from HSBC. Do you think that higher steel prices could change customer behaviour and move more towards alternative from monopiles?

Leon Verweij: Well, considering the fact that jackets also require steel, the same for any other solution you can think of, I don't see that this changes the perspective in any way. And the alternative of concrete, the French are building one farm with concrete. Well, that's so enormous expensive that doesn't change the ball game at all.

Sean McLoughlin: And can you say anything about contribution per tonne for monopiles or for jackets or parts for jackets?

Leon Verweij: You can't compare. But I've already said I'm not going to give any guidance on the development of contribution per tonne, etc., at this stage. So I would like to leave it on that.

Sean McLoughlin: Okay, thanks.

Leon Verweij: Okay, Thijs, one more question.

Thijs Berkelder: Thijs Berkelder again. On your project list, you also are mentioning Kriegers Flak.

Leon Verweij: Had a potential.

Thijs Berkelder: Why do you think you can play a role in Kriegers Flak?

Leon Verweij: Why not?

Thijs Berkelder: And rest of half in Nord. It's the east side of Denmark. It's not your logical territory. Normally you're only invited to tenders, so that EEW makes a lower price. Are you serious that you can play a role there and when would that, let's say, play? Is that 2019 or '20 or '21?

Leon Verweij: Answer to your first question, yes, we're serious we can play a role there. Second part of your question, that will be about end of '20, beginning '21.

Thijs Berkelder: End '20.

Leon Verweij: End '20, beginning '21. That's not clear yet.

Thijs Berkelder: Then a question on dividend, looking at the governance at the situation at this moment and probably still the year-end situation. Is it logical to assume that you will pass dividend this year or am I too fast there?

Leon Verweij: You're too early.

Thijs Berkelder: Clear.

Leon Verweij: Okay.

Tijs Hollestelle: Yeah, I have one question. Tijs Hollestelle. Your general mood must be much better compared to previous quarters?

Fred van Beers: Starting at the bottom, at the absolute bottom.

Leon Verweij: First of all, that's a good thing because next time he can answer all the questions. And of course I've combining CFO and CEO for four months and also being involved in commercial side, etc., so sometimes I had a shortage of time. So left and right, so that's understood. But, well, like I said this morning, you can't be happy with these figures. So in that sense you're not happy. But it's a market situation which we predicted a year and a half ago. That's happening. So what we see here is happening exactly what we predicted already a year and a half ago. And on the other hand, we now have something to show in the sense that we also said the market is picking up, so we're getting the jobs in for '19 for '20, etc. So in that sense, we are in a better mood than we might have been at the end of Q1.

Tijs Hollestelle: Okay, thanks.

Leon Verweij: Okay. Andre still has a question.

Andre Mulder: Maybe two or three questions remaining. First one, what wind farms are under the UK banner, the CFD round three?

Leon Verweij: There I have to – I would have to look it up and I don't have that list here.

Andre Mulder: The oil and gas site, to what extent can you transfer capacity in that site if you don't see a real recovery; how much of that would be – you would be flexible to use that in the wind part?

Leon Verweij: We already did in the past is that we transferred capacity and rebuild capacity all towards wind. So what is left we can't just like that change into wind capacity that we would need real investments to start changing that. So that's not envisaged in any way. It can be done but it will require money.

Andre Mulder: Because let's say the jacket business is pretty close to what you do in oil and gas?

Leon Verweij: I would disagree on that, but we would have to take a trip to Hoboken or the UK. I've been working for Smulders also for one year, a year and a half, and I've seen what jacket business means. And that's a totally different ball game than monopiles. As far as technology and welding is concerned, they are far more hand-welding, etc. We are in the business of automated welding etc., and it's far more hand-welding. It's a different business.

Andre Mulder: I think in the past there was also a talk about you getting steel from the Dunkirk plant. Is that still an option?

Leon Verweij: I think we're getting part of the steel from Dunkirk plant.

Andre Mulder: Is that an increasing part. Can you mention any?

Leon Verweij: That I wouldn't know whether that's increasing yes or no.

Andre Mulder: Looking at the short-term development, can you make any statements on what kind of profitability you would expect in Q3, Q4 compared to Q2? Should we expect much lower profitability than what you made in Q2?

Leon Verweij: Now Q3 would be not much lower and Q4 but would be a full quarter with production again, then it would be picking up again.

Andre Mulder: So on balance, would you say that?

Leon Verweij: I don't know what gives you guidance on the full year. I'm not going to do that.

Andre Mulder: Just taking a jump into the sunny situation in the next few years, it's very likely that there will be a lot of excess cash then coming your way. Have you given yourself any thought or what you want to do with that because it could be quite big there. Do you talk about dividends? Do you talk about maybe share buybacks or anything else?

Leon Verweij: No, we're not talking about share buybacks. We always talk about dividends. Thijs asked the question earlier as well. I think that's too early. What we indicated as well, we will have to reverse, whether we like it or not, in probably upgrading or extending coating facilities if the developments also with BLUE Hammer, etc., continue the way we think it will go. But it will mean going forward that the thickness of steel in the monopiles will decrease substantially. Now if that decreases to let's say a level that it really becomes, let's say, six centimetres or something like that with large diameters, it will require some investments there as well, and of course we still have our plans in expanding our business towards Japan and the US, etc., which will require investments as well.

Andre Mulder: If you look at the –

Leon Verweij: But share buybacks we're not considering at the moment.

Andre Mulder: If you look at the international operations, would you like to take the licence route or do you aim to step into JVs or set up shop on your own?

Leon Verweij: Well, what we've always said there, a couple of guidelines for ourselves. If we go real international, we think that we'll at a certain point of time have local production. But it looks like that's another question. You can build that up gradually. But we will not invest in buildings, in land and buildings, because we don't want land and buildings, so you're always looking for partner that has land and buildings.

Second to that, you need a local partner, certainly in Japan, maybe less in the US but it's preferable to have good local partner in the US. So we will always team up with the local partners or we will always look for some sort of cooperation with the local partner maybe with another European partner if you enter into that market, and that's exactly what we are looking at and what we're doing.

Andre Mulder: Additional investments. So you're mentioning additional investments for coating facilities. I think somewhere in the pipeline was also still planning to have solar panels installed on the roof of the factory in Rotterdam. Is that still in the planning?

Leon Verweij: That's still in the planning. We're putting out a tender to the market. We have the subsidy now, so we're going to tender in the market for party to put them on top there.

Andre Mulder: Okay. Very good.

Leon Verweij: Second thing, if you might read the newspaper last Saturday, we are also talking to – well, I can say it now because it was in the newspaper - GE about this wind mill to

be installed in site in Rotterdam, which will then be the largest onshore wind mill in the world, 245 metres high.

Andre Mulder: And is that 100 megawatt?

Leon Verweij: Sorry?

Andre Mulder: 100 megawatt as well?

Leon Verweij: Well, I think that the turbine on there is a new GE one and you can read what they released, what they are going for.

Andre Mulder: Any combination what kind of proceeds should that bring for Sif?

Leon Verweij: That's a totally different business model. I mean, it will be separated from the normal business and the separate entity in which we own 60%, etc. But let's assure you that it has a nice return, especially since the whole programme we're looking at it will require no upfront investments from our side.

Andre Mulder: Yeah, great. Then I've seen that Norwegian government wants to go ahead with floating wind more or less according to the Equinor concept. Jan has always indicated that Sif is very interested in supplying for the high-wind type of concept. Your relationship with Equinor is great. So what is the progress there on your side and –

Leon Verweij: At the moment, there is no real progress on this side. I mean, there are intentions like there are lot of intentions, but before they are transferred into actual actions, that takes some time.

Andre Mulder: Yeah, but let's say meanwhile Equinor has discussed directly on to existing oil and gas fields to install the same, I think, the same concept also there; you've not seen anything coming back? Okay, clear. Thanks.

Leon Verweij: Yeah?

Speaker: One last question. We see that Russian companies taking equity stakes in wind farms. Is that one of the routes you should be thinking of, or is that fully out of the question?

Leon Verweij: Well, it's a logical question. We've considered that in the past as well. The problem is what do we bring to the table at Sif? What do we bring extra to this investment group? Money is not the issue. So at the moment, we're not considering that.

Speaker: Maybe a combination of an equity stake might lead to a preferred position for you as a monopile producer.

Leon Verweij: Yeah, so it's clear what it would bring for Sif. But the question is why would they require Sif to take an equity stake? What would it bring for them additionally to the table? And that's the question that you can't really answer, given the whole scope of money that's available.

Okay, if there are no further questions, I thank everybody for being here and attending this call and I hope to see you next time. Thank you.

[END OF TRANSCRIPT]