



Sif

HY 2019 Results

Wednesday, 28th August 2019

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Fred van Beers: Alright, so good morning everybody on behalf of CFO Leon Verweij on my left hand here and myself, Fred van Beers, CEO. A very warm welcome to this biannual Sif webcast. This morning we published interim 2019 results. So here we are again to elaborate on this release and to answer any question you may raise.

With us are sell side analysts of Dutch financial institutions, as well as independent analysts. The slides we use for this presentation can also be found on our website. And the transcript of today will be posted on our website shortly after this presentation.

Let's briefly talk about strategy of Sif first. This time in particular, I'd like to highlight the fact that we announced yesterday the marshalling services at Maasvlakte 2 combined with a first order for DEME Offshore, to be precise Innovation Shipping, who are active in the installation of wind farms at Dinochy[?]. As October, they will use a new leased land at Maasvlakte 2 for a period of nine months to prepare for installation of Borssele 1+2 on the North Sea. Sif will render services like storage of all MPs and TPs, transportation, craneage and hoisting of MPs, TPs and other equipment and will host personnel for these marshalling activities.

We expect the service to grow over the coming years and for that reason release an addition of the 20 acre – hectares? How do you call it? Hectares of land at Maasvlakte 2 in Rotterdam. Together with 42 hectares land we have already leased this brings our total to 62 hectares as of first August 2019. Leon will later on talk you through the numbers of this deal.

With reference to our earlier communications on expected XXXL MPs, we have gradually started the implementation of our investment plans on large diameter MPs with relative thin wall thicknesses. This in line with our short and medium term order book expectations. The delay of Vineyard wind could lead to a slower than expected implementation of these investments.

During the London exhibition, we successfully launched our TP-less design solution, which is part of a strategy to help reduce the leverage cost of energy in foundation designs, through standardisation and simplification of existing technical solutions.

Go to the next one.

It has become a pattern in the meantime, always – almost every time when we talk to you industry analysts have upgraded their or outlooks on the development of the offshore wind market. When in the midst of the activities, you sometimes wonder why things cannot go faster, but looking back in time, we often forget how much already has been achieved. Total installed capacity in Europe in the North Sea stands at some 20 gigawatts. And with a lot of innovation in the production chain, wind farms grow larger with larger turbines on larger foundations. The recent new products produce more environmental friendly, sustainable electricity at lower and still decreasing costs. The levelized costs of electricity for offshore wind can compete with any less sustainable source of energy. Expectations are that by 2027, in eight years' time, Europe will have 63 gigawatts installed capacity, three times the present connected capacity.

The majority of installed offshore windmills is still based on monopiles at an 85% to 90% share. Until 60m water depth the monopile is the foundation of choice, as it is a simple, reliable and cost-effective solution. It is expected by industry analysts that with offshore wind becoming a more global source of energy monopiles will remain the foundation of preference.

The share of monopiles foundations may drop to 60% but in absolute terms the annual demand for monopiles is expected to grow, as more and more wind farms will be developed, including floating solutions. Viable floating wind farms will contribute to the success of offshore wind in general, and as such, indirectly, to a long-term perspective for monopiles as well, as they open up areas where jackets or monopiles are not a solution. For this reason, Sif continues to actively participate in initiatives that investigate and develop floating offshore wind farms.

When looking back at the first half year of 2019, we produced 94 kilotons against 81 kilotons in the first half of 2018. In the first three months, we mainly manufactured for Borssele 3+4, the project that slipped into 2019 following late steel availability and low waters in rivers that slowed down deliveries of steel plates and transportation of cans from Roermond to Rotterdam. The start-up of new projects has its own dynamic also in terms of profit and loss and cash flow. Leon will talk on that later on. In Q2, we started up Seamade, Borssele 1+2 and Triton Knoll, and the financial dynamics of the start-up phase are reflected in the first half year results and cash flow.

On 1st April the first Frank Kevenaer started as the COO of Sif. After a thorough first introduction he's now fully focused on ensuring that the order book is converted into in time and quality deliveries. Delays in Borssele 3+4 and a tight schedule for Seamade did create planning and resource challenges that we acted upon but will need constant attention during the remainder of the year.

As far as new work is concerned, we won two projects, both closing the first half year. On Hollandse Kust Zuid, we were awarded three out of four of the projects, with the fourth project still open for Vattenfall to grant to us or another supplier. The three projects booked represent 113 kilotons, or 114 monopiles and are for production 2021 mainly. On Vineyard, we were awarded a total project of 84 monopiles or 105 kilotons steel. The effect of the BaoBaom[?] taken decision to execute an extra environmental impact study on the delivery schedule remains to be seen.

Although we have allowed for some delay in our planning, it is an inevitable now that the project is delayed further. We are intensively discussing mitigation options with the customer. Depending on the outcome of these discussions, we can evaluate what the exact impact is on our operation.

And that makes me – has come for me to the end of this presentation and I hand over to Leon now. Please, Leon continue.

Leon Verweij: Okay. Thank you, Fred. Good morning to you all as well. Now, a few words on how this all translated into our numbers. Fred already mentioned the 94 kilotons production output. The Q2 production of 52 kilotons is almost back at the levels we saw in 2017; contribution for the first half year 2019 was 45.5 million which translates into €484 per ton on the first half year 2019. The first half year result was still on the pressure of the low margin project Borssele 3+4 and ramp up in Q2, which – where we started new projects like Borssele 1+2, Seamade and Triton Knoll.

We hired almost 35% new temporary staff in the first half of 2019. This of course brings certain inefficiencies in starting up and running the production lines. Working capital, however, was negative with €11.7 million.

I have to give a little warning. This is a snapshot situation and may vary over time depending amongst others on the status of projects, invoicing, and payment behaviour. Net debt was down at €14.9 million. Please bear in mind that this net debt does not include the new liability for the lease of land. Under IFRS 16, the lease of land is treated differently. And then before will explain on the impact for Sif later on. This also explained on page 16 of the press release we issued to this morning.

The order book for 2020, 2021 is 300 kilotons of which helmet[?] for Vineyard. We've already explained that Vineyard may possibly shift, be delayed, but we still rely on the realisation of the project. It will therefore remain in our order book but for an undetermined production period.

As explained before, we look at contribution as a performance indicator for Sif. It reflects the pricing of projects in the market, corrected for cost of steel and other materials. Steel is often half of total revenue and above through cost for Sif.

We've seen peaks of €688 per ton and saw €484 per ton in the first half of 2019. As Fred mentioned earlier and also in the press release, we see still no reason why contribution margins of around €600 per ton could not be achievable once the market is really shifting into the XXXXL monopiles.

We already mentioned working capital and net debt, and the slides in front of you, you see the development over time indicating that this is a snapshot situation rather than an indication of structural – structural working capital requirement. It also indicates that Sif has a rather conservative financing structure and with a good year combined with only maintenance CAPEX can become a net debt free company.

Last year we announced additional investments in coating facilities and production equipment adjustments following the new PISA regulations. In the first half of 2019, we need completion of the two additional coating holes at the amount of approximately €6 million, which was exactly the amount we had guided and assumed. PISA adjustments require maximum €34 million of CAPEX. €10.5 million was committed in the first half of 2019. We will invest the remainder as soon as the market demands this.

And on the next slide you see the IFRS 16 effects on balance sheet and P&L of Sif. As already guided and disclosed in our annual accounts the IFRS 16 effect on the balance sheet is some €30 million and this €30 million – approximately hundred% of this release or relates to the lease of land in the Maasvlakte trade.

The effect on the P&L is shown on the bottom half, where you see operating lease expenses, going out of your operating expenses, and in return you get depreciation charges and additional finance costs.

The effect on the balance sheet as shown here of €30 million does not yet include the effect that the extension of Maasvlakte trade, which you mentioned earlier, will have on our balance sheet.

And then I'll turn back to Fred.

Fred van Beers: Talking you through some closing remarks. Prospects for offshore winds are good and getting better all the time. We are in a healthy market with the leading product. We are one of the market leaders, and well positioned in Rotterdam for the developments on the

North Sea, which is still the strongest markets setting. You have to understand that with a limited number of very large projects in the market activities can be very volatile. Ideally, the projects are manufactured back to back, but it is an illusion that this is constantly the case. Sometimes we have standby while awaiting the next project to be ready for production.

We are used to adjusting to this volatility with our flexible workforce and scheduling capacities. The development of the Vineyard wind project is a study book example thereof. As were Saint-Nazaire and Seamade earlier on. It however always implies delays and hardly ever or never in our experience the cancellation of a project.

We – sorry. Our order book for 2020 and beyond stands at 300 kilotons. Thereof, 80 kiloton is reported as exclusive negotiations. Sif has some flexibility to shift the projects in the order book along the planning timeline.

This is currently being discussed with the Vineyard wind organisation. More clarity also on financial impact of this can be given soonest three to five weeks from now. For now, this is what we had to add to the release and the slides, and I cordially invite you for questions.

If you follow this webcast on the internet, you can use the specific button to put up a question or remark. So thank you for your attention. And first questions are now – the floor is open for questions right now. Guys, go ahead.

Questions and Answers

Tijs Hollestelle (ING): Good morning everybody. Tijs Hollestelle, ING. Yeah, if you could give us as detailed as possible the planning of the 300 kilotons for 2020 and 2021. And of course also for the initial assumption on the Vineyards project. But also yeah, the timings of the production of all the other projects in the in the order book will be quite helpful to get a feel for that and space.

Fred van Beers: Thanks a lot, and I understand the question, which is great. So we're on the same page here. But unfortunately, it's very hard for me. I mean – but if you look, but – let's put it this way, as I mentioned in the in the closing remarks, there is volatility now at the moment in the market, and as we announced in the press release Vineyard wind is still open. And that has a big effect on how the spread will look like.

What I can say in general is that the further we look away from 2020, the more tighter it is with respect to demand and capacity. So our concern, so to say, is that for obvious reason, is of course in 2020, where we have to see how we deal with this delay of internet. And as I said before, I can't give you more detail on that yet.

Tijs Hollestelle: Okay, yeah. So if I understand correctly, part of your flexibility is that you also have leeway for the starting of production of all the other contracts, that also depends on Vineyard.

Fred van Beers: There is – yeah. And that is a puzzle, so to say, that we are used to play but where we need to play chess on various boards with all the customers to see how we can now put the puzzle together. And in order to put the puzzle we first need to have Vineyards' position on the permit, and that's what they are investigating with Barrow at the moment, we do also have direct contacts with other association, the Offshore Wind Association in the US who has a good insight in how they work with respect to permitting so we're not only relying on the input

of Vineyard Wind, we also have our own contacts in the US and establish those already before to get as early as possible feel on the implication of this delay.

Leon Verweij: It is quite frustrating then, because this morning, also the news landed that there is now the first French offshore wind contract, the Saint-Nazaire. I believe in the press release that they need the monopiles already early 2021. So if you then – yeah, that's the difficult –

Fred van Beers: Part of the puzzle.

Leon Verweij: Yeah, you – so you have to then inform them on your own challenges whether you can do the project or not.

Fred van Beers: And that's a, that's a game that needs time. So that's why I'm not going to say anything now on what project is coming where because we simply can't do that.

Tijs Hollestelle: And then – okay, thank you and then follow up. I mean, the volume outlook for the market is quite positive, but you see quite some profit warnings and issues in the wider industry on the pricing level. So it seems to be that the utility companies and hence the shy contractors are much more fierce on pricing and the turbine manufacturers have big volume bits margin pressure because of that. We have one Dutch operator which gave a big profit warning on the issues in the cables. So what do you see in negotiations with customers on there?

Fred van Beers: In all honesty, it's more about availability of capacity than specifically on price. Of course, there's always a price discussion. But I think here the experience comes into play where we try to combine the most efficient production methods with big sizes that are needed; as said already we are growing diameters. That comes at a cost and actually the market appreciates that fact, whereby I think it's very important to realise that this is the most customised project product in the whole wind farm. I mean, here you make the translation of something that is totally random being sea and water to something that is fully standard being the tower and the wind turbine. So that interface as a value, that dealing with interface and in our talks with some of the turbine suppliers, we also notice, we understand that they have a certain, let's put it to respect for the fact that this translation engineering that we sort of realised, has its value. So to make a long story short, we do not see any real concern at the moment at the intake margins. The question is, can we deal with all the size growth and tonnage growth and increase of size of projects in these volatile markets? That's where the real margin question pops up in my view.

Tijs Hollestelle: That's a very clear answer. And that is why you give some guidance now on the contribution margin and saying that you can reach previous peak levels but not on EBITDA, because these potential costs are a bit lower in your business or your P&L.

Fred van Beers: Could be. Yeah, so yeah, because of the effects of the volatility increasing. Yeah.

Tijs Hollestelle: And so you're probably managing expectation by not saying anything on the EBITDA in that respect it could be could be...

Fred van Beers: Your words.

Tijs Hollestelle: Be careful.

Fred van Beers: Yeah. Okay, thanks. No comments on those words.

Speaker: [Inaudible]. I'd like to come back to what you stated: it needs time. But how much time do you have? Because if the decision on Vineyard is going to be postponed, postponed, postponed, you're going to have a problem. Is there a moment whereby you can say it's off the table, we'll take it out of our books, or whatever? Because –

Fred van Beers: Like in like in any contract we do have an escape possibility; we're not we're not taken hostage so to say by this contract.

You – of course, nobody wants to say farewell to an order. So we will do or whatever is in our power to work together with a customer in making this happen. And there are various options there.

But yes, we can step out if that takes too long. And I think given the previous discussion as well, and the fact that how we see the market developing, there is also possibilities to continue life without Vineyard.

Leon Verweij: And yes, there is a certain moment where it's not realistic anymore to say you can manufacture this this within your current portfolio and your current availability of capacity. You can try to shift a little bit around using and discussing with other customers. But there comes a moment where – but that's depending on Vineyard and that is if they're saying well notice to proceed will come only at XXX time, we have to decide, 'Listen, we have commitments to other customers. We don't have that capacity available at that moment anymore.'

Fred van Beers: And we all know that the CD ROM comes in the UK and October six mega six gigawatts will be awarded. And we are not arrogant, but we do believe that we will get a fair share of that release. And that is all for 2022, 2023 –

Leon Verweij: Committed capacity.

Fred van Beers: Committed capacity.

Speaker: You want to become more flexible or a better back to back direction. How much help do you need from your clients? Because I can imagine you can do a bit, but I think you also need to help your clients.

Fred van Beers: Well, yes, sure you do need and sometimes that will cost you money. I mean, if you look at Borssele 3+4 we were clearly helped by our customer; you could in hindsight, say maybe not, but...

Leon Verweij: At that time.

Fred van Beers: At that time it was absolutely the right thing to do. So that is an option and sometimes our customers help us because of the delay their side, which we can't control at all. But that's the art of the of the business. And again, we're playing here.

Speaker: And you made your initial investments for PISA. What will trigger to put the additional money into this project?

Leon Verweij: Basically the speed in which client requirements go up as far as D over T and the size is concerned. Now, we basically follow client demand, because if we see in our order portfolio for the next two, three years, only monopiles going up to nine meters and nine and a half, it makes no sense incrementing all the rest. But if we go into the 10m etc., yeah, then

you have leeway, you have time. Then we will commit but like we always said in the past we will follow basically market demand.

Speaker: And could you please give us some insight why the fourth slot of AKH [inaudible] it was not ordered yet?

Fred van Beers: I can't, for the simple reason that we also don't know.

Speaker: Thank you.

Fred van Beers: But are we talking on it? Yes.

Fairmont Camper[?]: Fairmont Camper. Thank you for taking my questions. First question on the potential delay in Vineyard. You gave a discount, on Borssele 3+4, of about 20-25% of I look at the cost for the returns on – per tonnage. Is it something you would be willing to do again?

Fred van Beers: No. It's – no I – my first reaction would be maybe more chance on the contrary.

Fairmont Camper: So still willing to give a discount but not –

Fred van Beers: No, an increase.

Fairmont Camper: Okay, but even will cost –

Fred van Beers: It will cost them. I mean they're causing a problem now, in the industry whereby the situation is totally different than 2018. 2018 there were no projects.

Leon Verweij: And there's a fundamental difference of course: we now – we have a contract with Vineyard. And basically they buy a slot – a production slot from us. Now, they are delaying that; it's quite the opposite situation which we had when we gave the – when we needed something.

And now, if this slot has to shift somewhat, that also means that we have to talk to other customers, they might have to speed up their engineering, or whatever; there will be additional costs with other customers, that has to be reimbursed somewhat, somewhere. And I'm quite sure that we are not the ones that are going to reimburse all those costs.

Fairmont Camper: So even if there's a threat of no production for a certain period of time in 2020, and you might – or you might go to other clients say, you know, why don't you push forward the production, you would still not be willing to give any discounts to your other clients? That's my question.

Fred van Beers: If so then I know who's paying for that. But there is – but on the other side, you know, this is the approach Vineyard went. If outside our control Vineyard Wind will not happen at all, then then there is simply a slot falling away in 2020. And then then we do have also – because that's another scenario that we are exploring what can we do then to help us keep our factory full, pull forward or delay or put in extra etc., etc. There are – that's a totally different scenario than it was in 2018.

Leon Verweij: You also have to keep in mind that it's not just Sif, it's also [inaudible] who now has this issue. The flange producer have this issue etc. Everybody is going to look for their own solutions, etc. So there comes a moment that we might say, okay, we have constructed somewhat, something and we can just build it in that period of time, then [inaudible] then says,

'Yeah, that's fine, but we can't deliver the plates anymore.' So it's playing – like Fred says, it's playing chess on a fairly large chessboard. What everybody has to do is sing in the situation where Vineyard itself doesn't know whether the project will be delayed by four months, six months, a year, two years – they don't know.

They're still finding that and trying to find that out. And whether they have a solution yes or no. They might end up in a situation that the project is delayed to such an extent that nobody has capacity available to build it.

Fred van Beers: Could well be.

Leon Verweij: It's also one of the scenarios –

Fred van Beers: Or the feasibility of their programme goes down the drain.

Leon Verweij: That's why last week we released the press release saying, listen, give us some time, because we need at least four or five weeks before we ourselves have some clarity on what can be done and can't be done. And it was maybe the silliest press release I ever issued but we felt that we have to tell something because everybody was calling and we don't know and Vineyard doesn't know so...

Leon Verweij: So don't be surprised that in three to five weeks' time we come out with a press release that we need another four to six weeks.

Fred van Beers: Or Vineyard needs to...

Leon Verweij: Or Vineyard, sorry. But also, be assured that we are in very intense contact with them and then with documenting it.

Fairmont Camper: The other press release that was sent out yesterday on the on an additional lease, Maasvlakte two. You only disclose that you're expecting double digit revenues in two to three years. What is what is the business case here? Is there any CAPEX involved or in the medium term? Double digit revenue: does that imply a sizable impact on the group earnings basically?

Fred van Beers: We won't do this without having some decent earnings. We will not release numbers on that, because it's also from a competitive point of view not right to do that, but what I can tell you – why did we do this, is because of – a prime business is a production of monopiles and that will be the case. But when doing that you need, as you know, quite a bit of land, to – for storage, handling, etc.

This is a very nice sort of start-up position for actually utilising your equipment and your land – a bit more of land, in all honesty – at a very interesting return rate. And it's purely – because of also the questions coming from our customers that have been pushing us now for quite a while very consistently on, can you please help us out on the services, because of the fact we have to pick up the monopiles. You're so well positioned related to the fields, for us makes a lot of sense and it will reduce the cost to do a bit more of your premises. Well, since Maasvlakte 2 next to us was still open and free for the birds we decided to step in, but also – but only step in when we could also have a launching customer so that we can immediately turn it into revenues.

And that situation is what we released yesterday.

Leon Verweij: And yes, there will be some kind of CAPEX involved which you can imagine because you have to do what – somewhat work on ground improvement and building some bikes, etc. to store things. But that's very, very, very limited.

I mean, I couldn't build one holding wall for another month.

Fred van Beers: And the business model works as such that basically our customers lease from us the plot for certain periods, including equipment use and then – so this is pretty stable, so to say, income stream.

Fairmont Camper: And are there already discussions with other parties who saw that the initial uptake agreement was nine months relates to one project I assume there are more discussions on the...?

Fred van Beers: Absolutely. I mean, if you look a little bit at what released from an order perspective and look where that will be built, the [inaudible] site, it's quite well positioned also for marshalling services.

And, you know, and – why did we do this as well is it gives us a certain stability in our revenue and income stream as well as – sort of small, but it's still a base load. That's different from monopile production.

Fairmont Camper: Two questions remaining. Firstly, small question on maintenance CAPEX: you stated was 6 to 8 million is still the case if I look at the levels here today?

Fred van Beers: Yeah.

Fairmont Camper: Okay. Last question on floating wind, you just highlighted floating wind again, I think it's becoming a bit more relevant [inaudible] market. First, I think the initial discussion we had two years ago. Has anything changed in terms of your proposition here?

Fred van Beers: Our proposition? Well, basically we still say as what we said I think three years ago: it is a market that will come one day; we are actively involved in there. And in my view, it – as I said already before, it really helps for the total offshore business as a significant source of energy – as renewable energy when you when you can open up more fields like Spain and the Mediterranean or Norway where you don't have this relative shallow waters, but when they can apply offshore wind, it will boost the whole offshore wind. And you've seen I think also the ideas and initiatives for putting a grid connection system in the North Sea where the various countries can pick their electricity from, then having also offshore fields – of floating fields connected to that will also contribute to the whole maturity of this energy. So that's why we support it and maybe we never build them, but it will boost also monopiles.

Fairmont Camper: Good. Thank you.

Speaker (ABN AMRO): [Inaudible] ABN AMRO. One question on the storage and the land you mentioned. So additional land that you – is it possible that he would produce Vineyard [inaudible] and storage there for the meantime in 2020?

Fred van Beers: That's also one of the questions that came in from the internet. The question is, is it possible that you still construct the monopiles and store them and produce them in 2020 still instead of going to do it in another slot? Providing that the project gets approval in 2020.

Leon Verweij: A relevant question and it's definitely part of scenarios that we look into it. Absolutely. Question is, who's going to pay for it?

Speaker: Yeah, because you also mentioned some was going to pay for it and some clauses in the Vineyard contract. Could you quantify this?

Fred van Beers: The clauses that I referred to are more are more related to the timing. So we have agreed various steps so to say in delay, whereby you can imagine you have a certain periods where they can delay without consequence. Then there is a period where we mutually have to discuss and negotiate. And then there is a period when we from our side alone can say thank you, but we don't do it.

Speaker: Okay, thanks.

Fred van Beers: That's what I mean.

Speaker: Clear; and on 2019 to reach your production volume of 210 kilotons offshore wind, she needs 60 kilotons per quarter. During the Q1 results, you stated that you would work 24/7 at one point. Could you elaborate to this? Is this still the planning?

Fred van Beers: Yes. Still the planning. It's very tight. And as said before, we are also – I mean this 24/7 is more costly than 24/5. But we as usual want – need to deliver in time with the right quality. So, we will – we have planned for 24/7. And we have geared up our personnel numbers; our FT are now at roughly 610. And it's our expectation that [inaudible] should be the total number also during the remainder of the year, give and take.

Speaker: Thanks.

Leon Verweij: There's one more question coming in over the internet Fred, which is the question – if you could provide more colour on the upcoming UK projects in October.

Fred van Beers: The colour green. When we look at – what colour – I mean the colour we can give is that we are basically all now – that there is a substantial amount of projects in that round that is based on monopiles. That's first, as I think it's important. Could be up to something, 400 or so monopiles. And so that's one. Second thing is that with all these customers that are now pre-designing with monopiles, we are talking to. With some we have more tight arrangements in place than others, but none of these projects is closed for us. So it's really now down to the release to see who will get what, that we can continue our discussions. But I said before also early on, there are certain arrangement being made already for the 2022, 2023 period with certain customers on that specific round of UK projects.

Hopefully that's enough colour?

Leon Verweij: We don't know.

Thijs Berkelder (ABN AMRO): Okay, Thijs Berkelder, ABN AMRO. Can you can you maybe clarify when exactly when [inaudible] should be produced in 2020? Is it included in the order book for 2020 and beyond?

Fred van Beers: Officially, we can't release that. We do know that dredging has announced something this morning, I understand, on that. And as soon as we can tell more about it we will release it, but it's part of the whole chessboard we are playing with, let's put it that way.

Thijs Berkelder: Is it part of the 300 kilotons labelled 2020 and beyond?

Fred van Beers: It's still part of the exclusive. I've said too much now already but

Thijs Berkelder: Then question on the expansion on Maasvlakte 2: what kind of IFRS 16 lease debt will we see being added in the balance sheet?

Leon Verweij: So around \$25 million.

Thijs Berkelder: Another 25 million. Okay. Clear.

Leon Verweij: Just to make sure that that you all remember we renewed our financing agreement beginning of this year. Any leverage covenant we have agreed upon there is excluding these IFRS effects.

Thijs Berkelder: Now that's clear to me. Then can you say anything on the annual lease costs we should build in for 2020 then? For the site?

Leon Verweij: For 2020? For the full year?

Thijs Berkelder: Yeah. Is that €1 million or so?

Leon Verweij: It's more than €1 million; it's less than five.

Thijs Berkelder: So three would be a good estimate.

Leon Verweij: No, a good estimate would be around two.

Fred van Beers: Ask a quote with the port of Rotterdam. There's still 28 hectares free for lease.

Thijs Berkelder: [inaudible] business model is very attractive I would say, so maybe, why not? Japan. Has there been any progress there?

Fred van Beers: Thank you for asking. Japan. We have – the progress is that it is still progressing, and we are – actually I will be there next week. We have decided to strengthen a bit our local content from personnel and sales support perspective, because Japanese language is still difficult for us to learn.

And the number of requests growth is increasing. It's becoming more firm and more detailed and what have you. And then like before, we are exploring, in our own pace, possibilities and options and scenarios on how and what can you produce locally in Japan.

Like before, I keep repeating myself, the main priority for us is Europe. To make sure – to always make sure that we are in the same spot as we have been for so many years now. As one of number one or number two in the European market. And when we have time left, we developed Japan.

Thijs Berkelder: That may be a somewhat other question: when you stepped in as CEO you said I want to be judged on what we can deliver in 2020. With Vineyards of course becomes a bit more difficult. But can you maybe explain where you are in the process of making the whole factory setup, employee set up more efficient, whether you are happy in the progress in that thread or whether we you still are being faced with the negative, or the disappointments in that process.

Fred van Beers: Always and it will never disappear, I'm afraid, but we definitely are moving in the right direction. Is it going as fast as I would like it to happen? No. Is that strange? No. Because I think that's also my role to pull – and our role to play a little bit harder and make the elastic, how I call it, break.

The fact that now with Frank Kevenaer we have a very professional experienced COO in house helps a lot. And he is really putting this not only – he's doing two things: making sure that this very tight order book that we have now is delivered in time, and the right quality, but in parallel, make sure that the processes and – and working procedures are embedded correctly. In a – what for some of us, still, is a new situation at two sites. Factory. I mean for us it's Roermond and the Maasvlakte; Maasvlakte 2 within – and still tremendously increasing demand on coating if you go now there and look at the webcam of the coat centre or you will see that there is a lot of coating activity going on at the moment. And that is where we are on top now and on speed and see the positives coming from.

I know and you all know that from experience that this is a – this is something that could – that could take two years before you are there where you want to, and something new has happened in the market. I mean none of us would have expected this Vineyard Wind thing maybe to happen. But actually, we did expect something strange to happen because that's what's happening in this industry.

But yes, I'm satisfied with what we achieved over the year in becoming more professional on that side of the business.

Thijs Berkelder: Then maybe on CAPEX looking at marshalling services, you're still leasing those carriers. Why not buy them and what is the CAPEX needed for that? What is the moment to make a buy decision versus lease?

Fred van Beers: Well, we we've changed the setup, of course in the in the past. We used to hire them from companies like Mahmoud[?], and then you're paying an absolute top price. We've already entered for the S&P PISAs. We have them now into sort of a lease deal. So it's a fixed amount per year. That lowers the cost already substantially, of course.

Why don't we buy them? Yeah, we might decide to buy them. But then you're talking about limited amounts. If you would buy a brand new one, it would be talking about €2-2.5 million apiece.

If we would buy the ones we are using now you're talking about €1 million apiece. So it's not huge.

Leon Verweij: Yep, question came in via the web on when do you expect to hear more results on the UK projects? Well, Ben, first on the – as you know, the CFD has been delayed from – what was it? August, I think to October. And so that's the earliest we hear something is October, and then we will continue the discussions with our customer. So yeah, of course for us the earlier the better and for all of us, but that's the sort of – so Q4 is the first possible time slot that we that we could hear or say something. If it all goes according to plan.

I don't know your coat[?] [inaudible].

Speaker: No more questions.

Fred van Beers: No more questions at the moment.

Speaker: But we have somebody else in the room.

Andre Mulder (Kepler): Question from the room. Andre Mulder, Kepler. Handful of questions. I've got big hands, though. First one on the timing of the tenors of [inaudible] in

Friesland[?]. Can you give us any insight in when do you expect those projects to be tendered for?

Fred van Beers: Tender they have been for already but a decision you mean, the clarity on the way when will they proceed? For us? I think Saint-Nazaire, Hollandse Kust and Friesland is a matter of me maybe one to four – should be three months max I would say.

Andre Mulder: So for all three of them –

Fred van Beers: One to three months should come clarity. I mean, if you look at Friesland [inaudible] it has been in the press, it is it is released, it will continue now, so there is a certain timeline that needs to be fulfilled. But I'm always saying – coming with this but there are external factors that could always delay this. Because I have no real indication to be honest when that is to be disclosed.

Leon Verweij: For Saint-Nazaire.

Fred van Beers: For Saint-Nazaire ,yeah for sure.

Andre Mulder: Then on competition, though, we've seen the emerging of two new competitors, [inaudible] and [inaudible] Offshore. Any signals from the market as to their size, what will they be producing, possibly given him some discounts to enter this field. Any news on that?

Fred van Beers: No more news than, I think, half a year or three months ago. Isaiah, we always say we're conscious of the fact that they are to be taken seriously. And end up with half of Vineyard Wind. There I think we should – well, you saw the results; we got it all. Which I believe shows that there is hesitation and also an understanding in the industry there is quite a risk in in granting this sort of mega monopiles to newcomers. We do know that Isaiah is producing a few monopiles for the Toronto project and Italy has been communicated. To our understanding, they are now in the process of producing those. And let's see what comes out of that. We – like before we continue to take them very serious and see them as a competitor like any other.

Speaker: Are you –

Fred van Beers: Sorry?

Andre Mulder: MD has left.

Fred van Beers: MD has left.

Andre Mulder: I assume in the same region. [Inaudible].

Fred van Beers: [Inaudible].

Andre Mulder: No, ASM, the Portuguese company.

Fred van Beers: The Portuguese company, I have no new or significant update on them to be honest.

Andre Mulder: And on internationalisation you spoke about Japan. In the meantime, there's been some new – so TEW[?] is teaming up with [inaudible] setting up a monopile plant in the US. What's your feeling about that? Any other countries that you're looking at?

Fred van Beers: We have seen the news as well; if you carefully look into I think it's the sort of announcement that's surrounded by a lot of butts to say, okay is subject to – tata tata tata.

And we follow it with interest, so to say, but it's not something we plan to copy at this stage here, and certainly not after the latest news on [inaudible].

Andre Mulder: I'm looking at the market in the US if they plan something like 13 gigawatts, so for – over next ten years, there's bound to be a local industry development so – and for us to be demounted.

Fred van Beers: Absolutely. In that's respect for us Vineyard Wind was so important because it could give us a lot of experience and an understanding of how does it work taking up and what is the real cost of the total supply chain so to say coming from Europe, in comparison to setting something up in the US because that's indeed what what's been talked about, but still there is the issue of steel supply that's not there; still there is the issue of labour. And as far as we could figure out also EEW is maybe more looking at a sort of marshalling and field weld with a bit of coating facility than a full production facility.

So you always have this this this cost element of what does it mean? Yes, it looks nice to be there locally. But what does that mean and compare with in relation to the other states? Where there is still this – if not made in my state it's not local content? And what is the price they're willing to pay for local content in comparison what could well be a more cost-effective solution from Europe?

So Vineyard Wind for us is an important one to actually get more understanding on that. And as a sort of input in our constant discussion, should we, or should we not?

Andre Mulder: That's of course very strange to see that an environmental friendly source like offshore wind's being blocked by environmental objections. A very strange thing.

Leon Verweij: We first got money for selling the concessions. I mean...

Fred van Beers: But Leon, maybe you can share the video you shared with me later here how the Danes look at that in comparison to [inaudible].

Leon Verweij: We'll do that later.

Andre Mulder: There've been also some statements I think it was yesterday of Mr Trump saying that he doesn't believe in offshore wind.

Fred van Beers: True. True.

Leon Verweij: And that he's not going to put US money into wind, which is fine because Vineyards never had any US money in there. So...

Fred van Beers: He's not a fan of this business. That's sure.

Andre Mulder: Two questions remaining. Firstly, you spoke about escape possibility in the contract and any – any feel for what kind of penalties such a thing would bring?

Fred van Beers: Not that many, if any, because that's the way it is. I mean, these contracts are always subject to AFC, financial close. And since that has hasn't been a financial close, yet, you – that's the nature of this business.

The minute of course they start – they require us to lengthen those terms or do whatever, then of course, we start looking at some other...

Andre Mulder: Last question on this, this lend lease in Rotterdam. To what extent should we also feel that there's a sort of pre-emptive strike that you reserve capacity for possible future expansion? Is that one of the reasons behind it, or it's just facilitating services?

Fred van Beers: It's really about facilitating services. On the other hand, if we see a need for some additional fabrication services, in relation to our core product monopiles or to the services, we do not exclude that we will do something there as well. And that's that side, but we will do that all on the 62 acres.

Leon Verweij: I think we can save Fred and it's fair to assume that if the development of the non TP added to TP-less design continues like we foresee, then it's only logical that we need some more facilities in the Maasvlakte because then you have to work far more on the finished product monopile: you have to put braces in place etc. And you better do that overhead as well and you to them better in the Maasvlakte [inaudible]. Keep shipping parts of monopiles around to subcontract etc., you can do that once but it's not sustainable.

Andre Mulder: Would it also implies some transfer services from Roermond?

Leon Verweij: No, because we don't do that yet ourselves. One more question from the web, the last one Fred. At least that's being promised here. When do you hope to hear the result of the [inaudible] tender?

Fred van Beers: When do we hope to hear a result of the [inaudible] tender? I would say in all honesty within three months. It's not favourably located compare in relation to Rotterdam.

Leon Verweij: So it's not the most logical one.

Fred van Beers: It's not the most logical one. We will – we can announce something on it probably in three months.

Andre Mulder: That is also a follow up question. I'm a bit ill prepared for all the CAPEX, but the CAPEX was 5.1 in the first half. But that also included not only, let's say, a few million maintenance, but also the last and final version for the coating facilities. If I recall it should have been much higher.

Leon Verweij: No, the coating facilities all in all, is about €6 million now. Which we said today and part of that is still July, August, etc. So that's not in the first half. And this was part in last months of last year because we started there December, something like that.

Then we have some lower maintenance CAPEX in the first half, little bit higher in the second half. And the whole [inaudible] thing [inaudible] disclosed that this morning is committed 10.5, but it doesn't necessarily mean that I have to put it already in the CAPEX of the first six months. That's what I said committed this morning

Andre Mulder: Yeah, so that is basically near-term CAPEX, and the remaining €23 million can be much further out?

Fred van Beers: Yeah, that can be further out; yeah, that's what we said. That's depending on how the order book developments and diameters develop etc. But there are a couple of machines we know we need anyway which have a long lead time. So they are already committed and they will come in, but those we can use for the smaller diameters as well, but then we are geared up for the bigger diameters.

Andre Mulder: So the final CAPEX in the second half on the [inaudible] a little bit for [inaudible] normal maintenance. And a little bit of that [inaudible] that rolls into next year as well. Yeah.

Mark Beckett: Mark Beckett[?] here. These marshalling services: will they become a separate line in your segment breakdown?

Leon Verweij: If let's say the magnitude of the revenues increases, I think I will have a hard time explaining our auditors I cannot disclose it as a separate line.

Mark Beckett: And do you think it will only be a servicing to third parties or do you also think it will strengthen your business case to win new tenders?

Leon Verweij: I think that last element or to a large extent is already in place, of course, as far as our own delivery is concerned, because what you add now is marshalling services, also to products not produced by ourselves, so we will also be handling the EEW monopiles and TPs etc. I think that effect of our location is already there and might have a small effect on our competitive position, but it's basically all geared towards marshalling services, [inaudible] services to third parties. And we already see, we have been doing those kind of activities already for the past few months on our existing locations. We've been working for [inaudible], etc., for Vernord[?], on their ships, etc. They're very happy. Maersk. They're very happy with that and it's really demand driven.

I mean, for me as a finance guy is the hard decision though because you always know what the costs are. But you have to wait if this revenue really comes in.

Fred van Beers: Let's put it this way: also, it doesn't work against us. For sure not. No.

Speaker: One final question. The saying the early bird gets the worm but the second mouse to the trap gets the cheese. I mean is Sif a company that wants to explore Japan and the US market and Taiwan and to be the first? And you've told me your learning curve or – I'm an analyst I would say for you, just take the most known, most mature markets and take those contracts, make a huge amount of EBITDA, hire the tender guy from the competition who was in the first US or Japanese project...

Fred van Beers: If you need another job please call us because that's exactly the approach we are taking. I mean –

Speaker: [Inaudible] see it like that, that shift has a kind of a standing that it is obligated to also explore the global offshore wind market.

Fred van Beers: We – yes we I think we have an obligation because we are a specialist in monopiles and want to know what's going on on monopiles all over the world. The first project in Japan was not ours. You may know we lost it to somebody else – Korean. And we are after the cheese here. But in order to get a hold of the cheese you know you need to follow the mouse that is looking for the worms.

Speaker: Okay. Complex.

Andre Mulder: Andre Mulder, Kepler. The two remaining questions. Firstly, the press release of DEME talks about rocky sea bottom. Do you need any special monopiles for that?

Fred van Beers: I need special equipment to make – to drill the holes. So, of course that – no, for us it doesn't mean anything specific.

Leon Verweij: Nothing out of our comfort zone.

Fred van Beers: Exactly. There are there will be some details, but we as you know we also do offshore support structures, [inaudible] piles, etc. And there are also sometimes special gadgets there. We are used to doing.

Leon Verweij: Also the development of monopiles coupled with instruction booklets.

Fred van Beers: No, nothing new, I would say compared to what we see before. I mean, we see still monopiles as the choice.

Leon Verweij: What we really see in monopiles is that already the discussion is the starting four sizes over 15m, which we don't like. Certainly, the installers don't like, because then you're reaching a size where the installers are saying, well, that's out of our limits. We can't do that anymore. Not because of the weight but because of the size. The grippers are not strong enough so the current takes the monopile, etc.

That's what we're seeing now: that that discussion is starting. Actually, we had an inquiry coming in for already monopiles about 15m.

Fred van Beers: Above 11, so 11 to 15.

Leon Verweij: And we said no. And then the client decided that he put in a request with us for new price based on another turbine, which could be done with a smaller monopile.

So, you see that somewhere, we're starting to touch the limit.

Fred van Beers: And this is for the interpreters normally, the bigger more turbine, I mean, if you look at GE 50 mega, we can still put on 11 metre. Monopiles, that's not the issue, but the developers are stretching the monopile application more and more into jacket solution areas. And so if somebody doesn't – nobody says no, they will continue doing that. So, we've started saying, 'Listen, this is a jacket application. This is not a monopile application that you're looking for.' And I said already earlier on there are – if you talk to the installation company, they also see the limitations, of diameters on multiples.

Andre Mulder: Last question on oil and gas. So far, it's about wind. But what about oil and gas, and any projects coming up now?

Fred van Beers: There are – there is activity, but it's still as before, not at the level that you would like it to be. Still enough to keep it an interesting niche market. So we've always said that 20 – roughly 20 per year annually should be doable. We do have some projects in negotiation for 2020 and 2021. Whether we will get them is still too early to say something about it.

Leon Verweij: But we have of course a project in [inaudible] which you are producing on so don't [inaudible].

Fred van Beers: Yeah. We make some files and this and that. So keep busy. But will not be the surviving business for this company.

Leon Verweij: Unless Trump gets his way then...

Fred van Beers: Any more questions from the room? Nothing more Andre, on the web.

Then Thank you very much. We close the session now. Thank you speak to you in six months' time again, I guess. Always remains to be seen but thank you.

[END OF TRANSCRIPT]