



Sif

Sif Group Q4 and FY Results

Thursday, 21st March 2019

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Fred van Beers: Good morning to you all here in the room, and to those who have logged into this audio webcast. Today, we will present the 2018 full-year results. My name is Fred van Beers, CEO of Sif Holding since 1st September last year. This morning at 7.00 Central Europe time, we released our 2018 numbers, and together with CFO Leon Verweij, I will share our view on the market and elaborate on the contents of our 2018 results. With us in this room are sell side analysts that follow Sif, and as soon as we have finished our presentation we will open the floor for questions and answers, hopefully. Please feel free to push the question button on the website for those who are online. Within a few hours after closing this meeting, a transcript of the webcast will be made available on our website, sifgroup.com. Next page.

So, let's start from the beginning. Most of you remember this picture from previous presentations. It shows the different phases of Sif's evolution to become the leading manufacturer of foundations for the offshore wind industry. Roughly 30% of the total installed base of offshore wind farm foundations, whether MPs, jackets, or other constructions, has been manufactured by Sif. Today, and for the time to come, monopiles are the foundation of choice for the simple reason that both from a cost and the quality perspective, monopiles are the best of all alternatives. Also analysts at Wood Mackenzie support our firm belief that the majority of future offshore wind foundations will be monopiles. We are extrapolating this picture into 2019, 2020, we can add the dots in which we have prepared ourselves for the implications of the 2018 ratified regulations and standards like in Pisa.

We will come back to this in more detail later on today.

So, let's have a look at the market. I've noticed that in recent years there have been regular year-on-year increased upgrades of industry analyst expectations for the total industry. Also, last December, Wood Mackenzie announced in their market update that they expect an increase of the global grid connected capacity of 118 gigawatts by the end of 2027. More than half of this, around 63 gigawatts, will be based in Europe. This, compared to the current 19 gigawatt installed base, implies a huge manufacturing and installation effort still ahead of us in Europe alone. These overall expectations are driven by an increasing edge for renewable energy as part of the energy transition phase we are in. An energy transition that traditionally was driven by the threat of oil depletion, but is more and more driven by the threat of global warming. Furthermore, expectations are driven by decreasing levels of level cost of energy when comparing offshore winds to other energy sources like nuclear, solar, oil and gas or coal. 40 to 50 megawatt-hours is a realistic number today, which was not foreseen some years ago when the targets were reduced from 150 to 100 megawatt an hour were considered extremely challenging. These cost savings are pursued by better efficiency in operations and maintenance of wind farms, but also through cost savings in steel, larger turbine capacities and logistics.

At Sif, we think that further savings can be realised by better utilisation of our production facilities and by actively pushing for savings through integrated designs. As a critical note, however, we need to raise the fact that the current volatility in the utilisation of production

facilities is a risk for the manufacturers of wind farm equipment, and we will play a role in pushing governments for a more stable and transparent project release plan.

As said before, the monopile is still the foundation of choice for the offshore wind industry. Innovations in production facilitate growing possibilities for monopile foundations suitable for deeper waters up to 55 to 60 metres. New industry design standards have reinforced this development, resulting in bigger monopiles using relatively less steel. Besides a cost effect, this results in improved handling for logistics and installation. Although the percentage of jackets is expected to grow towards 2027, the absolute numbers of monopiles will grow substantially due to the increasing number of foundations as a total.

When we look at 2018, the total production was 138 kilotons. Substantially lower than the 232 kilotons in 2017. We however did manufacture some quite impressive structures, like for Hohe See and Norther, and later in the year for Borssele III & IV. The Borssele project was entirely scheduled for production in 2018, but due to manufacturing problems at our vendor and due to low water levels in the rivers, an estimated 30 kiloton lower margin production was shifted into 2019. As a result, we saw an impact on Q4 2018 and we will see an impact on Q1 in 2019.

Earlier in 2018, we had to contract the Trianel project – to subcontract the Trianel project to avoid liquidating damages as it overlaps spot on with Hohe See and Norther. 2018 was an unfortunate good example of what the volatility in this industry can do to a company like ours.

So, let's move to oil and gas. Despite the downturn in oil and gas in general, the industry is, and is expected to remain, an important industry for Sif, as it generates an annual production of volume of between 10% to 20% of our revenues. The work mainly comprises of structural legs, pile sleeves and pin piles for large production platform jackets.

Contracts. Also in 2019, the oil and gas market will add to our production volumes like the legs and piles for the Tyra project. Our client for this project is Dragados, the EPCI contractor for Maersk.

At Sif, we actively initiate and contribute innovation projects. During 2018, we made progress on some of these initiatives like testing the BLUE Hammer piling. Although the project is mothballed, so to say, today, we do believe alternative solutions to the existing proven Hydrohammer tools are worthwhile exploring more in the near future. Other innovative projects where Sif contributed are the Slip Joint insulation of transition pieces and the transitionalist design of monopole foundations, applied to Borssele III and IV.

In-house, we continuously look at improving and optimising our welding skills, techniques and tools. A good example is the programme in which we took further steps in narrowing the gap of welding technology which will help reduce our production time and help reduce the risk of quality issues. We believe that for further innovation and differentiation, we need to be more involved in the detailed engineering of projects. This, as we currently do for the Triton Knoll project, this means we need to expand our in-house engineering design capacity either organically or by acquisition. I've had the helm now for six months and I'm convinced of a healthy future for the offshore industry – wind industry in general, and for Sif as a proven innovative and reliable player in the industry.

I have included some of my observations and intentions in some of today's topics and I'm happy to announce that in addition to a well filled order book for 2019, we are in exclusive negotiations for roughly 155 kilotonnes projects for the period 2020 and beyond. In the end, all of our efforts do translate however into social, environmental and most of all, financial results.

And for this, our CFO, Leon Verweij will elaborate more on the financial situation. Here you go, Leon.

Leon Verweij: Okay, Fred. Thank you. Fred has already explained the level of production we saw in 2018. This of course, affects our annual numbers. And I will explain how this is reflected in our P&L, our cash flow and our balance sheet. The production of 138 kilotonne as a result of – in revenues of €235 million compared to €327 million in 2017. Contribution in 2018 was €74.3 million which is 31.6% of revenues against €135.6 million in 2017 which was 41.5% of revenues. The difference is caused by lower margins on specifically the Borssele III and IV project, but also, as already earlier mentioned, by the necessity to subcontract the Trianel project to avoid liquidated damages. This resulted in a normalised EBITDA of €13.3 million in 2018 which is only 5.7% of revenues against €57.1 million which was 17.5% of revenues in 2017. Depreciation of approximately €30 million and financial expenses of approximately €2 million resulted in a negative net earning situation of about €2 million.

We believe that 2018 was an exceptional year in the sound decade for offshore wind market. Still, we generated cash in 2018.

Our order book looks healthy and we renewed our financing facilities to much the necessary investments and working capital requirements for the next years.

Therefore we are comfortable in proposing a dividend of €0.10 per share in cash to our shareholders. This dividend is to be charged to the company's returned earnings or general reserves.

In 2018, we faced a traditional project business dilemma, the threat of underutilisation. This is one of the most important operational risks in a young industry – that a young industry is facing.

We managed that risk by maintaining a large flexible shell in our employee base, that sits 41% flexible at the end of 2018 against 59% at the end of 2017. This indicates we used our flexibility to manage only utilisation. At this moment, we are further building our flexible shell again and we'll return to a larger, flexible shell shortly. We cushioned the underutilisation by offering our client a discount to put the project forward from 2019 into 2018, and although Borssele had low margins and partly shifted into 2019, again, for reasons that Fred already explained earlier, it contributed to the positive EBITDA and positive cash flow from operations.

Working capital requirements remain pretty stable at Sif. Compared to the end of 2017, there was only an increase of some 7 million. Therefore, Sif continues to make the working capital management a substantial part of contract negotiations also in the future.

Also if you look at the net debt, fluctuations are limited. Net debts end of 2018 was 30.4 million against 25.1 million at the end of 2017. As was released in February last, we have renewed our banking facilities as of the 22nd February 2019.

This should facilitate in Sif in realising the necessary investments in coating facilities of some 8 million in 2019, and in design requirements-related production alterations of some 32 million in the period between 2019 and 2021.

It also facilitates Sif in sufficient headroom for performance guarantees, warranty bunds, and working capital. A consortium of EFA RABO, ABN AMRO, Euler-Hermes and Tokio Marine are our partners. The interest is based on [inaudible] plus a surcharge depending on confident performance, and interesting is that this also allows for a maximum 0.05% premium on achieving certain environmental performances.

The facility expires in 2022 with two options for a one year renewal. With this positive remark, I will hand back to Fred for the closing of this presentation.

Fred van Beers: So outlook for the industry is considered good by us. Timing for this large and complicated projects is an issue, especially for the developer's owners and the EPCI contractors, as we heard, as Carlos has explained earlier this month.

Over a longer period, however, we cannot conclude differently than that sooner or later, a lot of work has to be done. With investments in our production facilities, we're bringing our style back to strength with our new banking facilities and with government that feel the push for change by society, we are geared up for this future.

Is this reflected yet in our order book or funnel? Let's have a look at our backlog. The order book for 2019 is well filled. We might add a small oil and gas project later this year, but that is an extra.

For years it had a lot of workers in the pipeline. With that in mind, we hear – we close 2018 and this presentation. We look forward to new opportunities, but first for this moment, to your questions.

So thank you, and let's open the floor for questions. Who's first?

Martijn den Drijver: Yes, good morning gentlemen. Martijn den Drijver, NBIC. When we look at 2019 and the contracts that you're going to execute, can you talk a little bit about the contribution margins of those contracts? In the past you've said that pricing was improving, going back to 2016 – 2016 levels if I can recall correctly. Has that materialised? Can you confirm that that is going to be visible in the 2019 numbers? First question.

Fred van Beers: In principle, we have – we don't see any reason to deviate from our as-booked contribution margin in this – in the phase of the year. So we do estimate that what we have said before is going to be materialised. The only problem is the Borselle III, IV for Q1 as we already explained, because we did not anticipate, so to say, or plan for this project to still run into Q1 2019.

Martijn den Drijver: Would you feel comfortable giving a bit of guidance in terms of euros per tonne produced?

Fred van Beers: Not at this moment.

Martijn den Drijver: Okay. Then with regards to the coating facility, will that have any impact on the production efficiency or will that be undisturbed?

Fred van Beers: No, the coating facilities are purely needed to actually fulfil what we have signed up to and the exploding coating demand, so to say, that we have seen for this project.

So for us this is – we do see – the reason why we invested in them, is that we see this is a long term trend and not as temporary.

Martijn den Drijver: Okay, and then building up on that, the 32 million, with regards to the thin-walled PISA, can you say something about how that role impact your production efficiency? Will it – after all is concluded, the whole facility is done, you have some glossing and welding – more glossing and – rolling and why – excuse me.

Fred van Beers: Waltzing Matilda?

Martijn den Drijver: No, that's something completely different in Rotterdam. Can you talk a little bit about how efficiency it will be post-completion?

Fred van Beers: In a way – well, first of all, we are doing this to maintain efficiency. Let's start with that because if you – if you do not add what we think is needed to the facilities, your whole flow and your serial production will be jeopardised. So that's the main reason for doing it.

Then we do feel that in general, there are still efficiency gains possible in the production facility, in the combination [inaudible] that we will also deal with in this process. So it should – in my view lead to an efficiency gain and, as such, it should lead to a situation that we can push out somewhat more than what would push us today.

Martijn den Drijver: Is there any way you can quantify that, so that we have a clarity on that?

Fred van Beers: Difficult. I mean, I gave you the example of 2019. We – in 2019, we look at something like 210 kilotonnes, you could say that is low. But when you turn that around in number of monopiles, it's still 270 monopiles revenue, and 150 plus transition pieces.

So we always – so we need to start looking, as we discussed, I think, half a year ago here around this table as well, is kilotonne the only driver you need to look at, or do we need to look at some other drivers?

Martijn den Drijver: Okay.

Fred van Beers: So – and that's the background behind my answer, because if a number of monopiles and kilotonnes has to be – it has to be in balance in judging improvements.

Martijn den Drijver: In the presentation, you also mentioned the near-term project awards, some are obviously very well-known. Two questions: the Saint Nazaire and Courseulles, those has been in your book for quite – at least in the target list for quite a bit of time now. I'm hearing all sorts of negative developments coming from France. Can you update us a little bit up on your view on when these projects will actually be awarded?

Fred van Beers: Wait. In fact –

Leon Verweij: We – we are not so negative.

Fred van Beers: No.

Leon Verweij: And that's maybe because we think that maybe even this week, the contract between [inaudible] and ADF will be signed. So that makes it sure that this project will continue.

Fred van Beers: And this will be on two basis. So it's for you to gamble, I think.

Leon Verweij: And of course, Courseuilles has never – is already for a long time, not been in our funnel anymore.

Martijn den Drijver: Okay. And then with Vineyard, that's really a large project. It would be very interesting if you won that. But can you talk about how you will source some of these hurdles which your project with the partners with regards to the joint centre – joint sector transportation?

Fred van Beers: Well, that's not for us to decide, of course, how the project developer's going to deal with these hurdles.

Leon Verweij: But if we win Vineyard because it's all still in the stages of negotiation offering, best of final offers, etc., then, the delivery will be ex-Rotterdam[?]. So all the issues as far as Jones Act, transportation to the US, etc., is for the installation partner.

Martijn den Drijver: All right, thank you.

Thijs Berkelder: Thijs Berkelder, ABN Amro. Again, maybe give a bit more clarity on the 2019 outlook. Q1 will be weak, that's well known and already widely communicated, but why is, for instance, Q2 not already back up to normal levels? What is there to – and why is not the whole of second half 2019 already back at its normal levels?

Fred van Beers: Basically, what you see is that you – that we start ramping up now again to normal levels. And I think we explained that also before that we see Q2, of course, will be better than Q1. But still – in the started phase with – you see, may try to normal and that started now. So we do expect the real machine to have it flow in the second half of this year, and not before it. That's why we ramp up carefully.

Thijs Berkelder: Yeah, so we – the gradually means second half should be already –

Fred van Beers: That's correct, yeah.

Thijs Berkelder: – should be more or less, normal? Okay. Now that was one of the questions. Then the personnel members, you're communicating for 129 at year-end 2018. Where are you now?

Fred van Beers: Now we are at 550, something like that.

Thijs Berkelder: And where do you expect to be at year-end, roughly? What do you –

Fred van Beers: Just roughly same number.

Thijs Berkelder: Roughly –

Fred van Beers: A little bit more because we will ramp up our contractor to our own employees. We feel that the split between our own people and contractors is a bit heavy loaded on the contractor side, so we want – we do want our permanent team to be larger, and that's what we're working on as we speak. And that also – that not only accounts for production, but also for maintenance, for example, as an important part of our production process.

Leon Verweij: And at the moment, we have just ramped up Rotterdam from 245 to 246. And we will ramp up in the coming weeks or months to 246.

Thijs Berkelder: Yeah, okay. That will make sense.

Fred van Beers: That will make sense, yeah, so it's not that the whole production facility.

Thijs Berkelder: Okay, then I continue to see to get questions from clients on your capacity, your production capacity, and will you just to talk about kilotonnes in terms of capacity, how do you define that right now? What is your production capacity in a kilotonne perspective?

Fred van Beers: I mean, in principle, our theoretical 100% volume is 300 kilotonne. We do, however, calculate in, kind of, always with 85% so that's roughly 260, 270. And from what I've seen and what we have experienced so far, is that there is an upside of something like 10% in my view, in the present facility.

However, we need to look at this very carefully, I said before, because the design of the monopile, as such, has a big effect on – what the effect of kilotonne is. And I'm not so sensitive about kilotonnes to be honest. I'm more looking at what's this – what are the specifics of the project and how does that go through our organisation. And making in 90 monopiles with low tonnage is maybe even better for our contribution and margin than doing 40 very heavy ones. So your kilotonnes may look nice but that's the only driver at work.

Thijs Berkelder: Yeah. That's clear, and this – again, remind me the 300 kilotonnes is based on 24/7 or 24/6?

Fred van Beers: 24.

Thijs Berkelder: 24/5?

Fred van Beers: No that's, 24/7. Which we do not plan.

Leon Verweij: I like five sets, of course. We talked in the past about, let's say, the maximum theoretical output of Rotterdam being about four monopiles a week. Four, maybe five. If you take four, then you already are limited to let's say 200 monopiles. But it all depends on the composition of your order book because if you look at the situation right now, we are able to manufacture monopiles in [inaudible] as well, in combination with [inaudible] depending on size, etc., etc., so.

Thijs Berkelder: Clear. Thank you. And you gave away already some time on this French project. Can you maybe elaborate a bit on when we – when you expect, let's say, your verdict on Vineyard?

Leon Verweij: We –

Fred van Beers: Absolutely.

Leon Verweij: Absolutely. Vineyard has to be quick. Because the timing – the timing of the project is such that they can't afford much more time to release with whom they're going to build it. So, our expectation is that within a month or so, five, four to six weeks clarity has to be there. It could come quicker but this is – this is the sort of deadline that we see. And, of course, the whole – the whole shutdown in the States has had an effect on the decision making process. So that delayed it a bit and we clearly noticed that there was some sense of urgency on their side to come to conclusions.

Fred van Beers: It's weeks and not months.

Leon Verweij: Yeah, absolutely.

Fred van Beers: Otherwise, it's not feasible anymore. It doesn't work.

Question: [Inaudible]. A bit more specific on toward the 2019 because I think you have been clear indeed already on the relatively low EBITDA in Q1. So I would assume that this is more or less comparable to third quarter and fourth quarter of last year. Give or take. So around breakeven EBITDA. And then you have to line up the complete factory for the new projects. So yeah, it will nowhere be near the peak EBITDA we have seen in the past.

Leon Verweij: In Q2, you mean?

Question: Yeah. I'm sorry. And it is relative to the consensus, Bloomberg consensus. They are expecting 60 million of EBITDA, which basically means you have to have free all time high EBITDA quarters on the row.

Fred van Beers: Challenging.

Question: Yeah. Impossible, I would say.

Fred van Beers: So maybe a different word for challenging nowadays.

Question: Yeah, but –

Leon Verweij: We're not giving any complete guidance, but I think we agree with your conclusion.

Question: Yeah. But it's not – it's not helpful. I mean a little bit of a bandwidth would be helpful because, you know, some people are still expecting a quite high EBITDA levels. But – and then – and then because that is probably also linked to the fact that maybe some people expect you to ask additional orders for 2019. But if I, you know, read your body language, with the [inaudible] investments, you don't want to have a huge amount of additional operational risk. So you don't want to have big additional context for 2019, so 2019 is basically set in stone?

Leon Verweij: I think Fred already said this morning that we might – maybe add a smaller job still in oil and gas. But I think at the presentation of half year figures, we already mentioned, as far as we are concerned 2019 is already filled up.

Fred van Beers: Yeah. I mean we had [inaudible] 5.5 monopiles a week throughout the year, whereby we are ramping – I mean we're – Q1, we're still busy with Borssele III IV alone. That means that actually we have to do something like six monopiles if you are to – if you look at it in the coming – in the [inaudible] possible to add another project.

Leon Verweij: In oil and gas, well, maybe at 10 kilotonnes or so, but it's not – it's not that significant.

Question: And then the increase from 200 kilotonnes to 210 kilotonnes is basically the 7 kt you missed in the guidance for the fourth quarter because you previously said you expect it to produce 45 kilotonnes in fourth quarter, it's 38 now. So that's probably then automatically –

Fred van Beers: Pushed forward.

Leon Verweij: Yeah, but it can also – it can also be – because I think part of it is the remeasurement on Trianel.

Question: Okay. Okay. And so smaller adjustments, yeah, but that is basically the delta. Yeah. Oh yeah. And then on the CapEx for this year, it was very low – I believe 1 million or 2 million, less than 2 million in total.

Fred van Beers: And so it's a little bit more than that.

Question: Alright. And then I missed, how much was it exactly?

Leon Verweij: You want an exact figure?

Question: Yeah, I saw it this morning.

Fred van Beers: Almost 5 million.

Leon Verweij: 4.6.

Fred van Beers: Yeah.

Question: 4.6. And then there's a comment that you had a delay in the plant's maintenance.

Fred van Beers: In the past, yeah.

Question: Yeah. So is that then also potentially impacting your production schedules for before 2019?

Fred van Beers: No, no, no. What we've indicated before and that's exactly what we did in 2018, we used – yeah, the fact that we have to ramp down. We used that situation to finish off all kinds of delayed maintenance in the past. Remember that in 2016, yeah, and 2017, we had to work 24/7. There was no time available to do any maintenance, yeah? And we paid a heavy price for that. Remember, in March, we had a breakdown of one of our machines, etc. So we tried to solve as much as possible the situation during 2018.

Question: Okay. So it's not really impacting your planning.

Leon Verweij: And then that's – and your argument is not an argument for planning \$0.85 so that we have time to do scheduled maintenance on our equipment during – while producing in between.

Question: Yeah. And then on the guidance on the CapEx for this year, is there any – yeah, any – can you be a bit more specific on the timing of that? I mean you have – you stated that you expect to spend 8 million on the coating facility on top of another 8 million normal maintenance for this year.

Fred van Beers: Yeah.

Question: And then after the 30 million for the Pisa requirements, how much is that adding for this year, for next year? Is it concentrated somewhere in the next three years?

Fred van Beers: It's mainly – the coating facilities has to ready on the 1st July this year. So that's all for six – that's all for six months that's ongoing.

Question: Okay.

Fred van Beers: And as far as the other CapEx is concerned, that is spread over 2.5 years. Basically, it's a little bit front end loaded so I would say two thirds being in third year and the third being in the second year. Yeah.

Leon Verweij: And there we also balanced CapEx against the projects – the sequence of projects that we will book because – and it has to fit in again. So there's an operational driver here besides the financial to see what do you do first.

Question: Yeah.

Leon Verweij: We don't jump to 11 metres at once with a very [inaudible] for example.

Question: Okay. That's clear. And then I mean you did a good job on the – on the trade working capital. Yeah. The last time we spoke, you're already focusing on that, sort of, organisation is also putting more attention on the cash flow per project. Is that already the direct result because year-over-year, it's not a big chain, but versus the, yeah, the third quarter, there's a big cash inflow in the fourth quarter. Is it that well manageable for you?

Fred van Beers: Most of the times it is. Sometimes you're surprised by customers. But like I explained before, the working capital management to cash management is on project basis. And it's part of the negotiations of the contract before, and an important part. And we always try to be I guess positive on a project level. But does that always work? No. Sometimes two/three weeks? Yeah, when partly prefinancing a project.

So it's manageable, not 100% of course. But even the situation in the first two weeks of January, you know, improved substantially. Why? Because there was a customer who paid two weeks earlier than he had to. Yeah. That's something I can't predict.

Leon Verweij: Sounds like Christmas.

Fred van Beers: Yeah. Yeah, but late Christmas.

Question: And then as a follow up – I mean I understand your explanation. Do you foresee already any changes that the stock market would respond to with regards to Q1-Q2? Because it does impact your net debt, etc., so that people can be a bit prepared on movements or it is –

Fred van Beers: Typically – I mean there is a seasonal pattern, of course. Yeah, you can see that on the half year figures where it was higher than by the end of the year. Yeah, it all has to do with where are you in your projects. And what you're now seeing is, of course, as we're finishing the first quarter, Borssele III/IV, so that ending then you're ramping up the other projects. Usually you get prepayments then, you know, in the second quarter because you transfer it, etc.

So it shouldn't give too much – too much of a swing also, not in the second quarter, I don't expect it.

Question: Okay. Yeah. Okay. Thanks.

Fred van Beers: Okay.

Andre Mulder: Andre Mulder, Kepler. Two questions. First question is on the market. Do you have any idea where your competitors are in terms of utilisation? Steelwind and EEW?

Fred van Beers: We try to do our best like they do for us. Our overall view is that 2019 and 2020 and if you would add up all capacity available in the market, it's more than what's required. So there is an oversupply. And then I'm taking also the newcomers into account from [inaudible].

So in that sense, it's – 2019 and 2020 are still tricky. From 2021 onwards, we also clearly see that with our customers, there's a drive to push for longer-term agreements and booking of capacity, etc. So we do see – and also as you look at all the predictions, that then the [inaudible] in the end will materialised.

Having said that, I also realised that this is not a situation for many years. So we need to, I mean, be constantly following that. This is how we value the total playing field.

Andre Mulder: In the short term, do you know where utilisation is for EEW and Steelwind?

Fred van Beers: Well, do know that Steelwind has cut forces – or labour – basically, mothballed the factory until April, May, when they – when they will need to start with one big project that they have which is mainly a challenging one for them. But it will keep them quite busy. And EEW, as far as we know is well felt this year up until first quarter 2020.

Andre Mulder: So second question is on this one with long-term future of the company. Looking at the EBITDAs that you made in the past, looking at your current setup and the measures you're taking, to what extent do you feel that those EBITDAs would again be possible in the next few years? Is there anything to suggest that it will be lower or structurally higher?

Fred van Beers: And clearly, I'm saying if we will only look ourselves, it should be possible. Having said that, however, the big question is how does the whole playing field develop? I mean, the newcomers, when they are successful. We know in Spain there are two that are gearing – have geared up and will start producing. And if somebody adds capacity, you will have a different market situation that we have to deal with.

That's why we do believe that we have to focus constantly on cost efficiency – total efficiency of the production in order to be able to meet them on an on par level in the competition field, and such protect our margins. So there will be pressure but it's doable.

Andre Mulder: But what do you mean by new competition? Are there any new players in the monopile sector, or in the other fronts? Because we also hear some noises that especially in jackets it's a nightmare. It's difficult to have these things produce. The GBF is not a mass[?] product, so it very much looks like monopiles will remain in favour for quite some time.

Fred van Beers: Yes, so that's why you see some initiatives now and then from new other companies like in Spain, Haizea, who was active in towers, they have started up monopile production. They will come to the market. We take them very serious, they are professional organisation and they will start producing monopiles.

Andre Mulder: And who's that?

Fred van Beers: Haizea, for example. And we do know that Blocks[?] is investing also in monopile production and we do actually support that in a way. It may sound strange, but we do believe that competition is necessary in a healthy market for players like us.

Andre Mulder: Is Blocks also investing in the excels or just the standard ones?

Fred van Beers: Monopiles, you mean. What is the standard monopile, that their doing also in the excels.

Leon Verweij: Yeah, they're not going to the real big [inaudible] for the moment. I think –

Fred van Beers: It's not in the volumes we see.

Thijs Berkelder: Thijs, also a follow up question. Indeed the CEO for [inaudible] was quite clear about the TCs which the – with the offshore wind market developing that there are a lot of issues now everywhere in the supply chain. Is that also something you're picking up, it's that also, yeah, not helping in getting investment decisions, getting project delayed? I mean the whole chain should act professional in order to get all these things done and it is getting bigger, more difficult, more financing, etc., so is that really something that could, say, could slow down growth for the near future?

You're in the very end, that show you're delivering but after that, a lot of these things go were got wrong as well.

Fred van Beers: We're in the beginning, I think.

Thijs Berkelder: Yeah, so you're fine. So you're not impacting by all the parties which have to act in front of you. But I mean, it is something I think, you also are seeing.

Fred van Beers: It's –

Leon Verweij: What we're seeing, of course, is that the politics is the main issue. That's something nobody can influence. The French – the planned French parts were delayed because of a political discretion about subsidies, you know, which reopened, reentered. That's something you can predict. At the moment, in the last few months, we've talked to a lot of parties. We see no financing issues as far as project is concerned. And we see now designed issues, things like that. So we don't really recognise what [inaudible] was saying.

The political element, yes. The market place itself is becoming more transparent and maybe a little bit more competitive because there might be some new entrants. Yes, but that's business.

Fred van Beers: I mean, this is still a young, mature business and it's developing, our people, falling on the face here and now. But the whole drive, if you look a little bit mid to long term, and from a broader perspective is that offshore wind is going to happen, is happening, and will happen. And there's no alternative – real alternative, you said it already, to the monopile, and that's a fact.

And some people have been a little bit late in entering this market and are seeing this and have to deal with it. And I think Bedovski[?] was a bit too firm on his statement. But he has a point that we have to be careful that it doesn't go in the wrong direction.

That's why we believe – first, we believe first a few things. First of all, this market will develop rapidly and the potential is there. Secondly, we do believe that you have to put focus in place. I think a lot of our competitors, or some of our competitors, have made, in my view, the mistake in being a grocery store where you can buy everything and eat. This is a very special product. It looks simple but it's damn difficult, I can tell you.

And you have to focus and have to be – you have to excel in what you do. And that's exactly what my predecessors have tried to do and what we will continue to do or what I will continue to do.

And then I think we have a healthy future. That's why we do want to go into design engineering. That's why we want to be at a table earlier in the development stage so we can

influence and help the developer to make the right choices in their designs. That's how we do believe we can compete in healthy basis with the locals in the countries and there are low cost producers.

And that's our strategy toward growth that we believe in.

Leon Verweij: The product monopile, itself, looks simple, but it's becoming almost on a daily basis more and more difficult, whether it's diameters or the thickness of the steel, or the finishing, or the finishing or the coating. I mean, these are things that are developing on a daily basis. What you're seeing now in certain tenders, we are telling customers and designers what they should change to make it work anyway.

It's developing so rapidly that sometimes you have the feeling that the old standards are lost that we are seeking again, and where we're going to. But it's making the product, monopile, not simpler.

Fred van Beers: That could actually be a benefit because there are so many examples of customers who were trying to split the foundation orders for various different parties and which then, some have not delivered the specification, so that might be an argument for you guys to say from here, we – and you been around here, we're always on time. We always deliver the same quality so.

Leon Verweij: You see interesting developments where projects are potentially being split, yeah, and then the same time, we always seem to end up with the most challenging part of a project like that, and on the same time, are being asked the question, could you in the event that if the thing goes wrong produce something more? Do we still have some capacity available? So, yes –

We got shift for the industry, but yeah, at group projects, then you can negotiate real hard catch for it or we still have to get –

Fred van Beers: That's what we try to do, of course. That's what we aim for, our taxes to be paid for.

Leon Verweij: It has to be paid. Yeah.

Fred van Beers: It has to be paid for. I mean – and this is not a commodity good. And, yes, the customers try to push on us to make it a commodity good in that you offer it at kilogram prices. We're not going into that route and that's why, for example, we did take the step forward with investing as a consequence of the PISA regulations because it opens a very interesting field to redesign the monopile to make it overall more cost effective, but it's becoming complex as a monopile. But as a total, it's becoming more – the total cost of energy will go down.

And that's where we want to step in, but then it's high tech, difficult and that needs to be paid for, simple as that. But it's possible because you do have an economic effect on the total wind farm.

Question: Just a follow up on that, if I recall correctly, you have about three people who are really engineers that can do the designs, or is it a rather limited group or maybe not three, but it's just a small group.

You're talking about partnering with your end clients. You're competing with the COESs and the Rambolls of this world who have much more capacity. So what does that mean for your organization, your ramp up and obviously also OpEx?

Fred van Beers: What I tried to say – what we just say is we are looking at expanding our engineering capacity and that will be twofold. We need to hire design engineers more ourselves, but we need to also cooperate or acquire, if possible, an engineering team, design engineering group.

And we're taking a very conscious approach there because you want on one hand people that get a lot of input with all these rapid developments from the market on a constant basis but do make it also exclusively available for us to help us to step into the chain. But be sure we will do – we will increase our design engineering capacity.

Thijs Berkelder: Thijs Berkelder again, ABN AMRO. Just from my understanding, so you're close to an award of a French project. It's very close, hopefully, a very big US project and you're preparing to ramp up to at least 85% capacity utilisation in 2020. If you win Vineyard, it's huge. Then you maybe will have to deliver those kind of volumes.

So that would be, let's say, 250 kilotonnes, 260 kilotonnes of steel where consensus is still at 210 kilotonnes or so in the market, correct?

Fred van Beers: That's an assumption. That's a scenario.

Thijs Berkelder: And you already said there's 10% additional production offsite potential if you really get back on stream and reach what you want to reach in terms of production.

Fred van Beers: Taking into account the design and the numbers of monopiles.

Leon Verweij: Yeah. Yeah.

Fred van Beers: So it's not for me. It's not a linear approach of kilotonne.

Thijs Berkelder: I fully agree, but I just want to –

Fred van Beers: And the other one – I mean, you mentioned, you assumed something here with respect to Vineyard and what I'd like to say on that is that we are playing on many more fields than this one alone. We have not been kicked out of any hot programme as we speak. So that means it's not a given, yeah, that we have a specific win for a specific project yet.

Leon Verweij: I would like to leave your conclusion if we close the Vineyard to you because what I said is it's still on the negotiation. It's still best of final offer phase, etc. So that's a little bit further away I think as close to.

And secondly, what we said about the French project is that what we hear is that this week, there will be a contract signed between FI[?] and GDF[?].

Speaker: Just wanted to check.

Question: [Inaudible] how is production right now?

Fred van Beers: They've done a good job. I mean, Barrios[?] have been taking away – at least they still, of course, there's not an endless capacity that they have, but they have geared up and have control over the process in such a way that we are not limited anymore with respect to the supply of big plates as long as the rivers do what they should do, not –

Question: Now, there's too much water.

Fred van Beers: Now, there's bloody hell too much water, always something – yeah.

Question: And have you already started negotiations on how you will be compensated by them for their supply programme?

Fred van Beers: But I said before in other occasions, yes, and we have a healthy dialogue there. It will be a conversation that is not coming as a big one off. And also, we do know because that's part of the partnership, that we will not be compensated for the whole lot because it's give and take and they've helped us and we need to help them now. And then, that's about balance we take. So we don't expect this to come with a huge one time positives.

Question: Yeah. Then, a formal question, Brexit, what does it mean for you and have you prepared for a hard Brexit?

Fred van Beers: This is a question I'm, every week, posting at our purchasing department, for example, saying, 'Are you sure that we haven't got any issues here, the toilet paper, whatsoever?' We – or welding wires. But the only – the only one that we really – where we have to rise are on our entity[?] test people that come from the UK, Scotland. So we have – we are in close contact with our partner there. And we can – we think we can work on that.

From a market perspective, we do not foresee any big change to be honest. There has always been a certain level of local content push or demand and that will stay there. But having said that, in the end, it's all about price, delivery time and can you deliver in time.

Question: Then one additional question on getting potentially back to full production capacity in 2020, let's say 250 kilotonnes or higher. How much stuff do we need then, back to the 600 or do you still think weights to 550, we would be able to manage?

Fred van Beers: The two of us believe less is more is the way to go. I mean I think in the past we've seen that bringing in too many people actually affects your efficiency in a negative way. So we are very – we are very careful in monitoring the number of people that come in and whether – and how the efficiency looks like. And it's one of the tasks who our new also operational officer that we have hired that will start 1st April to look into that, to be more at in the predictions and do that with a lower – more efficient, lower number of people.

Question: Clear.

Question: [Inaudible]. You mentioned about just looking at kilotonnes or maybe we should look more at [inaudible]. Have you set yourself a target – a financial target where Sif should act in good times and bad times? Is there contribution per tonne or just EBITDA or whatever? What do you set yourself for –

Fred van Beers: First, 14% to 18% EBITDA percentage is what we strive for. But be careful there because if the steel is supplied to us, we have a totally different ball game if you compare it to sales.

Leon Verweij: But if you look our own five-year plan, basically, we are gearing that towards absolutely with the [inaudible] figures.

Question: That's clear.

Leon Verweij: Yeah.

Question: Can you provide information about those?

Fred van Beers: We can, but we don't.

Question: Another question. How many tenders do we have outstanding in offshore wind? You don't have to mention the names, but –

Fred van Beers: I mean we –

Question: That was an iceberg. So we now know about two projects, but how many more big tenders do you have –

Fred van Beers: You mean those? Yeah. But the number of – I mean one project can have many – can have more than one tender, of course. So if you would – it could be in the range of 20 to 25. But that doesn't mean, 20, 25 projects.

Leon Verweij: I mean just an example, we now have the tender out for Hollandse Kust Zuid III & IV and for –

Fred van Beers: The whole world.

Leon Verweij: I think we are in four of them or so. I mean so you have to do – all different, and you have to do the work four times to maybe be awarded one time.

Question: Last question on your international operations. So you already mentioned Vineyard, but what about any other efforts to expand abroad, be it JVs or local production licenses, that kind of stuff?

Fred van Beers: Like before, we do believe we do know something is going to happen there. We are and have been for years closely monitoring our own people there and we are still looking at an opportunity to team up with somebody if need be, and if the business case lies, to start a local operation.

We – but it varies from country to country. I mean nice example I think we all know is Taiwan. That was the hallelujah area some while ago. This morning, again, I read an article that they're now considering to also open a Jones Act in Taiwan, to not allow foreign installation vessels into their waters. They have been jumping from 100% local production to 1% local production and the designs of monopiles vary every week.

So it's a very – it's an area – and that, in a world where the investment for a new factory is between 115 million to 200 million, is – for a company like ours, not an easy one or a simple one to take – and a decision to take very quickly.

That in relation to the fact that Europe is – I mean Europe is not a declining so to speak. It's still very much developing. And we are a company that has rapidly grown and needs to still deal with its grown bench and becoming more efficient as we discussed before.

So I'm very conscious. I'm very reluctant to make a jump abroad if we're not 100% or 100% you never are, but very sure that this – that opens a certain and stable pipeline, and that we can support it from our base team in Europe in a good way.

The other one is Japan that we are – we do see a lot more stable and more planned approach towards the future. And also there we are – we do have talks. And we are regularly there to see what's possible, what needs to be done, what can be done.

Any more questions around the table? Phones?

Speaker: I have two further questions. First from Sean McLoughlin. His question – his first question is: was the Borssele TP3 monopile successful design? And will we see more of these in the future?

Fred van Beers: Whether it's really a successful design remains to be seen. You first need to install it I think at sea. But so far, it works. It has definitely has given some challenges in dealing with the different setup, not the monopile as such, but with the – sorry –

Leon Verweij: The brackets.

Fred van Beers: With the brackets being attached. But that's under control, and we are in a flow. And we do believe, I said before, that this could be – well be a design that we will see more in the future.

Speaker: And the second question is: how is pricing in the different markets, what difference between France, US, Germany do you see?

Fred van Beers: We see it as a truly international business with no differences there.

Speaker: Okay.

Leon Verweij: A lot of our clients are, of course, international developers that develop in all kinds of places, so this is a global market in that sense.

Fred van Beers: Yeah.

Speaker: Two further questions by Eagle House[?]. The first is do you have a timeline for Hollandse Kust Zuid I to IV and for [inaudible]?

Fred van Beers: We do have an ideal timeline looking at our slots we have available. Unfortunately, we have a customer who's making the choices here. We carefully discuss with them like our colleagues – competitors will do as well.

Leon Verweij: But I think it's fair to say that if we look at the total planning of the projects that production for Hollandse Kust Zuid I and II would be 2021.

Fred van Beers: Yeah.

Leon Verweij: Earliest.

Speaker: And on Vineyard, how do you see yourselves situated compared to competition pricing and volume capacity handling?

Fred van Beers: We, of course, believe that we are the best, but on a serious note, the – we are – we are in very close contact, and we give ourselves certainly a good chance of capturing something there. But I'm pretty sure that my colleagues from EEW and others will have similar views.

Speaker: A follow up question then by email. If there are orders in Japan, is to transport them as from Rotterdam or do you have an open facility in Japan?

Fred van Beers: Oh yeah, if you want to have a long-term pipeline there, then you have to be local. Having said that, it could well be that in a start-up phase, you do partial production here and then bring it over there for final field welding, et cetera. But that's a ramp up phase more than a sustainable long-term strategy.

Speaker: That was the last question that I had through email.

Fred van Beers: Okay, thank you very much.

Speaker: Any questions? Anyone in the room? No?

Fred van Beers: If not, then I like to thank you all for taking the time to be here, to listen in to this presentation. For the questions asked, hopefully they've given you some insight. Maybe not, but that's what it is. And then I thank you for much. And hope to see you back next time.

Leon Verweij: Yeah.

Fred van Beers: Thank you.

[END OF TRANSCRIPT]