Sif Interim Results 2021

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Sif Interim Results 2021

Fred van Beers: Good morning, everyone, and thanks for tuning in to the Interim 2021 Results webcast presentation of Sif Holding. My name is Fred van Beers, and I'm the CEO of Sif. I'm accompanied by our recently appointed CFO, Ben Meijer, and with us are analysts of the brokers that follow the shares of Sif.

This morning we published our '21 interim report which you can find on our website. The slides for this presentation can also be found on our website. And two days from now, you can read back this session in a transcript that will be also posted on our website.

Let me start with a COVID-19 update. At Sif, we applied strict rules for social distancing and testing to minimise the risk of a COVID outbreak on our sites. As a result, we could assure close to normal continuation of our manufacturing. We have seen a small outbreak in both sites during the second quarter of this year but we were able to contain them swiftly.

It hardly affected our production but required strict quarantine measures. Actual situation today is that everyone returned to work healthy again. Like all of you, we also hope that life returns back to normal soon, if not yet the case. Let's go to the next slide please.

In '20, we saw the effects of the COVID pandemic in basically everything and also in energy consumption. 2020 total energy use in exajoules was according to the BP statistical review of '21 more than 4% lower than in '19. Fossil still is the dominant energy source but contrary to more sustainable sources could not keep up its relative market share.

For a long time, the sense of urgency to transit from fossil to sustainable was not felt and only discussed by implication. As we see on the next slide, however, the topic is rapidly with increasing urgency climbing up the agendas of politicians.

So let's move onto the next slide.

The Paris Climate Agreement already dated back to '16. Unfortunately, it has not resulted in firm action in most of the countries that signed the agreement. More recently, European Union and US administration announced plans for radical reform and the recently published IPCC Climate Change Report expressed an increased sense of urgency for radical reforms.

I guess most of us have seen the catastrophic – catastrophes due to fires, floodings or extreme heat various parts of the world did face due to severe weather conditions as a result of climate change. Energy transition is one of the key elements to soften certain effects of climate change. And with ample opportunities for solar and wind, we need to get to work and speed up the transit formation from plans into action.

Sif as member of various coalitions, like the EU Offshore Wind Foundation Alliance, is actively participating in discussions with local and EU members of parliament to help politicians to speed up the decision-making at local and EU levels on this important topic.

Next slide.

Offshore wind is still a relatively new source of energy. In Europe, 700-gigawatt is installed onshore compared to only 34-gigawatt offshore. Of this 34-gigawatt, more than five gigawatt was added in 2020. Offshore wind is a realistic opportunity for rapid expansion. Of course, not all seas and oceans can facilitate wind farms but with the development of floating devices, opportunities for developing nearshore deep water wind farms increase. We consider floating

wind energy an important and non-competing add-on to the existing bottom-fixed wind farm solutions.

Secondly, the technical development of up to 16-megawatt offshore wind turbines offers better opportunities compared to the relatively small six megawatt onshore turbines.

Sif, like others in our industry, constantly develop monopile solutions for these bigger turbines and for deeper waters, which allows us to either build further offshore or in areas with less favourable soil conditions. As long as this results in a healthy levelized cost of energy as well as a healthy return on investment for the total supply chain, this development assures that offshore wind will remain a sustainable and competitive alternative to almost any modern energy source. This is reflected in the current global initiatives, whereby offshore wind capacity is expected to grow seven-fold to 234 gigawatt by 2030. And in Europe alone to 300 gigawatt by 2050.

Let us take a look at how the geographical spread of these offshore wind initiatives works out in more detail.

With 99 gigawatts, the majority of the 234 gigawatt in 2030 is projected in the North Sea. Subsidised projects are non-existent or downscaled in quite a few of the European countries that apply offshore wind and levelized cost of energy has dropped and is competitive to other energy sources. Other areas like Asia Pacific, more specifically Japan, Taiwan, Korea, and US are speeding up the execution of their ambitions but still lack infrastructure for serial manufacturing and installation or have obstructing legislation in place like import duties on special steel, or for example, The Jones Act in the US for installation vessels.

In order to meet the plans, these areas will have to rely on overseas manufacturing for a while despite various initiatives to setup local supply chains. The choice of the foundation for offshore wind turbines depends on physics like wind and wave impact. It also depends on water depth and finally on financial feasibility.

Nowadays, solutions are available for water depths until 300 metres more or less. Taking the already mentioned constraints into account, the monopiles under 60 metres and from 2030 onwards we expect floating devices for the remainder are the solutions of choice. Floating wind farms are facing practical and cost price issues but numerous initiatives both political, commercial and technical are taken to solve these challenges.

Despite all these good developments, the demand is such that still 70-80% of the installed base is expected to be based on monopile foundations long-term. As we have stipulated many times, Sif is following the market for floating solutions closely and we participate in initiatives to commercialise the floating offshore wind. At the same time, we continue to work on optimising the monopile design and production working methods.

An important element is the interpretation of the design and production rules in the production process as this has a significant effect on the product cost price, and, as such, impacts the levelized cost of energy.

Again, I'd like to refer to the EU Offshore Wind Foundations Alliance.

In the alliance industry, parties with a proven production track record not only draw attention to the key role that offshore wind foundations play in the sustainable development of offshore wind farms in Europe. They also bundle their joint expertise in the field of engineering and

production of offshore wind foundations to make sure the interpretation of design and production rules is crystal clear and ultimately laid down in EU regulations.

Is there better clarity on design and production rules, the only determining factor for a further LCOI optimisation? And the answer is clearly no. The overview of the development of offshore wind gear on this slide shows that during the last 20 years, diameters have more than doubled. Length have tripled and turbine capacity has six-folded. This development is expected to continue.

We are now calculating tenders for monopile foundations facilitating 14 and 15-megawatt turbines and initial talks are going on for even larger turbines. We expect that by '24, '25, 80% of the new wind farms will require foundations beyond nine metre diameter bottom diameter and the effect of steel design and production methods will be critical to ultimate price increase of the foundations.

Our combined Sif- KCI engineering teams are working hard on the design challenges for these bigger systems, while in parallel we have been working hard with production process experts on a further optimised production layout for the efficient production of these future extra-large monopiles.

Let me explain more about this in the next slide.

In previous presentations, we talked about the studies we execute. We, in the meantime, have a very good and detailed understanding of how we should setup a production line for bigger than nine metre monopiles at the pace of four a week and with diameters up to 15 meters. We however also understand very well the practical and economical challenges that go hand in hand with this plan. And therefore, we have also started an extensive 360 degrees forward-looking market and business plan study to map the various production plant scenarios against various market scenarios.

This total integrated business plan we make together with a renown external consultant in order to basically test and verify our own conclusions. Ultimately, by the end of this year, we will be able to take a well-balanced decision on our response to the growing demand of monopiles and how that works out for our customers, as well as from an investment and return perspective for our shareholders.

The next slide reflects the current competitive landscape. And a lot has been published lately.

Of this group, Haizea, Steelwind, Sif, EEW and Bladt do currently operate manufacturing facilities for monopiles and a few have initiatives to extend their capacity. Haizea, a specialised tower producer in Spain, has just completed its first order for 10 small monopiles.

Other companies have announced to open new facilities. SeAH UK to be operational from '23, '24 onwards. EEW US, Windar Navantia are aiming for the same timeframe and Titan in Germany is still an unknown factor. Titan is in Chinese hands. The combined capacity of this total group is assessed at approximately 500 to 600 kiloton and up to 15 meters in diameters announced. Although more important than tonnage and diameter is actually the number of products that the respective factories can manufacture. That still remains to be seen.

For now, we will anticipate that assuming all these initiatives to materialise successfully, the market will be in a situation, whereby supply and demand are more or less balanced long-term and will tilt to under capacity short to mid-term.

Like in any fast-growing relatively young market in which technology developments follow each other in a rapid pace, Sif needs to stay cool and in control of its daily operation, but at the same time has to be agile, adaptive and innovative to maintain or expand its position. To be earlier involved in the design process, we acquired KCI, The Engineers. The proof of this being a good move is reflected in a number of requests for design proposals we receive as we speak.

Our product and business development teams are involved in several innovations on a Sif standalone basis or in participation with others. Our Skybox concept will see an important next milestone this year when the first real test will be done with a light version before testing with a full dimension version next year.

Other innovations currently on our design tables are related to floating and decommissioning solutions. The first offshore wind farms are over 20 years old and approaching the end of their lifetime. At this moment, there are no 100% material recovery solutions for the decommissioning of these fields. At Sif, we are looking for a circular commissioning solution for these four foundations.

Together with our steel supplier, we also look at production of green steel and how demolished foundation materials can be integrated in that process. In Rotterdam, we teamed up with the NPRC Group who started a promising project to develop hydrogen fuels inland waterway vessels, and this will help to make our steel and internal transports CO2 neutral.

All these initiatives underline our commitment that Sif is actively working towards a solid green and cost-efficient sustainable future in offshore wind foundations.

In the first half of ’21, two projects kept our people and equipment busy. The 140 Hollandse Kust Zuid foundations and the marshalling activities for the Kincade project. The first picture here shows the foundation for Hollandse Zuid on a multi-wheeler just before load out on the installation vessel. When up-ended, the rusty part will be driven in the seabed. The white grey part will be in the water and the majority of the yellow part will be above the water line.

This foundation is so-called TP-less monopile design. The transition piece is integrated in the monopile, the appendices like switch boards, boat landings, ladders, etc., that normally are attached to the transition piece will be installed in or on in the monopile after it has been installed in the seabed.

Okay. That’s it. And after this update from my side, I’d like to turn now to next slide, whereby I hand over for the first time in this sort of meeting to Ben as our new CFO. Good luck, Ben.

Ben Meijer: Thank you, Fred.

Fred van Beers: Go through it.

Ben Meijer: Let me start by resuming the COVID impact on Sif during the first half of 2021. We had two small marginal outbreaks amongst our factory and office staff. This did not materially impact production or cost. Overall, sickness leave, including COVID-19-related quarantine teams, was 4.5% compared to 6.7% for the first half of 2020.

We hereby return to industry levels and the levels we saw before 2018. Safety record for the first half is not where we would like to see it. We had seven recordable injuries. They brought the total recordable injury frequency at 15.7.

Next slide, please.

Now how did all this translate into numbers? Fred already mentioned the 88 kilotons production output with 44-kiloton production in Q2. This was equal to the first quarter. Contribution for the first half year 2021 amounted to €57.7 million and was 26% higher in the first half of 2020. This results in €655 per ton compared to €602 in the same period last year. If we correct this for engineering and marshalling activities, the contribution per ton was €614 compared to €580 during the first half of last year.

EBITDA improved by almost 77% compared to the EBITDA of the first half of 2020, reflecting an increase of around €9 million. The acquisition of KCI, The Engineers was completed on 15th March and results are consolidated from that date on.

Working capital was negative with €56.9 million. This is a snapshot situation and may vary over time depending amongst others on status of projects, invoicing and payment behaviour. We have no external debt excluding IFRS 16 related lease liabilities, and net cash excluding these lease effects was at €61.7 million. As mentioned before, the banking arrangement have been extended by another two years with unchanged conditions.

If we look at the contribution per ton, this is seen as a good indicator for the commercial environment and the pricing levels. The chart above shows the historical movement in contribution per ton. For 2021 and 2020 numbers, these numbers include marshalling and engineering activities. And what we see in this graph is that as of 2018, we see that contribution per ton is showing an increasing trend. And also, when we correct for marshalling and engineering, we see the same trend, and this is also something that has been communicated in previous sessions that the expectation was that contribution per ton would move up above €600.

If we move to the outlook slide, we expect for 2021, the total production output of between 180 and 185 kilotons. Taking this into account and also the better-than-expected results during the first half and the latest outlook information we have available, we expect EBITDA to come in significantly above the 2020 level.

Our order book increased following one project where we entered the exclusive negotiation phase. And this project is totalling 130 kilotons. And this brings our total order book to 400 kilotons for 2022 and beyond extending our workload into 2024.

With that, we finish the presentation. And we are happy to take any questions. Thank you.

Questions and Answers

Fred van Beers: Who'd like to start? Yeah, why not.

Thijs Berkelder (ABN AMRO – ODDO BHF): Okay. Thijs Berkelder, ABN AMRO, ODDO BHF nowadays. Good results. Can you maybe explain how many monopiles you shipped in the first half? What kind of utilisation that is on your maximum capacity?

Fred van Beers: Shipped or finalised?

Thijs Berkelder: Maybe better is constructed indeed in percentage of maximum utilisation and maybe as an absolute number, which you explained in the new set up in the future, you plan a capacity of four monopiles per week with large dynamics diameters. Yeah?

Fred van Beers: Yeah. In the first half of this year, we worked predominantly on Hollandse Kust Zuid. And we – I think started from this February on, we were at the pace of five monopiles a week. But bear in mind that these monopiles are at the eight metre and 7.5 metre diameter sort of level. But yeah, we did five. So I think it's a good question because it actually illustrates that when you talk about four a week that's a nominal sort of number depending on the actual size of the monopile. You can either do more or less per week. And this is an example where we did more per week.

Thijs Berkelder: And that's theoretical maximum capacity what is possible with current diameters?

Fred van Beers: With current diameters, a theoretical nominal, we calculated 200 a year.

Thijs Berkelder: Yeah. And that's based on –

Fred van Beers: 200 a year. And that assumes a full year of production.

Thijs Berkelder: 24/7?

Fred van Beers: 24/5.

Thijs Berkelder: 24/5, okay. Just to have it clear. And that's also the planning the four per week on the larger diameters is also 24/5 based.

Fred van Beers: Yeah. We explained in the past that we always need the weekend. It's a cost element. Secondly as a catch-up moment for a small repairs or eventual delays to catch up.

Thijs Berkelder: Clear. A small question. Who is the strategic consultant you hired?

Fred van Beers: We've decided not to disclose that name. But you can –

Thijs Berkelder: They are so – their reputation is so dubious that it's –

Fred van Beers: It's so good that. It's Fons, sorry. No, joking.

Fred van Beers: Fons has always been our main consultant. If we don't know any more, we'll contact Fons, but this person – this teams know as well.

Thijs Berkelder: You haven't said anything on expected CapEx. Can you give more clarity maybe for this year and probably the new strategic plan then we'll give more towards the future? But for this year?

Ben Meijer: Yeah. I think for this year what we showed during the first half of the year, we had a CapEx amount of roughly €5 million. For the second half of the year, it will just be normal CapEx. We have some additional CapEx to do but in Rotterdam regarding marshalling activities but it will be a more at a normal level.

Fred van Beers: But I would say if you take ballpark number, roughly €10 million.

Thijs Berkelder: Okay. In oil and gas, no change, nothing?

Fred van Beers: You haven't heard anything on oil and gas in my presentation, so – but also there I think it's important to stipulate that we haven't seen any change there and we've also decided to basically focus on small diameter pipes for like pin piles for wind. And we don't foresee that we – I have to put it differently. We're not actively acquiring any oil and gas

business any more. We feel and see that we have to set up priorities on wind and wind-related products.

Thijs Berkelder: Okay. Well, then phrased in a different way. What part of the order book is then for pin piles specifically?

Fred van Beers: 1% or so.

Thijs Berkelder: Okay.

Fred van Beers: Neglectable. The order book for marshalling is bigger.

Thijs Berkelder: Yeah. And that's primarily floating wind-related or –

Fred van Beers: Marshalling is – it's the Siemens deal and then we have in the order book for the Hollandse Zuid turbines powers and assembly and load outs or load ins that will start December, probably January next year, not this year, and that will run for 1.5 year and we are talking with all the prospects for further marshalling tenders.

Thijs Berkelder: Okay. Thanks.

Fred van Beers: Andre.

Andre Mulder (Kepler Cheuvreux): Andre Mulder, Kepler. Yeah, two questions. First question on these marshalling activities. If I look at the current margins are quite high. What kind of pattern would you expect for the next few years in terms of both sales and margins in that respect? And also, the item of order is becoming quite large. Same question there. What kind of volumes do we expect? What kind of margins do we expect there?

Then a question on your statement of not actively seeking orders on oil and gas. That sounds quite mysterious. Does that mean that you've thrown in the towel?

Fred van Beers: Well, there is no towel to be thrown in because there is no business where you can throw the towel in the basket.

Andre Mulder: But does that mean that you're thinking of, let's say, demolishing that point of doing something else with it?

Fred van Beers: What we do with it is, as said, for example, pin piles on substations for offshore wind for pin piles for jackets. If those orders are on the market, we actively pursue them. But since there are no oil and gas – real oil and gas projects that suit our production facility, we have decided to also not look for them or try to market or push for that. We rather put our sales effort in wind where there's plenty of work because we are short of resources and we better use our resources to the benefit of the business that's most beneficial for Sif.

On the marshalling, we're more or less on plan. When we started marshalling one-and-a-half year ago, we said it will take a few years before we come into the double digit and there is good reason to believe that next year we should come into that area as according to plan based on healthy workload for the Siemens deal.

Ben Meijer: With regard to the other segments, Andre, your question is indeed, please note that also as of March this year this also includes KCI. And the impacts of the overall numbers of Sif is relatively limited but this is included in the other segment.

Andre Mulder: Any statement you can make on the margin in those areas?

Fred van Beers: Healthy and according to plan.

Andre Mulder: Double-digit?

Fred van Beers: Double digit sales, single digit margin.

Andre Mulder: A question on your – the floating part. How do you fuel your competitiveness in that part compared to the fixed?

Fred van Beers: For now, I mean, we have – as said, we don't even know. The whole industry doesn't know what the real solution actually is. But for example, you have to think of what role can we play in manufacturing the floating bodies, the big diameter floating bodies. There are initiatives to see how our production method could match on an economic-only viable basis with the requirements for offshore wind solutions. And that could mean that we like basically in the old days for oil and gas become a supplier of components to floating wind producers.

We, in all honestly, I don't foresee, at least not on a mid-term, not even on longer term I think, a role to manufacture complete floating solutions. But – and another example is thanks to our key site facilities, we could do jobs like we did on the Kincade project where we did final or facilitated the final assembly of the turbines, deep water.

Andre Mulder: And last question on the study. Any amounts that you can mention there? I think in the past, it was referred to 40 million or so. And also do you include monopiles with thinner walls?

Fred van Beers: To start last question, we do include the full design rules but we have said in our assumptions that if a thicker wall has a better effect on the total cost of the monopile, then we will limit the production on that. So a thicker wall because in the end I think the customer has more benefit of a lower total cost than a sub-optimised steel part. That's one thing. And especially when you look at the developments on green steel mid-to long-term that would also lower the burden of a CO2 penalty.

On the CapEx level of the €40 million, that was at that time the shaping tomorrow that is two years ago, I think. Two years that we sort of published that, not totally overseeing a full effect of the diameter growth, at that time that CapEx was fully focused on the wall thickness, the PISA- effect. We have implemented part of that and the coating effect. So we did implement the coating part and partly on the – in the wall thickness part until we realised that there are other elements now coming to the market and that's the reason why we stopped that investment programme, plus the other element we said is we only invest when we have new orders.

Orders worked out slightly different with thicker wall thickness. And the CapEx level for the new study or the outcome of the new study, that we will publish later this year. But let me put it this way; there is a reason why we are making such extensive studies and take the time required for that.

And one reason I think we always should bear in mind is our order book is full to '24. So we also allow ourselves the time to follow the market as long as possible before we make any decision or announcement. But we do announce before the end of this year.

Andre Mulder: So that seems suggested number will be higher than 40 million?

Fred van Beers: That is an expectation worthwhile looking at. And I think if you look at the publications in the market and see what others – what numbers others publish on CapEx for capacity and increases, I think it's a fair statement to make.

Fons van Lith for Turner Holm (Clarksons): How does pricing now compare to the executed projects in the first half of this year.

Fred van Beers: Depending on competitors' availability and dimension of the monopile, it's either the same level or higher. Is that answering the question do you think?

Fons van Lith: I think it does.

Fred van Beers: Okay.

Hank Veerman (Kempen & Co): Hank Veerman, Kempen. Couple of questions from my side. In the first half of the year, the pricing performance excluding the other activities was 614. Given that you closed the Hollandse Kust Zuid in the second half of the year, should we assume that the pricing is markedly higher in the second half of the year?

Fred van Beers: It will. Well, there's a few elements here. I think it will be higher, or at least same. If you look at total for the year, bear in mind that we have actually now finished the production of the steel part of Hollandse Zuid already. It was last week. And we have, during the summer break, used our time to completely reshuffle the factory layout to start Dogger Bank A. So we have had a few weeks of idle or low production now on that. But the total price should be showing the same trend as we saw before.

Hank Veerman: Okay. Then on next year 2022, when you look at the order book today, I think you only gave a total order book number. But should we assume that production is closer to the 180 to 190 that you guide for this year or it goes to 220 that you see as you're, let's say, next capacity?

Fred van Beers: Yeah, good question. At least the level we saw this year and we both said to each other we should be able to do a little bit more, but not reaching the 220. And that simply has to do with the dimensions of the real product need per use.

Ben Meijer: And I think it's also good to add that if you look at the capacity, the theoretical capacity but also always between two projects, it's not like you finish one product on Monday, then you can start with the other one on Tuesday. There is also always a period that you have to transfer between one project to the other.

Hank Veerman: Yeah. That's clear. This question is on the cost, the operational cost in the first half of this year. I think it was somewhat higher than last year same period. But are there any like one-off cost items in the cost base in the first half of the year related to COVID or other things perhaps?

Ben Meijer: I think regarding COVID, there is marginal impact as mentioned indeed, but for example what we did see also during the first half of the year also regarding the external study we are doing at the moment, that is bringing in some additional cost.

Hank Veerman: Yeah. Okay. That's fair. So let's say if I look at your cost base in 2022 versus this year, are there any projects that are still running? I think previously it was mentioned that there were some projects related to cost efficiencies as well?

Fred van Beers: Yeah. And they have paid off or will pay off.

Hank Veerman: Okay.

Fred van Beers: And our – we're pretty confident that next year we should be able to again increase our return. We will be producing next year the final part of Dogger Bank A that we just started and continue with Hollandse Kust Noord. And those both – they can both be produced on the same production lines and production layouts. So we do not anticipate major installation costs or one-off project cost to start up a project. So that it should all help to further improve.

Hank Veerman: Two remaining questions, if I may. So you recently had a lot of discussions with your clients related to the strategic plan, and I think you will continue to do so. Next to the, let's say, discussions on the products on the monopile itself, you already mentioned that lot of competitors also stepping in with new capacity and they – I think they also do not have much operational experience. Have your clients expressed any worries related to these, let's say, relatively unexperienced parties? Have they asked you to expand your capacity?

Fred van Beers: The last question, yes. Yeah, what's the plan or more or less the same question as you asked, what's the plan of Sif to counteract on this growing demand. And we give the same answer.

And no, customer do not express to us their concern on start-ups because they actually say that everybody is able to make monopiles, that's of course part of the game they are playing on commercial side. But indirectly we do get a request for, how to say, becoming a security or an insurance for them that we do partially – that we can partially produce projects that I'd like to outsource to others or do the testing with us what is the pricing level that we ask for whether that matches to the other parties they talk to.

We are, of course, trying to avoid that sort of discussions or help them out on that sort of discussions. We prefer to talk on taking a lead in making complete projects. That's how we approach at the moment.

Hank Veerman: Last question is on your innovations, I think you showed a couple of innovations. And the one that stood out for me was the Skybox, which I think you've been mentioning for quite a while now already. Can you may be share some more details on let's say what the business plan for that innovation looks like?

Fred van Beers: I'm happy you asked because I think what this illustrates is how long it takes before a product or an idea is actually marketable. And the certificate – now we are in the certification process for that business. And yes, there is interested customers but no real concrete tenders still are open simply because they – customers are risk-averse, want to be 100% sure that the solution is a working solution. And that's why we have – it takes two years more or less to go to full certification of this product.

And the first major step is happening this summer when we will install, as said, this light version that's on a one to two scale so – of the actual size. It will be done here at North Sea testing. Then we – there will be some extra test on how the holding capacity is, how will it work out during installation, etc. Then next year we have to do a full-scale test with another to make a complete new Skybox again that's whole investment upfront just to get certification.

And then only after that certification is done we can start offering the product. Now we have to prove, that's part of your question on the business case, how – what is the actual saving that you accomplish by using this layout.

Hank Veerman: That will be included in your strategic plan as well, I guess, maybe to allocate some capacity to that innovation?

Fred van Beers: No. This is a separate product and a separate process of business case so to say. It will not affect our business plan on monopile production.

Hank Veerman: Okay. Thank you.

Tijs Hollestelle: I've got a question about the order book for 2022 and beyond. It's increased. So that's positive. I think it's not a major surprise, given all the activity levels. I think you mentioned that 130 kilotons was one single project. If you look at the current, let's say, production set up for this, how, let's say, set in stone is it? Because if one of your clients is facing is bottleneck somewhere, they probably have the power to say to you, sorry guys, but we have to move the production or how is it?

Fred van Beers: It's very solid. And it's solid in two ways. This project has passed basically all the stress tests financial year at the customer site. Secondly, included in this deal is a penalty for delay and/or cancellation. And up to the level that you could ideally say that if they cancel it right moment, it's a better order than actually manufacturing it.

So – and this I think shows a few things. One, the confidence customer has that he will release the project according to plan, otherwise they wouldn't have signed up to that penalty for us. And for us the good news is that we can actually firmly plan for it and take it into our long-term planning people-wise and material-wise, so that we can optimise our – the outcome of those order.

And I think it's also fair to say that – because it's running up till '24 but we do have capacities still available for some other projects either smaller MP or traditional piece orders. And just to give you a ballpark number, but for that specific period and those few tonnage that – tonnes that we can still book, we have roughly 600 kilotons now in very serious state of discussion. We cannot book them all for that period because simply we haven't got capacity for that, but it shows that to what extent the market is heated, if not overheated.

Tijs Hollestelle: Okay. That's very interesting, because my second question is, and I think myself it's a difficult one because on page three of the press release in the second last paragraph you gave a very clear outlook for this year but you also kind of talking about for the years beyond 2021, we see similar pattern limited number of large projects. We discussed with the order book impacting, let's say, the production and earnings for the year. And upward potential you specifically mentioned the marshalling, the engineering services, small projects, pin piles, etc., I do understand that. But I'm trying to read between the lines.

And then also from our perspective the equity gauge, I mean, some of the forecast are expecting, let's say, 70 million to 80 million of EBITDA next year. Is this kind of an indication from your side from based on the order book guys be at ease and there might be some additional upside or is it really already reflecting, yeah, massive additional upside on pricing and more efficient production levels because, yeah, maybe for you guys it's less relevant but

we are estimating on this over the table but for the discussion with investors it's quite important. So we have to have that clear.

Fred van Beers: No. I think I said it already that – we said it already that we do – we have – we're pretty confident that next year we can go up to a similar percentage levels as we expect for this year. But always bear in mind that the oil and gas is zero and that is 60 million, 70 million that we once accomplished had about 20 million oil and gas in it and was based on a one side factory with diameters substantially smaller than we have today. So we have seen two big changes, oil and gas disappear. And the small diameters for wind have disappeared as well.

So we are only – we are making our full profit on the top end of our production capacity. That's why we come to 200 ton kilotons only. And the additional businesses in marshalling engineering and what have you for the time that we have not implemented or first decided and then implemented on our next step to accommodate even bigger diameters.

And that is the reason why I think it's only fair indeed to bear that very well in mind and fully focus as we said before on how efficient can we produce, how well are the projects connected, how well can we negotiate these penalties clauses so that we do not see bit moves in our order book, which are all elements to optimise our margin with not to overreact, let's say, or over expect that you can go immediately back to levels beyond.

Are we aiming for similar levels or even beyond I would say in the mid-to long-term? For sure.

Do we think it's needed to actually have a healthy business case? And orders in this industry are expressing this as well. I mean, it's a huge potential that lays ahead of it. But if it's only the project developers that made money, this will never materialise. The whole supply chain has to make this money to facilitate the level of investment that's needed, otherwise this business will not grow as it should. It has to grow because we need to.

Tijs Hollestelle: Yeah. And you being experts in the industry, what do you think are the biggest bottlenecks in the total supply chain of offshore wind in the coming years? And then assuming the US indeed go through with these big –

Fred van Beers: For the US, as mentioned, it's really the supply chain, the local supply chain. The first few years it has come from Europe still. If they want to materialise the ambitions they have or the even increased ambitions, they never ever can supply that by themselves. That's one, but that's a temporary one. We do see that picking up. So, in our European planning, we have to bear that in mind. That means that you will increase in Europe, but unless you can earn it back in two years' time for the US, you will not increase to the levels for Europe plus the US in Europe because in the end, it will be the US that produces for the US itself. So that's one.

Then for the US, of course, the sea installation vessels. If you'll know, there is a – there are initiatives, Dominion is building a vessel, etc., etc. So it would come up but also there it's some reluctance on the other end. And then we need to see how quickly the turbine builders can build that – ramp up their production capacity.

There's a risk. And the overall joint risk is people; can you find the right people in all these businesses to gear up in a responsible way to the levels that we need. And then as I said also – as we also presented, political. Last week via the alliance we had a discussion with one of

the members of parliament in Brussels. And there's a big political struggle still going on, on ratifying the green deal, the 2050 plus Timmermans plan that's now on the table. And that's a really at 50-50 levels.

So they haven't gone through this yet and we try to help them. It all means we're now small area but also the turbine builders do, etc., to speed up that sort of decision-making process because that gives clarity to the industry, how high will the CO2 bonds will be, what sort of mechanisms are in place to actually help ramp up the European industry so that bonds can be put in place to support this industry, etc., these are all important elements.

Everybody is willing to do it. Well, a lot of people are willing to do it but there's a lot of objection still there as well.

Tijs Hollestelle: Okay. That's quite helpful. And a few other things. You mentioned the – you were helping looking at decommissioning solutions. Yeah, but I understand that is that – will that be a business for you or is it just surface to the overall.

Fred van Beers: No, being 100% active in renewables, I think we have an obligation to also seriously look at circularity, that's one thing. I think that the social element here and – is an increasingly important element. But it's also – it can only work if it's a business. And we have reasons to believe that cutting off the monopile at five metres below the mud-line is not the sustainable long-term solution that we should aim for. So we are indeed doing some tests working on some initiatives to see how we can pull out the entire monopile, bring it back to Maasvlakte and do a decoating, cutting in pieces action in a green way and bring it – and then together with our – with Dillinger in this case, with our steel supplier see how the scrap can be an important base material actually for green steel.

Tijs Hollestelle: Okay. It's a joint effort. You're not going to, let's say, put CapEx in a vessel that –

Fred van Beers: No, it will be a joint effort but we will focus on the part that we are good at. We believe we can add value sort of to say but we're not going to invest indeed in a scrap vessel and what have you.

Tijs Hollestelle: Just in front of your strategic update, you never know.

Fred van Beers: You never know and it's always good to keep an open eye on the opportunities but this maybe a bit too stretched.

Tijs Hollestelle: Yeah. Bit too stretched. Okay. And is there any problem in your own mini supply chain, I mean, Dillinger Hütte is able to [inaudible] with the steel plant.

Fred van Beers: Yeah, I would say also thanks to the relation we have. We have a strong sort of say confident and long-term agreement on the supply of steel. And – but we're also investigating of course other areas like flanges – you need for transition pieces or the top of the monopile. And – but we take that for example in relation to what extent will TP-less monopiles become the favourable solution or with TPs. If you have a TP solution, you need, normally speaking, maybe up to three flanges. Rest with the TP-less design, you have only one flange, and that has an effect on capacity for flanges. All sorts of aspects that play a role in this study.

Tijs Hollestelle: So not a real issue. Also with enough people?

Fred van Beers: People is an issue. That's why in our study we also look at a level of automation, to what extent can you do more with less people. So the whole production process industry 4.0 technology are areas that we're looking into to really, well, ramp up a little bit the production technology as well compared to the existing process.

Thijs Berkelder: Some additional questions. Thijs Berkelder, ABN AMRO. Just to be clear on the strategic new plan on the new strategy. Is it fully focused on your existing Rotterdam and Roermond sites? Or does it also include studies into potential expansion in other locations?

Fred van Beers: The study – the specific study we execute is a study on production methodology and volume ramp up in Europe. But it will also fly for eventual expansion outside Europe, but that's a different study. I mean, we're not doing a strategic study. We're doing a study on how to increase diameters and volume for the bigger monopiles. So that's a different one from a geographical initiative.

Thijs Berkelder: So that's not in the cards yet.

Fred van Beers: It's on the map, but let me put it this way. We said it also before. Europe is our main market. And we are not going to invest big time with limited resources in Asia or the US before we have assured that our European footholds remains intact and in place and our position in Europe remains intact. That's where – and then you have to make choices on priorities.

Thijs Berkelder: Then on technology, on floating you talked about big diameter steel – or looking at floating a big diameter steel, I can only think of Equinor's high wind solution, the Tetrapak I think doesn't really fit your production.

Fred van Beers: So I think your question illustrates, Thijs, that there are no real concrete projects or solutions yet that we put our bet on.

Thijs Berkelder: Yeah. But simply looking at all technologies, most of them are really smaller components, standardised serial prediction types of predictions, not typically Sif style. So then high wind.

Fred van Beers: Solution, type of solutions probably solution you look at, yeah. But again, the Kincade project recently – for where we did the final assembly that's also on three big – based on three big floaters around – and they're built in a traditional shipping – shipbuilding technology. And the question there is can you replace that with typical Sif technology.

Thijs Berkelder: Yeah. Okay. Clear. Then it check the decommissioning solution, then will be done with the blue piling technology, is that the plan?

Fred van Beers: No, because that's a piling.

Thijs Berkelder: Yeah. But the blue piling can be reversed, so it's – the blue pile technology can draw the monopile out of the – or suck the monopile out of the ground. That's at least what I understood from the inventor. So – and that's still –

Fred van Beers: That's not necessarily our first choice.

Thijs Berkelder: Okay. So that is a vibro.

Fred van Beers: It can be vibro, it can be flushing, it can be air. There are few other.

Thijs Berkelder: Okay. Clear. Then your FTE amount right now, what can you say on the plan for the coming 1.5 year? Where do you need to be in 1.5 year time?

Fred van Beers: 1.5 year time, I think you're more or less looking at equal levels as we have today.

Ben Meijer: I think on that one, Thijs, I don't know if you read that indeed. If you look at the increase in FTEs compared to prior year, this is mainly impacted by KCI, which is now included. There's an impact of roughly 50 FTEs if you compare the numbers with prior year.

Fred van Beers: Yeah.

Thijs Berkelder: Okay, clear. Then this year you will be generating quite some free cash flow. I presume it will be reserved for your potential investment plans and not be returned to shareholders or how should you look at that?

Fred van Beers: Wait. For me we have our rules of the game in place there and there's no reason I think that is one for us to divert from those rules on your end. Indeed, part of the study is probably that we need some money. We will definitely need some of that to invest. On the other hand, we also do not want to disappoint for – or push away our investors.

Thijs Berkelder: Are you also looking at M&A concrete?

Fred van Beers: We just completely one.

Thijs Berkelder: Yeah, but let's say you had a whole slide with all kinds of competitors and why you came to the stock market – yeah, simply the market was dominated by two players, EEW and you. Each, let's say, having 40%, 50% share, 45% share. And of course – The market is maturing and let's say challengers regularly make mistakes. So that could be the moment to indeed via M&A return to the, let's say, 40% of the market. But that's not –

Fred van Beers: No, we haven't seen any advance so far in trying to pursue one of these options.

Thijs Berkelder: Okay. So Dillinger still wants to continue also with Steelwind adventure. Yeah. Okay.

Turner Holm (Clarksons): Turner Holm from Clarksons. On the marshalling business, what's the reasonable expectation for contribution in the near and mid-term and the same for engineering?

Fred van Beers: Yeah. We're – on the marshalling, I think we stick to what we said when we introduced this. We have no reason to deviate from that. And as Andre already tried to ask as well, I mean next year it should be double-digit and we have always said that margins should be healthy up to 50% of revenues. But also for commercial and competitive reasons not going to give actual numbers.

Turner Holm: And beyond the plans by competitors for new European and American monopile factories, is there any risk of monopiles coming from Asia to Sif markets?

Fred van Beers: We do take into account that there will be attempts and that we also follow that but on the other hand, we know that the ambitions in Asia are such that – and that's also the feedback we have so far that Asian – especially the Chinese players are focusing on the

Asian, what is it, market and developments there and not necessarily for Europe. And that simply has to do with transport costs increasing CO2 penalties that affect the European market.

Turner Holm: All right. Thank you.

Andre Mulder: Andre Mulder, Kepler. A question on this 600 kilotons that you mentioned. In the past, you used to mention the names of the production you're guiding at. Any information you can mention there? How logical is it that after A, B and C also going in Sofia?

Fred van Beers: Again, A, B and C. We have won A and B. We just signed an exclusivity on a project of 130 kilotons. Then we're working on – I mean, the list is simply too long, to be honest. I mean, there are so many projects at the moment like I mean, we will see Hollandse Kust West coming to the market. We will see Hydrate[?], Moray[?] West, East Anglia, Dominion, there is US Wind[?], there is all these projects are active on the market and also customers we actively talk to.

Then there is also Sofia, but I wouldn't count too much on that one for us. It becomes a bit too Sif-loaded Dogger Bank on otherwise.

Thijs Berkelder: I've got a question on the trade working capital. I know it's volatile. But for us modelling it towards year-end, we have already any visibility on even more prepayments coming your way, let's say, before year-end or do you expect, let's say, gradual decrease as you also start spending on the prepayments.

Ben Meijer: The last one indeed. So if you look at the current position also, the cash position during the first half of the year, we had quite some prepayments indeed and the supply payments will come a little bit later on. And that is expected to materialise during the second half of the year. So also towards the end of the year. Cash position and also working capital positions will return back to more normal levels.

Thijs Berkelder: Yeah. And you don't have any visibility yet on additional prepayments coming in the second half? The jump from Q1 to Q2 was quite significant.

Ben Meijer: That's right. That will more happen during the rest of the year.

Thijs Berkelder: Okay. And in the tax line. What can we expect for the second half?

Ben Meijer: I cannot answer that question at this stage. So I think I need to come back to you on that.

Thijs Berkelder: Okay. Yeah.

Fred van Beers: And based on this one, Thijs, what I've seen so far, I would just expect normal levels but let me check and come back to you on that one.

Fred van Beers: Fons, do we have more?

Fons van Lith: No.

Speaker: Last questions from my side. The follow-up on the taxes got me thinking. The tax rates, it was, let's say, 13% to 15% '19 and '20 but that will normalise towards 20%, 25%, right, with innovation box decline.

Ben Meijer: That's what I would expect. Yes.

Fred van Beers: All right. If that's it, Fons, no more questions, nothing coming up, all clear, then I think we need and like to thank you all for your interest for your questions. And let's work towards another meeting half year from now or a bit more. See you each other then. Thank you very much.

Ben Meijer: Thank you.

[END OF TRANSCRIPT]