# Annual Report 2018

Sif Holding N.V.

Sif OFFSHORE FOUNDATIONS

# Key figures 2014 – 2018

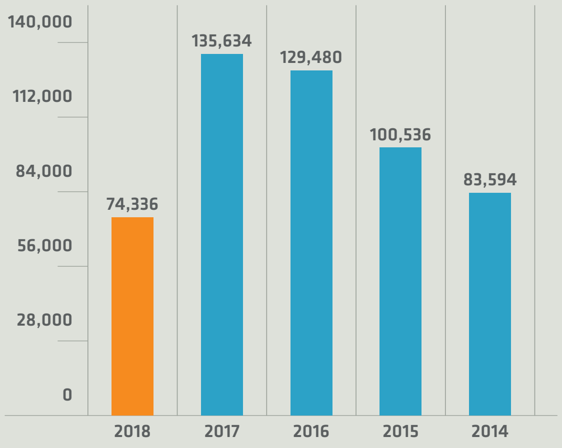
| X € 1,000 | 2018 | 2017 | 2016 | 2015 | 2014 | Definition of non-IFRS measures |
|---|---|---|---|---|---|---|
| Revenue | 235,140 | 327,180 | 400,318 | 321,343 | 262,523 | |
| Contribution | 74,336 | 135,634 | 129,480 | 100,536 | 83,594 | Total revenue minus cost of raw materials, subcontracted work and other external charges and logistic and other project related expenses |
| EBITDA | 12,550 | 54,592 | 58,616 | 55,252 | 45,741 | Earnings before net finance costs, tax, depreciation and amortization |
| Normalized EBITDA | 13,258 | 57,118 | 65,395 | 57,815 | 46,238 | EBITDA corrected for incidental IPO related expenses or income |
| Net earnings | -2,051 | 30,760 | 37,365 | 35,628 | 27,995 | Profit attributable to the shareholders |
| Net cash from operating activities | 5,548 | 53,886 | 52,887 | 25,421 | 33,570 | |
| Net increase/(decrease) in cash and cash equivalents | -372 | 573 | -28,429 | 3,740 | -10,954 | |
| Net cash from investing activities | -3.218 | -27.587 | -67.962 | -16.421 | -39.523 | |
| Depreciation and amortization | 13,682 | 13,153 | 8,684 | 6,986 | 7,391 | |
| Net debt | 30,377 | 25,107 | 41,969 | 26,894 | 11,434 | Gross debt (loans and borrowings) minus cash and cash equivalents |
| IN KTON | | | | | | |
| Production | 138 | 232 | 191 | 150 | 133 | |
| PER SHARE X € | | | | | | |
| Earnings | -0.08 | 1.21 | 1.47 | 1.40 | 1.10 | Profit attributable to the shareholders divided by the average number of shares outstanding during the year under review |
| Dividend* | 0.10 | 0.30 | 0.37 | 0.94 | 1.28 | |
| RATIOS % | | | | | | |
| ROCE | -1.0 | 25.8 | 32.7 | 39.5 | 30.5 | Earnings before Interest & Tax as a % of equity plus loans and borrowings |
| Solvency | 43.6 | 45.6 | 34.8 | 16.2 | 43.6 | Equity/balance sheet total |
| COVENANT RATIO'S | | | | | | |
| Net debt/normalized EBITDA | 2.33 | 0.4 | 0.7 | 0.5 | 0.2 | |
| Cash flow cover | 3.02 | 29.4 | 3 | 10.3 | 4.2 | |
| Number of shares issued | 25,501,356 | 25,501,356 | 25,501,356 | 25,501,356 | 25,501,356 | |

Contribution is an important KPI since it excludes pass-through expenses. Together with production in Kton and EBITDA it indicates the quality of Sif's performance in any reporting period.

* 2018 Subject to AGM approval

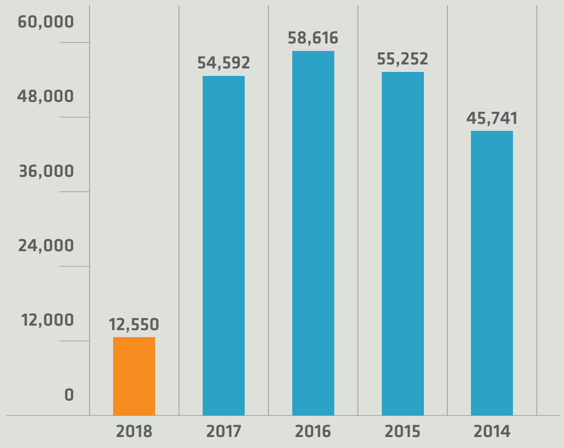
CONTRIBUTION

*(IN € 1.000)*



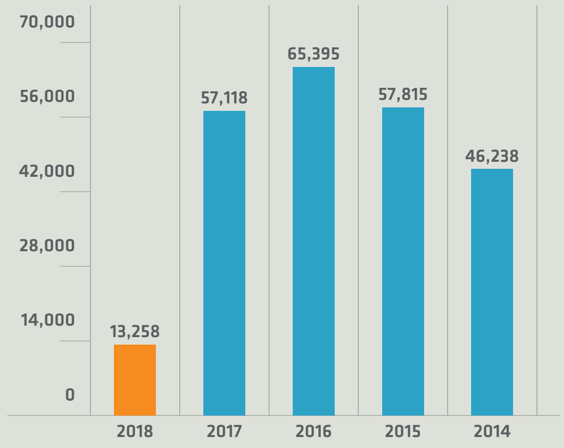

EBITDA

*(IN € 1.000)*



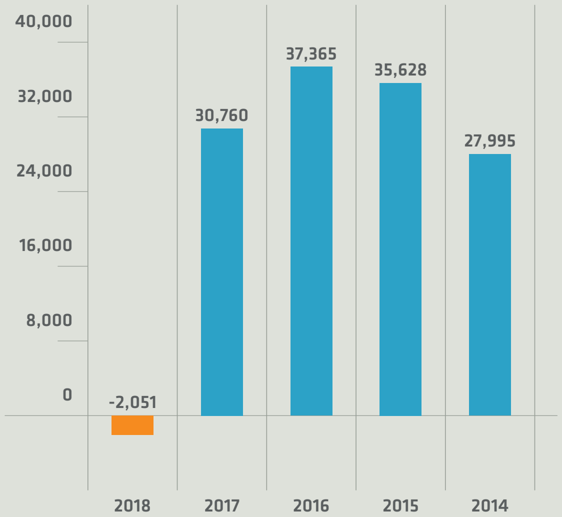

NORMALIZED EBITDA

*(IN € 1.000)*



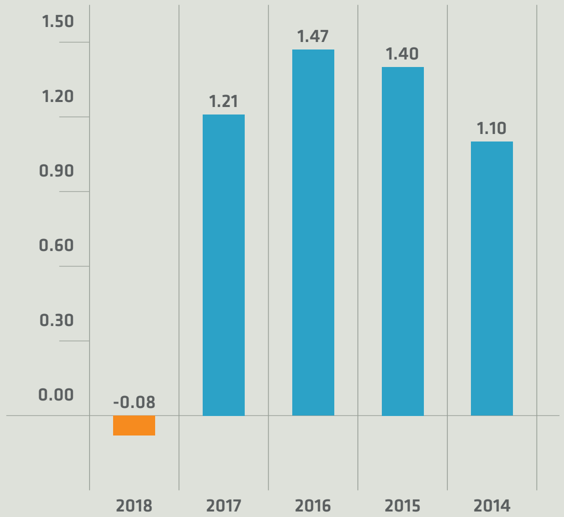

NET EARNINGS

*(IN € 1.000)*



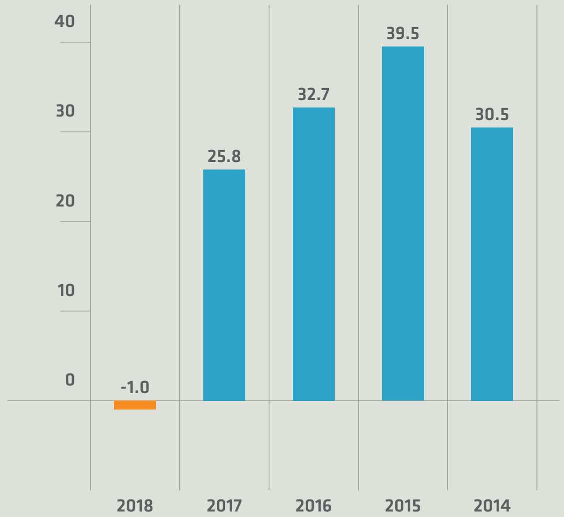

EARNINGS PER SHARE

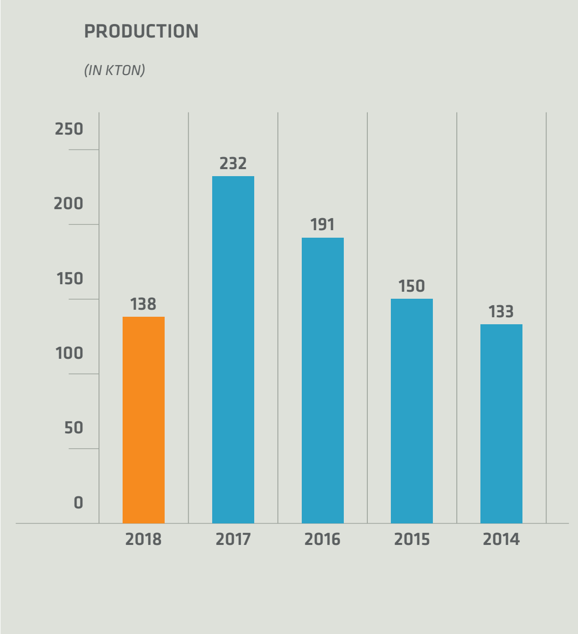
*(IN €)*

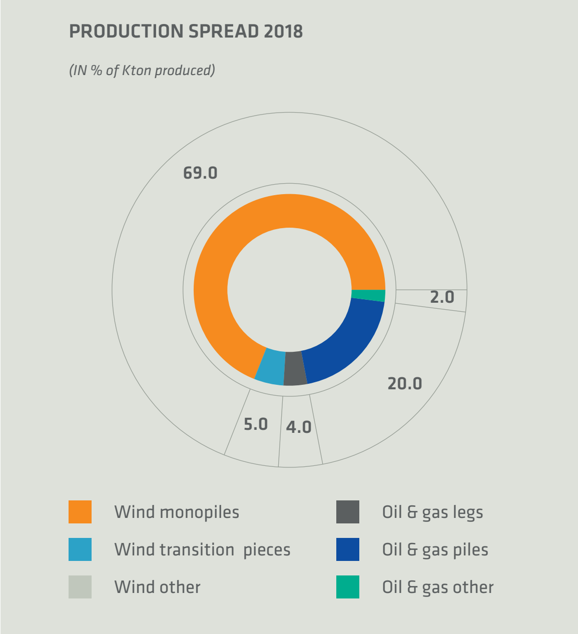


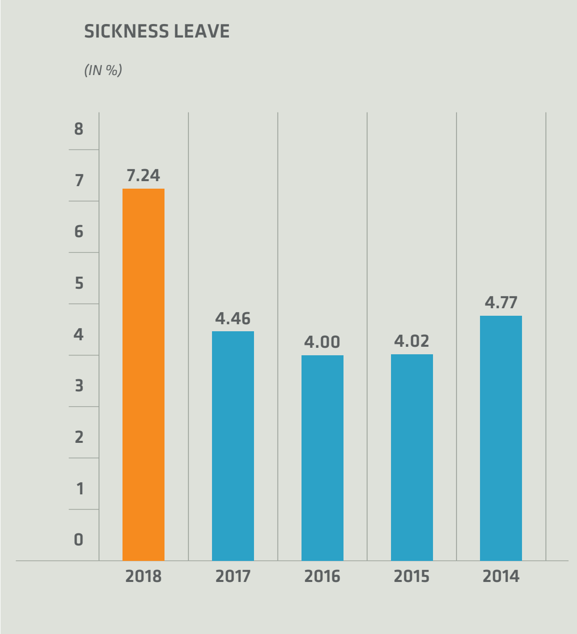

RETURN ON CAPITAL EMPLOYED

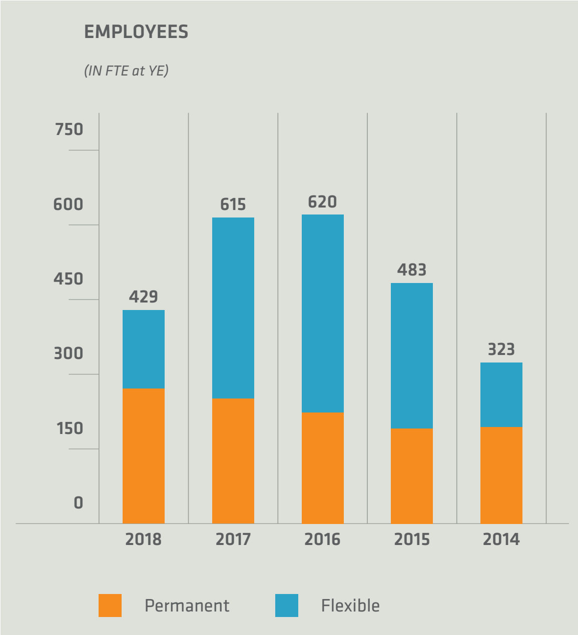
*(IN %)*

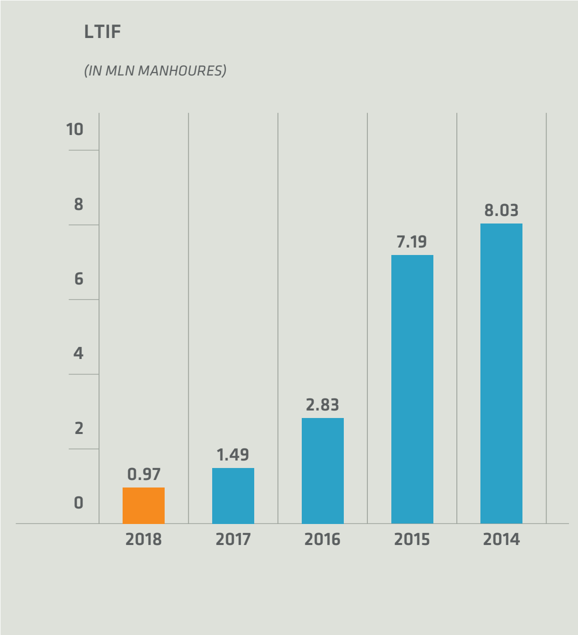



PRODUCTION
(IN KTON)
250
200
150
100
50
0
138
232
191
150
133
2018
2017
2016
2015
2014


PRODUCTION SPREAD 2018
(IN % of Kton produced)
69.0
2.0
20.0
5.0
4.0
Wind monopiles
Wind transition pieces
Wind other
Oil & gas legs
Oil & gas piles
Oil & gas other


SICKNESS LEAVE
(IN %)
8
7
6
5
4
3
2
1
0
7.24
4.46
4.00
4.02
4.77
2018
2017
2016
2015
2014


EMPLOYEES
(IN FTE at YE)
750
600
450
300
150
0
429
615
620
483
323
2018
2017
2016
2015
2014
Permanent
Flexible


LTIF
(IN MLN MANHOURES)
10
8
6
4
2
0
0.97
1.49
2.83
7.19
8.03
2018
2017
2016
2015
2014

## Highlights 2018

| | | | | |
|---|---|---|---|---|
| Lost time Injury Frequency (LTIF) 0.97 (2017:1.49) | Successful application of integrated design (no tp's on Borssele 3-4 project) | Innovations aiming decrease of LCOE. Amongst others: successful testing of slip-joint connection | Hohe See, Trianel, Norther, Borssele 3+4 and Albatros offshore wind projects | Components for jackets for Johan Sverdrup and Peregrino oil & gas projects |

## Financial performance

| Revenue | Normalized EBITDA | Profit attributable to the shareholders | Earnings per share | Dividend proposal | Order book for 2019 |
|---|---|---|---|---|---|
| €235.1 million | € 13.3 million | -€ 2.1 million | -€ 0.08 | € 0.10 per share | 210 Kton |
| With € 74.3 million contribution | Normalized for non-recurring IPO expenses | | | | |


DOT
EMA
HKN-00
45

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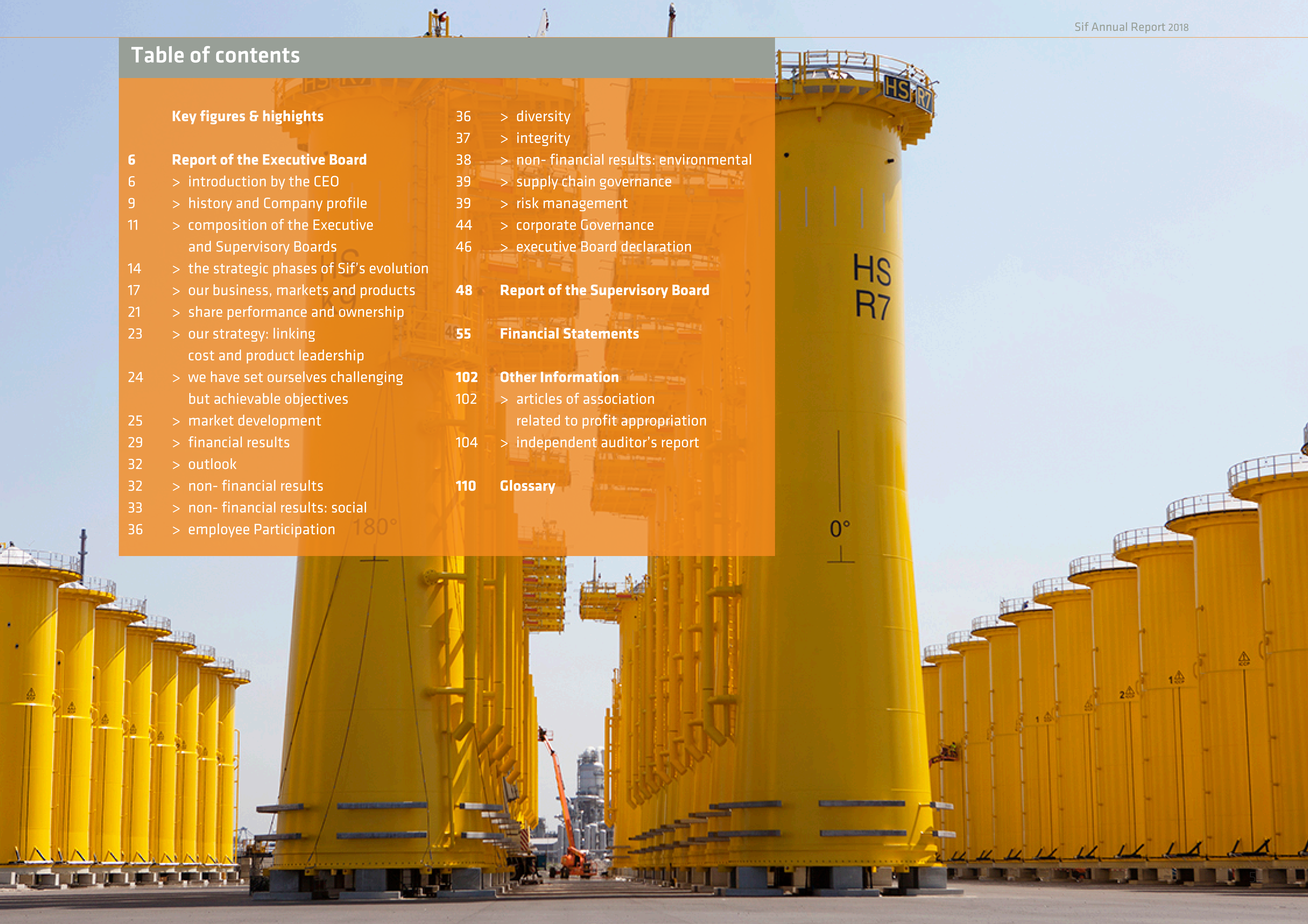


# Report of the Executive Board

## Introduction by the CEO

Dear Reader,

**Industry developments**

Even more eminent than in the past, the theme of the energy transition was at the top of the agenda in 2018. Much more even than the threat of a depletion of fossil fuels, the necessary reduction of CO2 is the driver of this theme. Cutting back CO2 emissions is important to limit global warming and all climatological consequences it entails. This is an absolute necessity in order to protect the planet and therefore humanity against the catastrophic consequences of climate change.

Whereas heads of governments engage in high-level exchanges of views on the benefits and necessity of the energy transition and the related goals as formulated in the Paris Climate Agreement, growing awareness is increasingly leading to action and specific transition goals at a national and regional level. While sustainable energy sources such as offshore wind and solar energy were initially mainly a European matter, we are increasingly seeing transition projects in other parts of the world as well. Driven by the goal of becoming climate-neutral by 2050, demand for offshore wind also continues to rise sharply in Europe.

We are also seeing a transition in offshore wind product and project developments. Going forward, sustainable energy will be produced more affordably with a firm focus on safety. Significant steps towards this were taken in 2018, including the announcement of unsubsidized offshore wind projects. Prices can continue to fall provided the industry as a whole takes further steps to stimulate integrated and "fit for purpose" designs. Turbine capacity has continued to increase and next-generation turbine designs for capacities up to 15 MW are already on the drawing board. These developments emerging in rapid succession can only take place successfully and safely if the entire supply chain participates and properly values the consequences of new regulations in terms both of technology and costs. If the capacity of transport and installation vessels needs to be increased and foundations are becoming larger and more complex in order to bear increasing weights and vibrations, it is essential not to lose sight of the total integrated costs of these industry developments.

There were significant innovations in 2018. Examples such as slip-joint connections and narrow- gap welding can contribute to making offshore wind more sustainable and have the potential to make the industry more efficient, more affordable and safer. While until now existing oil & gas design standards and regulations have been the basis for foundation design, we have seen the industry taking a step forward in this area as well in 2018 by developing its own offshore wind regulations by means of the ratification in July 2018 of PISA. We analyzed the implications of PISA in 2018 and the conclusions that we shared with the market show that while the effects on monopile production are significant, they are outweighed by cost savings on materials. What PISA means specifically for Sif is, as was already announced in November 2018, that in the next two years we will invest up to EUR 32 million in modifications of our production facilities and a part of our production technologies. In addition we will invest approximately € 8 million in a 50% increase in our coating capacity in 2019 by building two additional coating halls. That capacity is necessary to meet the increased demands for coating- quality and extended surface area of the protection of monopiles when installed at sea.

It is clearly Sif's ambition to be actively involved in the transition process this industry is going through. This is reflected in the decision to acquire greater knowledge of design engineering which, in conjunction with our production expertise, ensures that Sif can fully and pro-actively contribute to progressive developments in this market. We believe that by providing earlier and more detailed input into our customers' thinking in the design stage, we can better contribute to further efficiency and cost reductions. We expect to increase our design know- how during 2019 both by organic growth within the organization and by intensive cooperation with established design firms. We also believe that standardization of solutions to be applied at a detail level in foundation design can contribute to achieving lower LCOE (Levelized Cost Of Energy) targets. This is another area for which Sif aims to provide an impetus in 2019. Our focus on innovations and alternatives for existing foundation solutions is undiminished and these are key topics on our innovation agenda. Involvement in the industry- transition requires more sophisticated information systems and fit for purpose staff. The Sif 2.0 program we are currently running and the upgrade of ERP systems should contribute to this.

In the field of internationalization, we continue to closely follow developments in Asia and the USA, without losing our focus on the important European market. Clearly these developing markets gain momentum.

It is important to me to emphasize that fulfilling commitments to our customers for the production and delivery of monopiles is and remains our first priority. Executing offshore wind projects is after all a complex logistical process that can only be successful if each link in the supply chain properly contributes.

**Results and outlook**

A strong and committed workforce, able to execute the high quality production steps is the basis for our success. In 2018 Sif implemented an organizational redesign and committed to the implementation of a new ERP solution. All with the aim of providing our people with the best possible tools to deliver a safe and high- quality performance.

The market is characterized by a limited number of very large projects. This results in specific dynamics for the tendering parties and can also entail a certain volatility in capacity utilization. That volatility is reflected in our results for 2018. Partly as a result of bringing forward a project in consultation with the client (Borssele 3-4), we were able to process production of some 138 Kton (232 Kton in 2017). To achieve this, 13 projects were at hand in full or in part in 2018, of which 6 for offshore wind. We aligned staffing with the required production capacity in 2018 and carried out maintenance activities in addition to the execution of ongoing projects.

The LTIF (Lost Time Injury Frequency) fell from 1.49 to 0.97 in 2018. All of our operational and financial efforts resulted in normalized EBITDA of € 13.3 million and earnings per share of -€ 0.08. Net debt was € 30.4 million at year-end 2018. In view of the market- developments and our expectations for the years ahead, a proposal to distribute a dividend of € 0.10 per share from the general reserve will be submitted to the General Meeting of Shareholders.

The outlook for offshore wind capacity compared to 2017 was again upgraded in 2018. Analysts at Wood Mackenzie expect an average 4.8 GW to be added annually to offshore wind capacity during the period 2018-2027 in Europe and 5.3 GW in other parts of the world. To put this into perspective: installed capacity to date in Europe totals around 19 GW. Sif's orderbook comprises 210 Kton in projects contracted for 2019 and 155 Kton in projects in exclusive negotiations for 2020 and beyond.

‘A 4.8 GW annual addition to the current 19 GW Northsea offshore wind capacity is expected for the period 2018–2027.’

**Personnel changes**

Maarten Schönfeld retired as a member of the Supervisory Board of Sif Holding N.V. in May 2018. His extensive experience as CFO of a listed company hugely aided Sif’s reporting discipline and public accountability. Sif is thankful for the contribution Maarten Schönfeld made to Sif’s transition from a private to a public company. The vacancy arising due to the departure of Maarten Schönfeld was filled by Peter Wit who joined the Supervisory Board on 3 May 2018. CEO Jan Bruggenthijs likewise stepped down in May 2018, at the conclusion of his four-year period in office. The vacancy to which this gave rise was filled by appointing the undersigned with effect from 1 September 2018, for a term of four years. Leon Verweij was willing to serve as acting CEO for the period from May to September 2018. Sif is grateful to Jan Bruggenthijs for the purposeful and committed leadership he provided to the company in the dynamic period of its transition to a listed company. Sif is also grateful to Leon Verweij for his willingness to take on the role of CEO on a temporary basis between the departure of Jan Bruggenthijs and my arrival. As of 1 February 2019, the full two-tier board structure ("volledige structuurregime") will apply as already provided for in the company’s articles of association. As a result, certain powers will shift from the General Meeting of Shareholders to the Supervisory Board. This mainly relates to rights concerning the appointment of members of the Executive Board and members of the Supervisory Board.

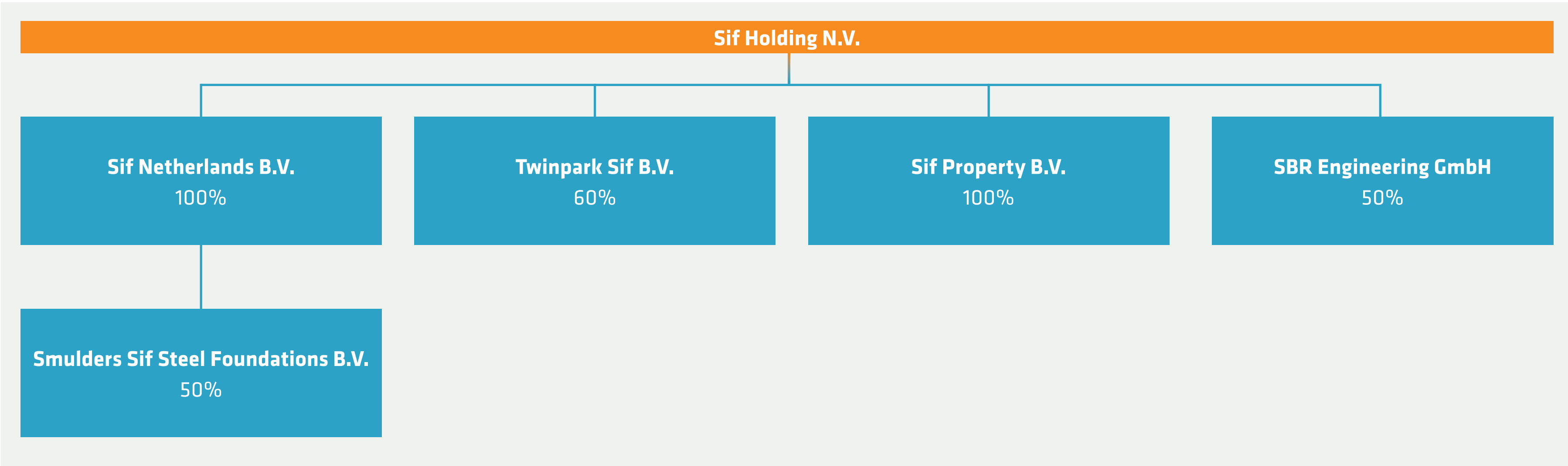
We wish to thank all clients, vendors and employees of Sif for their loyalty to the company during the challenging year 2018. More specific we wish to thank our employees for their understanding for the situation in which we had to reduce the temporary workforce substantially due to a lack of projects. We are pleased that many of them have since rejoined Sif. Lastly, we thank our shareholders for the trust they place in the company, the strategy and its execution.

Fred van Beers, CEO

## History and Company profile

Sif is a project-oriented manufacturing company. We are a leading provider of mission-critical tubular steel foundations to the offshore wind and oil & gas markets. Our clients are energy companies such as Vattenfall, Eneco, E-on and RWE Innogy, developers such as Orsted and Triton Knoll and EP (Engineering and Production) or EPCI (Engineering, Procurement, Contracting and Installation) contractors such as Van Oord, Geosea, Heerema Fabrication, Dragados, SHL and Kvaerner. Most of our products are part of larger North Sea projects. Our reputation is based on the innovative drive that facilitates scale while reducing costs per installed MWh of generating capacity, combined with the safe and timely delivery of mission-critical products within budget and in accordance with quality specifications.

**SIF GROUP LEGAL ORGANIZATION STRUCTURE**



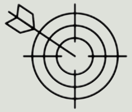
Sif, founded in 1948, is a company with a solid track record. At year- end 2018 Sif employed 429 people (272 on Sif's payroll) in two manufacturing locations in the Netherlands–Roermond and Maasvlakte 2 near Rotterdam. Sif's head office is in Roermond and the shares of the Company have been listed on Euronext Amsterdam (ticker symbol SIFG.AS, ISIN NL011660485) since May 2016. The LEI code of Sif Holding N.V. is 724500JOBPD5CLHCK040

To achieve our goals we implement a company culture based on teamwork, results orientation and accountability. To facilitate this we have invested in training and in the safest and most efficient manufacturing facilities. These facilities, combined with our innovative and entrepreneurial spirit, enable us to deliver the most effective solutions for the manufacturing of foundations at the lowest possible cost for our clients and in a safe environment for our employees. Sif's evolution illustrates the Company's core values:

**SIF'S CORE VALUES**

Teamwork

In order to live up to the role of key player in the value chain of building and operating offshore windfarms and other offshore applications, teamwork is essential. Team interests always prevail over individual interests



Results oriented

Do the right things to achieve stakeholder goals. Thinking about the right focus to become even better today than yesterday, striving for quality on time in a safe environment. Continuously improve our way of working in a sustainable and measurable way.

Accountable

Our commitment and responsibility is driven by clarity on who does what in an openminded, solutions oriented culture in which everybody can address issues and hold each other accountable.

In 2018 the Sif 2.0 project was initiated. The main aim was to make the employees of Sif aware of the strategic direction of the company and the challenges that would bring. The project emphasizes the approach and skills that would be requested from Sif employees, subcontractors and suppliers. Essential in that approach is the behavior and attitude as defined in the code of conduct of Sif but also in the QHSE Policy Statement and Sif's Strategy for Corporate Social Responsibility 2019- 2021.

## Composition of the Executive and Supervisory Boards

Sif Holding N.V. has a two-tier Board structure. The Executive Board is responsible for the day-to-day management of the Company. The Supervisory Board supervises the Executive Board and advises it regarding the day-to-day management. The members of the Executive Board of Sif Holding NV are:

- Fred van Beers (1962, male, Dutch nationality). CEO. Appointed in September 2018. Entered into a service agreement for a period of four years ending 2022. Fred van Beers holds a degree in marine engineering and worked as a business unit manager at Alcoa and LIPS before joining Wärtsilä. He served at Wärtsilä as Managing Director Netherlands from 2007 to 2010 and as Vice President Services Area North Europe from 2010 to 2015. More recent Fred van Beers was the CEO of Blohm & Voss shipyards in Hamburg (2015-2017) and served in various other management positions on an interim basis (2017-2018).
- Leon Verweij (1960, male, Dutch nationality). CFO. Appointed in May 2017, following an ad interim appointment in January 2017. Entered into a service agreement in July 2017 for a period of four years ending 2021. After completing his degree in Business Economics, Leon Verweij held several financial positions, including 23 years as CFO of companies such as Grasso's Koninklijke Machinefabrieken, Koninklijke IBC, Koninklijke VolkerWessels Stevin, and Schoeller Arca Systems Services. He also worked for the Smulders Group during which time he gained experience in the field of steel foundations for offshore wind farms. More recently, he served as interim CFO at Ballast Nedam and as interim CEO at the Oskomera Group. Leon Verweij is also a member of the Supervisory Board of the Villa Pardoes foundation and an advisor to the Supervisory Board of N.V. Slibverwerking Noord Brabant.

On 3 May 2018 Jan Bruggenthijs resigned as CEO. Jan has served Sif for almost four years. In that period Sif has reinforced its leading position as a manufacturer of foundations for offshore wind and oil & gas markets. The investments in Roermond and Rotterdam under Jan's leadership have given Sif even more space to realize its growth ambitions. At the same time Sif was transformed from a privately held to a public company. Major achievements, for which Sif is thankful to Jan Bruggenthijs. We wish Jan all the best for the future.


The composition of the Supervisory Board is in line with the profile published on the Sif website. During 2018, the composition of the Supervisory Board changed due to the resignation of Maarten Schönfeld. Maarten served Sif with his extensive expertise and experience with companies in a stock exchange listed environment. Sif thanks Maarten Schönfeld for making his expertise and experience available to the Company. During the AGM of 3 May 2018 Peter Wit was appointed as Maarten Schönfeld’s successor. The composition of the Supervisory Board now is as follows:

> André Goedée (1951, male, Dutch nationality). Chairman. Relevant expertise and experience: offshore contracting (EPCI), project management, and international business. First appointed to the Board in January 2016 for a four-year period, but served on the preceding Supervisory Board from December 2015. Resigning at closing of the 2019 AGM. Currently he is also the Chairman of the Supervisory Board of Amphia Group (clinical hospitals) and a member of the Board of FSC (Flight Simulation Company for pilot and crew training). Between 2003 and 2013, André Goedée was the CEO of Dockwise Ltd. Following the acquisition of Dockwise by Boskalis, André Goedée was appointed a member of the Executive Board of Boskalis and advisor to the Board. Before joining Dockwise André Goedée was CEO European staffing for Vedior Professional Services (1999–2003), Executive Vice-president of Heerema Offshore Services (1989–1999) and Executive Vice-president of Neddrill Drilling Contractors (1977–1989). In 1978, André Goedée obtained a Master Mariner degree (maritime technical engineering) from the Mercantile Marine College in Scheveningen/Rotterdam. He has also participated in various management and marketing programmes at various academic institutes, such as the New Board Program at Nijenrode University. André Goedée does not hold shares in Sif Holding N.V.

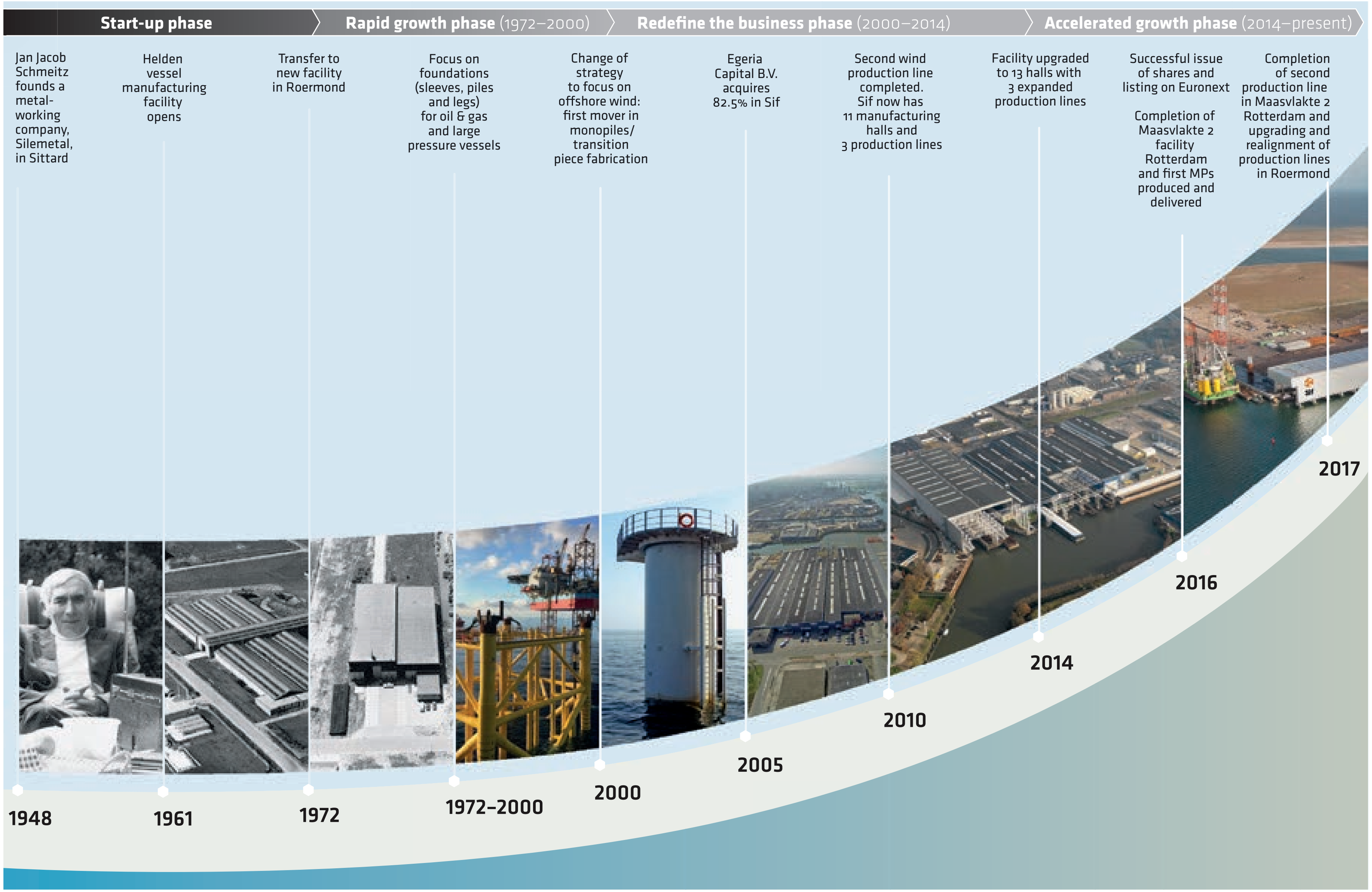
- Peter Wit (1967, male, Dutch nationality). Relevant expertise and experience: stock exchange listed environment, financial & management accounting, legal, tax & compliance, auditing, IT & operations. First appointed in May 2018 for a four-year period. Resigning at closing of the 2022 AGM. Currently Peter Wit is COO at Atlas Professionals B.V., Advisor to the Board at Inashco B.V. and member of the Supervisory Board at Doedijns Group International. Previously Peter Wit was CFO and managing director at Inashco B.V. (2014-2017), CFO at Dockwise Ltd (2009-2013), Supervisory Board member at Atlas Professionals (2013-2018) and had several positions (finance manager Albania, M&A advisor in UK and COO/CFO for Shell's asset management company) at Royal Dutch Shell Group between 1992 and 2009. Peter Wit holds a master degree in Business Administration from the University of Groningen and obtained a Post doctorate controlling degree (RC) from the VU University Amsterdam. Peter Wit does not hold shares in Sif Holding N.V.
- Caroline van den Bosch (1964, female, Dutch nationality). Relevant expertise and experience: procurement, human resources, sales & marketing. First appointed in February 2016 for a four-year period. Resigning at closing of the 2019 AGM. Since June 1998, Caroline van den Bosch has been the managing partner and shareholder of Emeritor (procurement services and software). She also holds 50% of the shares in Meal Company, a manufacturer of food vending machines and is member of the Supervisory Board of Merba Banketbakkerij, an industrial manufacturer and exporter of cookies. Caroline van den Bosch holds a marketing degree from the school of Business Administration and Economics (HEAO) in Utrecht as well as a NIMA-C Marketing degree (MBA level). She is the Supervisory Board's primary contact with the Sif Works Council. Caroline van den Bosch does not hold shares in Sif Holding N.V.
- Peter Gerretse (1955, male, Dutch nationality). Relevant expertise and experience: International business, project management, production, industrialization and automation, international B to B marketing. First appointed in February 2016 for a four-year period. Resigning at closing of the 2020 AGM. Since 2017, Peter Gerretse has been a member of the Supervisory Board of Vanderlande Industries B.V. He was a member of the Supervisory Board of Aeronamic Holding from 2010 and 2017. Between 1995 and 2013, Peter Gerretse worked for Vanderlande Industries, a leading supplier of material handling systems, where his last position was President and CEO. Before joining Vanderlande Industries Peter Gerretse held several management positions at Fokker Aircraft. Peter Gerretse holds an engineering degree in Aerospace Engineering from Technical University Delft. Peter Gerretse does not hold shares in Sif Holding N.V.
- Peter Visser (1956, male, Dutch nationality). Relevant expertise and experience: General management, finance, auditing, M&A. First appointed on an interim basis as of 1 November 2017 for the period until the end of the Annual General Meeting of Shareholders on 3 May 2018. Appointed on 3 May 2018 for a four-year period. Resigning at closing of the 2022 AGM. Peter Visser is co-founder and partner of investment fund Egeria since 1997. From 1992 until 1997 he was Managing Director of MeesPierson N.V. and responsible for private equity activities in Europe. From 1983 until 1990 he worked for McKinsey & Company and founded his own consulting firm, Management & Investment B.V. Peter Visser holds an Economics degree from the University of Groningen. Peter Visser is the ultimate beneficial holder of 49.38% of the shares in Sif Holding N.V.

**ROTATION SCHEDULE SUPERVISORY BOARD**

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| André Goedée | | ✓ | | | |
| Caroline van den Bosch | | ✓ | | | |
| Peter Gerretse | | | ✓ | | |
| Peter Visser | ✓ | | | | ✓ |
| Peter Wit | ✓ | | | | ✓ |

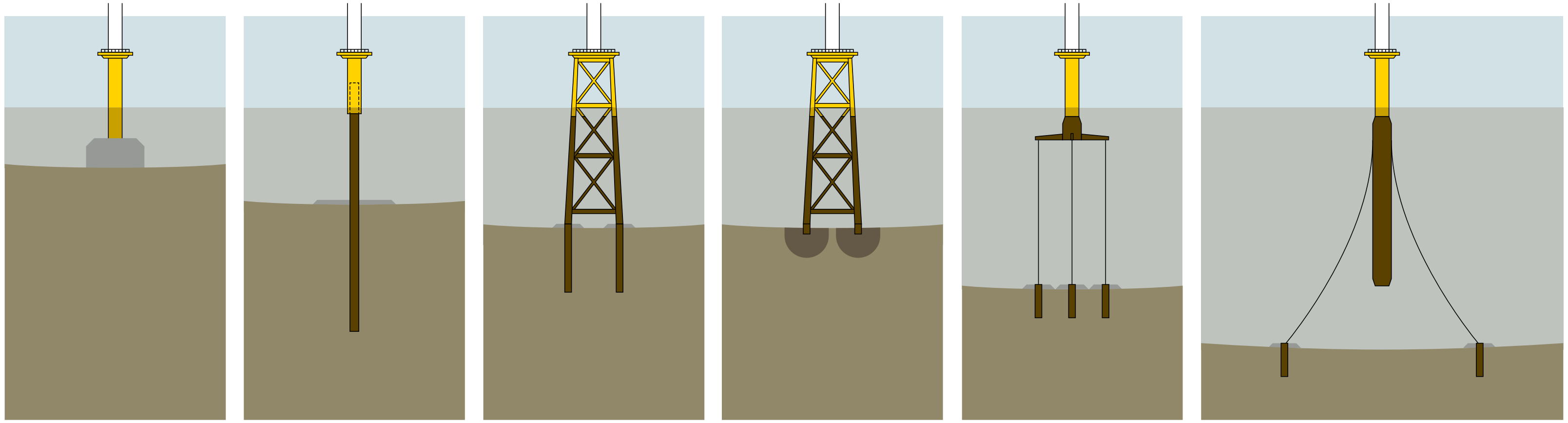
## The strategic phases of Sif's evolution

Business redefinition phase aiming Design, Engineering and serial Production of XXL monopiles




Sif
Sif

## Our business, markets and products



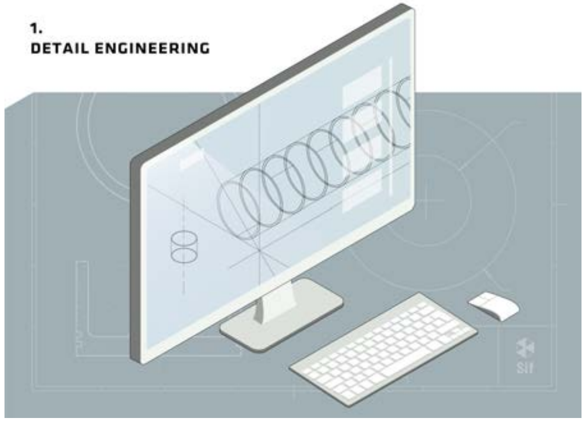
| Gravity base | Monopile | Jacket / pinpiles | Jacket / suction buckets | Mooring stabilized TLP / semi-submersible with vertical anchors | Ballast stabilized Spar with semi-taut moorings |
|---|---|---|---|---|---|
| **WATER DEPTH** 20 to 30m | **WATER DEPTH** up to 50m | **WATER DEPTH** 30 to 60m | **WATER DEPTH** 30 to 60m | **WATER DEPTH** 60 to 300m+ | **WATER DEPTH** 120 to 300m+ |

Sif serves the offshore wind and offshore oil & gas energy markets. Geographically our focus is on projects in Northwest Europe, in particular in the British, German, Belgian, Danish, Norwegian, French and Dutch sectors of the North Sea. At the end of 2018 Northwest Europe accounted for approximately 19 (almost 16 end of 2017) GW grid connected capacity. During the period 2018 to 2027 the worldwide installed capacity is expected to increase by an average of 10 GW per year

There are several different types of foundations for offshore wind energy projects. Which type is used depends on a number of factors including the water depth and the composition of the seabed. The monopile (image 2) with almost 80% marketshare is the most commonly used foundation for offshore wind turbines since it offers the best price-quality ratio. It can be applied in water depth until 50 to 60 meters. The monopile however is not suitable for very rocky sea beds. In such situations, jackets (image 3) or gravity-based foundations (image 1) are good alternatives. Suction buckets (image 4) and floating foundations (images 5–6) are only being used experimentally.

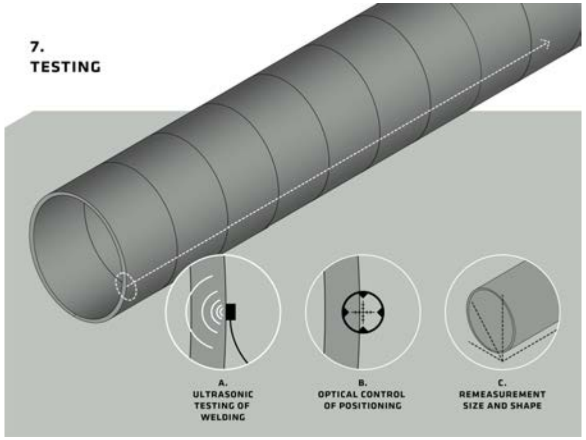
‘With almost 80% marketshare the monopile is the foundation of choice for the European offshore wind industry.’

Sif's core competence is the serial rolling, automated welding and coating of extremely thick steel plates to create unique tubular offshore foundations (monopiles) and foundation components (primary steel for transition pieces, jacket- legs, pin piles and pile-sleeves). Our production process is divided into the following phases:

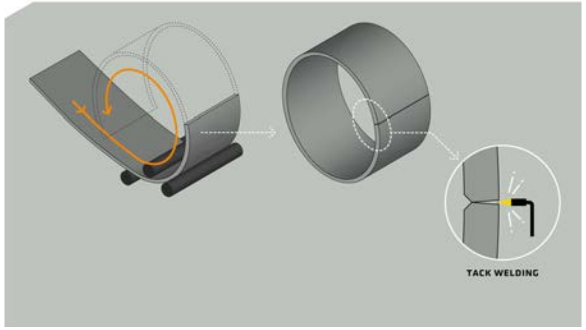




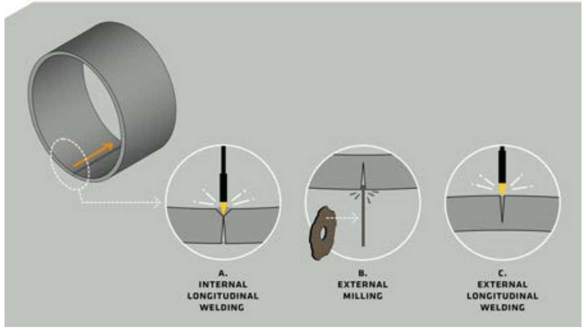
Primary steel for transition pieces is manufactured in Roermond. Transition pieces are outfitted with platforms, boat landings etc. by a specialized partner. Components for oil and gas foundations are manufactured mainly in Roermond on a separate production line for smaller diameters. Occasionally this production line is also used to manufacture pin piles for wind jacket-foundations. The production methods for primary steel for transition pieces and for oil and gas components are the same as the production methods for monopiles.

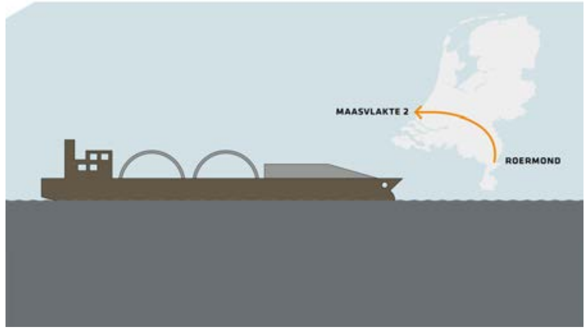
**3.**
**ROLLING, POSITIONING AND TACK WELDING**



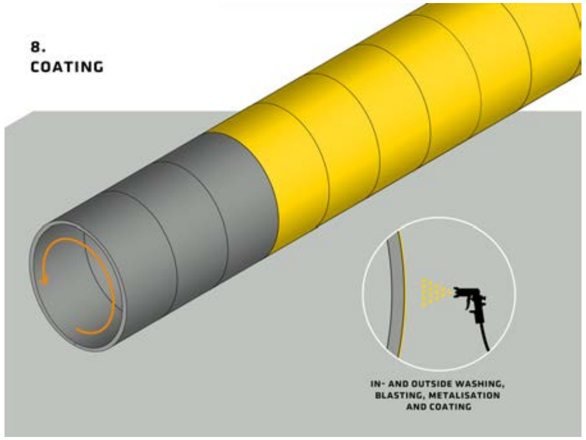

**4.**
**LONGITUDINAL WELDING**



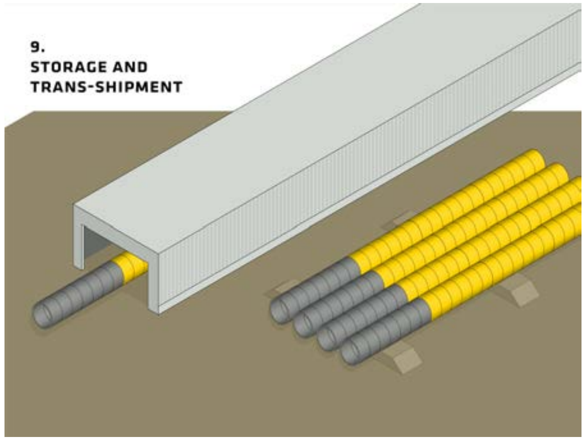

**5.**
**TRANSPORT CANS, CONES AND SECTIONS TO MAASVLAKTE 2**



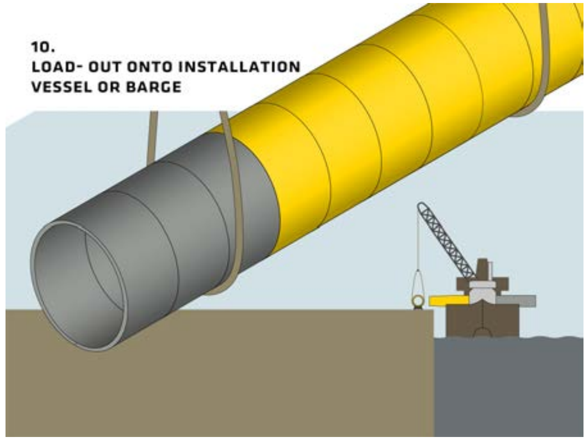

**8.**
**COATING**




**9.**
**STORAGE AND TRANS-SHIPMENT**



**10.**
**LOAD- OUT ONTO INSTALLATION VESSEL OR BARGE**



‘UK- Pile Soil Analysis project (PISA) defines new design methods for large diameter monopiles that will impact the production of monopiles and demand investments in production facilities.’

## Share performance and ownership

Sif Holding N.V. shares (SIFG.AS) have been listed on the Euronext Amsterdam stock exchange since May 2016 with ISIN code NL011660485. At the end of 2018, 25,501,356 ordinary shares with a nominal value of € 0.20 had been placed. All the shares have equal voting rights and are entitled to dividend paid out of the Company's profit reserves ('one share one vote' principle). At the end of 2018 market capitalization amounted to around € 297 million. All issued shares are fully paid-up, are registered and have been entered into a collective deposit by transfer to Euroclear Nederland or to an intermediary. Euroclear is listed in the shareholder register held by the Company. The LEI code of Sif Holding N.V. is 724500J0BPD5CLHCK040.

**SHARE INFORMATION**

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Closing price at year-end in € | 11.66 | 17.41 | 15.48 |
| Highest price during the year in € | 19.50 | 25.35 | 15.97 |
| Lowest price during the year in € | 11.02 | 15.37 | 13.15 |
| Average daily trading in number of shares | 30,660 | 80,429 | 37,020 |
| Market capitalization at year-end in € 1,000,000 | 297 | 444 | 395 |
| Earnings per share in € | -0.08 | 1.21 | 1.47 |
| Dividend per share in € | 0.10 | 0.30 | 0.37 |

## Dividend policy

Sif's dividend policy is a payout of dividend in line with Sif's medium to long-term financial performance and targets, with the aim of increasing dividends-per-share over time. A payout amounting to 25–40% of Sif's net profit in any given year is envisaged as a result of this policy. The net profit for 2018 turned out negative. Mid- and longer term expectations for the offshore wind industry however are positive. And therefore, together with the announced investments in our production facilities for the next years, as a sign of confidence in the future of the business, we propose to pay out a dividend to be charged to the companies retained earnings. The proposed dividend payout per share for 2018 is a cash dividend of € 0.10 per share.

**SHARE INFORMATION**

| | 2018 (proposed) | 2017 | 2016 |
|---|---|---|---|
| Dividend in € 1,000 | 2,550 | 7,690 | 9,341 |
| Average number of shares issued in 1,000 | 25,501 | 25,501 | 25,501 |
| Dividend per share in € | 0.10 | 0.30 | 0.37 |

Free float in Sif-shares is approximately 34% of the issued shares as at 31 December 2018. The following holdings were disclosed pursuant to the Decree on Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions as part of the Dutch Financial Supervision Act:

**REGULATORY FILING OF SHARE OWNERSHIP**

| (Ultimate beneficial) shareholder | % of total capital and/or voting rights | Date of disclosure |
|---|---|---|
| (Peter Visser) GKSE Holding B.V. | 49.38% | 13 April 2017 |
| Egeria Capital Holding B.V. | 6.46% | 13 April 2017 |
| SND Participatie B.V. | 4.62% | 9 May 2017 |
| The Vanguard Group | 3.04% | 9 June 2017 |

Substantial holdings (or short positions) equal to or exceeding 3% of the issued capital of Sif Holding N.V. should be reported to the Dutch financial markets supervisor Autoriteit Financiele Markten (AFM). Subsequently AFM should be notified again when the substantial holding (or short position) reaches, exceeds or falls below a certain threshold. Thresholds for reporting are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. The reported percentage as reflected in the table “regulatory filing of share ownership” are therefore not necessarily the actual percentages that are held.

## Our strategy: linking cost and product leadership

Global energy demand continues to rise, fuelled by population and welfare growth. At the same time, the demand for making energy production more sustainable is increasing, as is the use of more sustainable energy sources. Sif's aim is to contribute to sustainable production of robust and affordable energy through the design and production of (components for) steel foundations for offshore windfarms with the aim to create attractive long term value for the company, its shareholders and other stakeholders.

The world is on the brink of an energy transition. This should limit climate- change due to emission of CO2. Various countries have committed to limitation or reduction of CO2-emission. This was agreed in several international treaties such as the Kyoto Protocol, Obama's Clean Power Plan and the United Nations' Framework Convention on Climate Change (UNFCCC) of 2015. Costs of offshore wind energy have decreased drastically during the passed years and can now compete with any alternative source of energy. In that respect chances for the required energy transition are numerous.

Our strategy aims at achieving an attractive and sustainable value creation for the Company and its stakeholders. We pursue this by operating in attractive markets where we manufacture foundations or components for tier-1 clients who are active in energy sourcing and generation. Modern state-of-the-art manufacturing facilities, equipment and technology combined with the innovative drive and craftsmanship of Sif-employees have resulted in and will maintain Sif's leading position in the industry. Sif pursues this strategy in a safe environment for employees, clients and suppliers and strives for the continuous reduction of its environmental footprint. Our strategy is implemented in two timeframes:

| | | |
|---|---|---|
| 1 | 2019-2021: | Drive growth. Focus on the optimization of the existing product portfolio. And offer add- on services in existing markets. |
| 2 | 2022 and beyond: | Seed future growth. Develop new markets for the existing product portfolio and develop alternative product lines. |

## We have set ourselves challenging but achievable objectives

| | Objective | Longer-term target | Target quantified 2019 | Achievement 2018 |
|---|---|---|---|---|
| 1 | A 100% safe, healthy and integer working environment | Zero accidents, no work related illness, zero integrity incidents | LTIF < 1.5 | LTIF 0.97 |
| | | | TRIF < 13 | TRIF 15.6 |
| | | | Sick leave < 4.5% | Sick leave 7.24% |
| 2 | Environmental friendly production of monopiles, transition pieces and components for jackets | Generation of 100% green energy (solar & wind) for Sif's production | 100% green energy | Decision to install Haliade-X 12 MW turbine for CO2 neutral production for Sif |
| | | 100% recycling | 95% recycling | 96.4% |
| | | 20% reduction of gas consumption per Kton steel produced per year | 20% reduction of gas consumption | Nm |
| 3 | Market leader in monopile production in Northwest Europe | Maintain top position | Market leader by number of monopiles manufactured | 97 monopiles delivered in 2018 bringing total of monopiles supplied to Northsea wind energy to approximately 1,700 |
| 4 | A competitive position in offshore wind energy outside Europe | Related to market development | First activity 2020 | Participate in tenders in Japan and USA |
| 5 | Cost leadership in thick, wide and long tubular steel products. Technological leadership in new design views (PISA) | Permanent target | | Assembly factory Maasvlakte 2 in full operation. Analysis and preparation for implementing effects of PISA regulations on production |
| 6 | Solid financial ratios | Returns that support a healty development of the company through the cycle allowing for the characteristic volatility of the business | | |
| | • Leverage ratio Net debt/EBITDA | | < 2.5 | 2.33 |
| | • Solvency | | >30% after dividend | 43.6% |
| | • Return on Capital Invested (ROCI) | | >WACC | negative |
| | • Attractive dividend policy | | 25-40% pay out of net earnings within constraints of target ratios above | € 0.10 per share |

## Market development

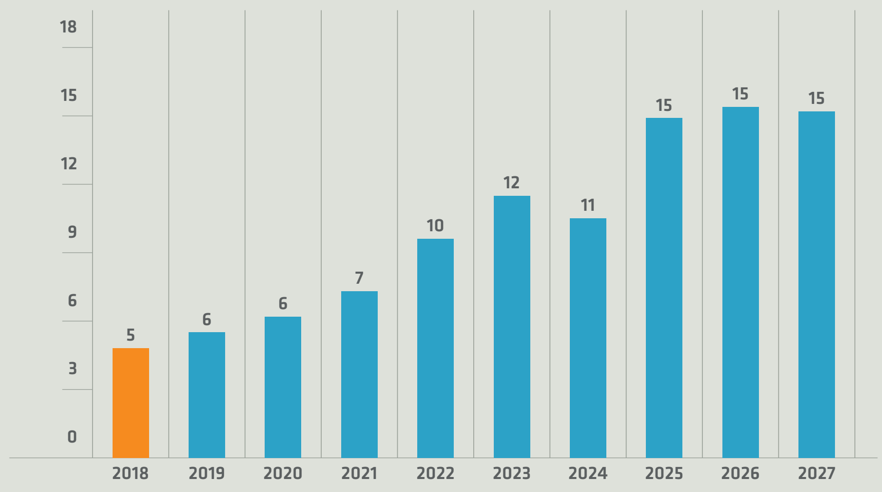
Within the energy sourcing and generation market, Sif focuses on offshore wind and offshore oil & gas extraction.

Offshore wind energy: The demand for sustainable energy generated offshore is increasing. Although this is a worldwide trend, this market is still primarily in Northwest Europe and the operating area of Sif's clients is primarily the North Sea. In 2018 Sif worked on projects such as Hohe See (Germany), Norther (Belgium), Trianel (Germany), Deutsche Bucht (Germany), Borssele 3-4 (The Netherlands) and Albatros (Germany)). The increasing demand is driven by climate-related inter-country agreements and by the constantly decreasing costs of offshore wind energy.

'Demand for offshore wind energy is driven by inter-country agreements and by decreasing costs.'

### Increased demand for offshore wind supported by decreased pricing

According to Wood Mackenzie Consultants (December 2018) between now and 2027, an average of 4.8 GW per year will be added to the European offshore wind market and an average of 10 GW per year will be added to the Global offshore wind market. Their estimate is that by 2027 Europe will produce almost 64 GW offshore wind energy. By that time Asia Pacific (China, Taiwan, Japan, South Korea and India) is expected to produce more than 45 GW and USA almost 10 GW.



Source: Wood Mackenzie December 2018

Almost 80% of the wind turbines installed in the North Sea have monopile foundations and approximately 35% of these were supplied by Sif. Other vendor-manufacturers of so-called XL sized monopiles are EEW Special Pipe Constructions GmbH (EEW), Haizea Wind Group (Haizea) and Steelwind Nordenham GmbH (Steelwind). The total European manufacturing capacity for such XL monopiles is estimated to be 400 Kton per year from 2018 with Sif and EEW at some 35% marketshare each. Sif's main competitive advantages are its location in the Rotterdam area and Sif's unique 400 meter quay with 16.5 meter draught, able to handle multiple loadings of installation vessels in parallel. In addition, Sif's state-of-the-art manufacturing facilities are either new or have been upgraded. Finally, Sif has a proud history of years of expertise in and experience with the manufacturing of monopiles and transition pieces for offshore wind installations.

**‘Sif’s marketshare in offshore wind foundations is close to 30%.’**

Compared to the alternatives, monopile foundations are popular due to their low manufacturing costs, low transport and installation costs and low risk profile. Wood Mackenzie Consultants (December 2018) expect that at the end of 2027 at least 55% of 118 GW globally installed offshore wind turbines will have monopile foundations and at least 70% of 64 GW installed in Europe. In view of the increase in accessible depth (up to between 55 and 60 meters) and the anticipated heavier turbines (up to 12 MWh now being tested and 12- 15MWh on drawing tables) which will ultimately be adopted in this period and for which monopiles will offer the best price/quality ratio, Sif estimates that this percentage may be a conservative number.

Countries outside of Europe are also showing more interest in offshore wind energy: we are seeing initiatives in Japan, Taiwan and the United States (especially in the states of Massachusetts, New York and New Jersey). In Japan Sif has entered into a close cooperation with industry partners to explore sites and local production opportunities should the market develop as anticipated.

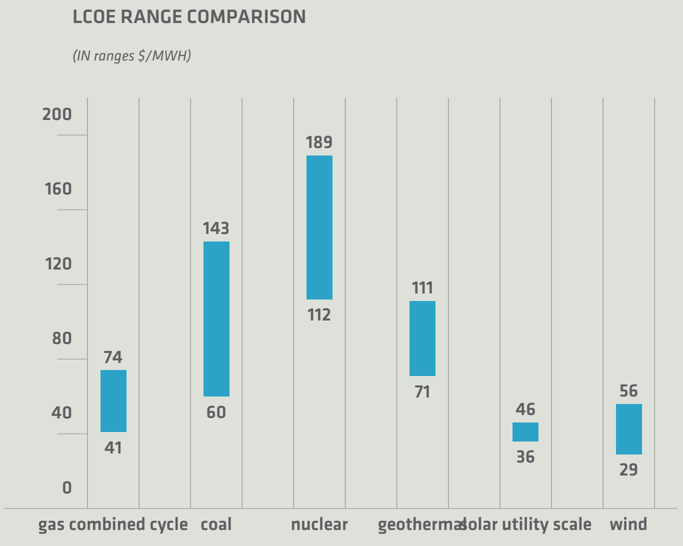
The reduction of costs of offshore windenergy is primarily driven by innovations and efficiency improvements. In this context, in 2018 projects using 9 MW wind turbines went into service and it is expected that it will not take long before turbines that can generate 12 to 15 MW will be used. Sif’s new manufacturing facilities and innovative drive are supporting this growth because Sif can produce longer monopiles (up to 120 meters) with larger diameters (up to 11 meters) and with a total weight of up to 2,000 tons each. Sif has a permanent innovation agenda that includes offshore wind projects with embedded innovations and innovation projects that aim either lower costs, faster manufacturing or less nuisance to the environment. Examples of embedded innovations are the slipjoint connection and the Borssele 3+4 project where transition pieces are no longer applied and where as a consequence installation time at sea is shortened. Or the designscope at Triton Knoll where Sif is optimizing the design-to-production process by including detail engineering in its contract scope. Examples of innovation projects in 2018 were welding efficiency improvements (narrow gap welding) and new products like gentle driving piles (new vibrating installation techniques of monopiles). Sif is a member of “Growth through Research development and demonstration in Offshore Wind (GROW)” and involved in a number of innovative projects that support the application of monopiles in offshore wind projects. On an annual basis, approximately € 1,000,000 on average is spent on out-of-pocket innovation initiatives.

**‘Sif’s innovations are project-embedded, innovation- projects or results of GROW efforts.’**

In part due to these innovations, but also due to the growth of the wind farms themselves, more energy is being generated. In addition, cost savings are pursued in manufacturing and the use of materials (mainly steel). As a result of a UK investigation on corrosion of monopiles, coating- requirements increased. This has urged Sif to invest in two additional coating- halls in Rotterdam at their Maasvlakte production location in 2019. Additional investments are foreseen for the 2019- 2021 timeframe as a result of the PISA design recommendations that address the diameter over wall- thickness ratio. Savings can be realized through lower steelplate thickness resulting in less steel applied.

‘Offshore wind has the lowest Levelized Cost of Energy which is expected to further decline following ongoing production efficiency and product savings.’

In the Netherlands, like in other European countries, costs of electricity production through offshore wind, which are expressed in LCOE (Levelized Costs Of Energy), have dropped significantly. An LCOE of € 56/MWh has already been calculated for the Borssele I and II projects (source: TKI wind at sea–Offshore Wind Cost Reduction Progress Assessment 2017). This makes offshore wind one of the cheapest energy sources. Recent calls for tenders in Germany and the Netherlands confirm this trend. Tenders for these projects were submitted without government subsidies.



Source: Lazard 's LCOE analysis version 12.0

## Price levels for oil & gas lead to selected offshore development projects

Offshore oil and gas extraction has been under pressure since 2015 due of low oil prices. Projects in which Sif was involved accounted for around 15% of Sif’s revenue in 2018 and concisted of the supply of mega-jacket legs and pin piles for, among others, the Johan Sverdrup field, Tyra and Peregrino. In 2018, the price of Brent Crude Oil dropped from around US$ 65 a barrel at the beginning of the year to approximately US$ 55 a barrel at the end of the year. Offshore development activity at these price levels will remain at the current low levels.

‘Supply is mainly located in Europe, close to Northsea and Baltic sea shores. Sif‘s production locations are strategically positioned.’

Sif has two manufacturing facilities equipped with 47 Sif- design welding machines and 8 rollers. The over 100,000 m2 factory in Roermond allows the manufacturing of cans and cones, transition pieces, pin piles, legs and pile sleeves with wall thicknesses up to 150 mm. The cans and cones are transported down the Maas River to the around 38,000 m2 assembly and coating facility in Rotterdam where they are assembled into monopiles. The facility in Rotterdam was constructed in 2016–2017. Parts of the factory in Roermond, which dates from 1972, were re-equipped and expanded in 2016 -2017. In 2017 a new hall and rolling machine went into service.

As the purpose for which the products supplied by Sif are used, makes product flaws unacceptable, Sif has extensive quality-control procedures in place. These procedures start with contract & design review and document & data control and continue through purchasing procedures, production process control, equipment inspection & testing, materials, parts & components, ultrasonic weld testing and specific coating tests. These procedures ensure Sif’s products are in an optimal condition before being handed over to the client. Sif has a long-standing reputation for quality.

In 2018 several internal health and safety audits were performed and in addition 27 inspections and 10 audits at (potential) suppliers, subcontractors, business partners and vendors. By or on behalf of our clients, 10 audits were carried out at Sif’s production sites (8 audits related to quality and 2 audits related to quality, environment and safety).

Sif is certified to ISO 9001, ISO 3834-2, API-2B/API-Q1, EN1090-1/EN1090-2, ASME U, U2, S, VCA**, ISO 45001, ISO 14001 and DNVGL-CP-0352 standards. In 2018 certificating institutions carried out 10 audits at Sif in the context of ISO, VCA, DNVGL and OHSAS certification. The ISO 14001 Environmental System has been converted into the new ISO 14001:2015 System and in 2018 the successful completion of the certification audits resulted in renewal of the certification in accordance with ISO 14001. In addition the ISO 45001:2018 as the successor of OHSAS 18001 was successfully implemented. Certification in conformance with ISO 3834-2 is linked to ISO 9001 and has been subject to surveillance audits by LRQA in 2018. This certification applies for both Roermond and Maasvlakte 2. Both locations are also ISO 45001:2018, ISO 14001 and VCA** certificated.

’10 client audits, 10 audits by certification institution, 10 vendor audits and 27 vendor inspections confirmed Sif is fully compliant with the high industry- standards.’

Important partners of Sif in the manufacturing process are Dillinger Hütte Saarstahl AG and POSCO Group (steel plate suppliers), Euskal Forging SA and Taewong (suppliers of large forged flanges), Glacier Energy Services (non-destructive testing), Van Ginkel (blasting and coating) and Smulders Projects Belgium NV (transition piece outfitting).

## Financial results

To assess and monitor Sif's underlying performance, the Company's management uses certain non-IFRS financial indicators, such as contribution and EBITDA.

### ACTIVITY LEVELS AND PROFITABILITY

| AMOUNTS IN EUR '000 | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Wind | Oil & Gas | Other | Total | Wind | Oil & Gas | Other | Total |
| Revenue from contracts with customers | 195,158 | 35,835 | 4,147 | 235,140 | 299,833 | 24,901 | 2,446 | 327,180 |
| Segment contribution | 51,344 | 20,778 | 2,214 | 74,336 | 120,040 | 13,903 | 1,691 | 135,634 |
| Gross profit | 29,896 | 9,086 | 1,500 | 40,482 | 77,876 | 5,923 | 1,212 | 85,011 |
| Indirect personnel expenses | | | | (14,808) | | | | (15,663) |
| Depreciation and impairment | | | | (13,682) | | | | (13,153) |
| Facilities, housing & maintenance | | | | (6,648) | | | | (6,192) |
| Selling expenses | | | | (648) | | | | (781) |
| General expenses | | | | (4,073) | | | | (5,721) |
| Other (income) / expenses | | | | (1,755) | | | | (2,074) |
| Net finance costs | | | | (1,677) | | | | (1,442) |
| Joint ventures | | | | 13 | | | | 12 |
| **Total profit before tax** | | | | **(2,797)** | | | | **39,997** |

### Revenue, contribution and earnings from operations

Revenues and expenses are invoiced and paid in Euro. Currency translation effects do not effect Sif's financial results. The price of steel is a pass- through item. Fluctuations in steel prices do therefore have an immediate effect on revenues but not on earnings. The level of revenues is also subject to the structure of joint-ventures; if Sif subcontracts part of its scope, revenues of the subcontractor are accounted for in Sif's revenues. If Sif teams- up in partnership, revenues of the joint venture partner are not accounted for by Sif.

Contribution and contribution per Kton are therefor more adequate performance indicators for Sif than revenue.  All Sif's activities take place in the Netherlands and products are delivered 'on the quay Rotterdam'. When applicable, activities are invoiced inclusive of VAT. However, in view of the predominantly across the border business-to-business nature of the performances, in most cases this is not applicable.

In 2018 contribution (revenue minus the cost of raw materials, subcontracted work, other external charges and logistic and other project-related expenses) was 45% lower than in 2017 mainly due to the subcontracting of Trianel project and due to low activity levels and low margins on one large project. The Borssele 3-4 project was acquired at low margins to utilize idle capacity. Contribution per Kton throughput consequently fell by almost 8% to € 539/Kton (2017: € 585/Kton).

'At 41% less KTon production and 45% lower contribution, contribution per KTon fell by 8% to € 539 per KTon in 2018.'

Normalized EBITDA for 2017 of € 57.1 million was corrected for incidental IPO-related costs amounting to € 2,526 thousand. Normalized EBITDA for 2018 of € 13.3 million included IPO-related costs amounting to € 709 thousand. From 2019 onwards, there will be no further normalization for IPO- related expenses.

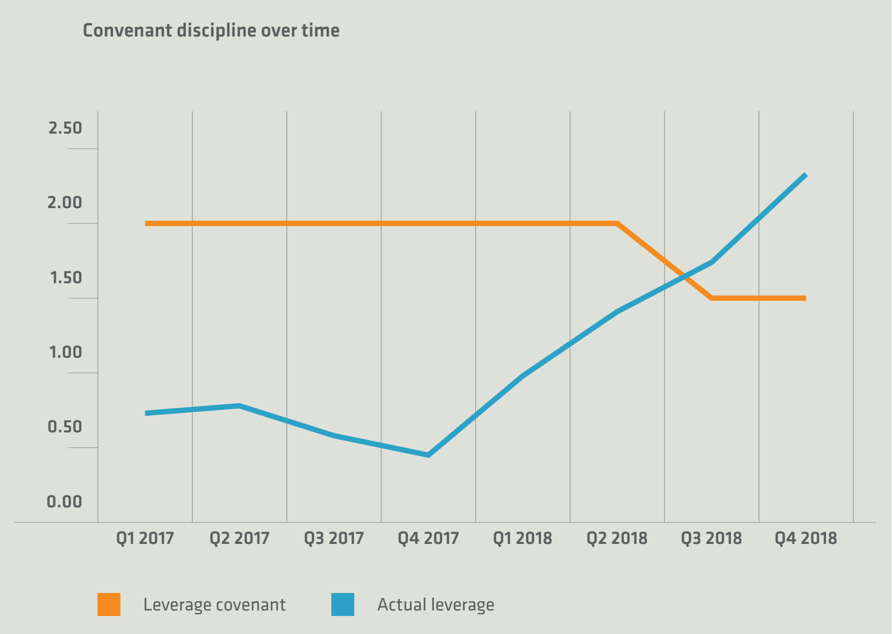
## Financing

Sif has had debt and guarantee facilities in 2018 with a banking consortium comprising the Rabobank, ABNAMRO, Euler-Hermes, Chubb and ING Bank. The debt facilities were interest bearing based on Euribor plus a surcharge that depends on the leverage on a quarterly basis. These facilities were renewed on 22 February 2019 with a banking consortium comprising the ABN AMRO, Euler-Hermes, ING, Rabobank and Tokio Marine with expiry date of 31 March 2022 and 2 one-year extension options. Interest is based on Euribor plus a surcharge that depends on covenants on a quarterly basis. Net debt, Solvency and EBITDA numbers are normalized for IFRS 16 effects. Discounts of up to 0.05% can be achieved when realizing certain sustainability targets on safety and CO2 footprint. The new facilities comprise (in comparison to the expired facilities):

| | New facility | Expired facility |
|---|---|---|
| Revolving credit facility | € 100 million | € 90 million |
| Committed guarantee facility | € 250 million | € 160 million |
| Leverage covenant (net debt/EBITDA) | Max 2.5 | Max 1.5 |
| Cash flow covenant (cash flow/debt service) | NA | Min 1.0 |
| Solvency | Min 30% in 2019<br>Min 35% beyond 2019 | NA |

'Sif successfully refinanced its debt facilities post reporting date.'

The net interest expense for 2018 amounted to € 1,7 million (€ 1,4 million in 2017). Leverage amounted to 2.33. Since it was already foreseen in 2017 that leverage would be above 1.5 somewehere in 2018, a covenant holiday was agreed with the consortium for the period until expiry of the debt facility.




## Tax

Sif has two manufacturing facilities, both located in The Netherlands. From a quantity and value perspective, the most important semi finished products are steel plates that for 90% are purchased in Germany. The value of shaping the steel plates into cylinders or cones is mainly added in The Netherlands. Sometimes handling takes place in Belgium when appendages or coatings are added. The value added tax follows the products. Revenues of € 172 million were realized in The Netherlands and € 62 million in other European countries (€ 67 million and € 253 million respectively in 2017).

Processing in The Netherlands is done by employees who are on the Sif- payroll, and for whom wagetax and social premiums are witheld and paid. Or by employees who work for Sif on a temporary basis and are taxable at the agency they are seconded by. Sif profits are subject to corporate income tax. In 2018 this amounted to -€ 0.7 million (€ 9.2 million in 2017). Sif allocates profit in the jurisdiction in which the economic activity takes place, namely the Netherlands, and is therefore fully liable for corporate income tax in the Netherlands. The normal tax rate is 25%. Sif receives discounts on this tax rate, including discounts related to innovation activities and expenses. Sif's effective tax burden in 2018 was 26.67% compared to 23.2% in 2017. As of 2019 the corporate income tax rate will gradually decrease to 20.5% (15% on the first € 0.2 million) in 2021. Sif does not envisage achieving any tax advantage through the application of tax-haven constructions.

## Depreciation and amortization

In 2018, Sif invested € 4.6 million in IT systems, property, plant and equipment (€ 19.6 million in 2017). The amortisation of € 0.7 million in 2018 concerned outgoings related to Sif's IPO in 2016. IPO related amounts now have all been amortized. Sif has leased the land in Rotterdam. As of 2019 IFRS16 obliges Sif to capitalize the right of use for landlease and to amortize this over a period in line with the contract term. This will have an annual positive EBITDA effect of approximately € 3.5 million. The balance sheet will be increased by capitalized right of use for landlease of approximately € 30 million.

## Working capital, liquidity, cash and cash flows

Net working capital (inventories + contract assets + trade receivables+current prepayments–trade payables) amounted to € 14.2 million at the end of 2018 compared to € 7.1 million at the end of 2017. Cash from operations depends on invoicing milestones agreed with customers, subcontractors and suppliers and does not affect revenue or earnings recognition. The balance of cash and cash equivalents at the end of 2018 amounted to € 0.5 million compared to € 0.9 million at the end of 2017. If required, Sif may use financial instruments to reduce risks related to interest rate volatility. Sif applies a non-speculative approach in this respect.

CASH FLOW SUMMARY

| X € 1,000 | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net cash from operating activities | 5,548 | 53,886 | 52,887 |
| Net cash from investing activities | -3,218 | -27,587 | -67,962 |
| Net cash from financing activities | -2,701 | -25,726 | -13,354 |
| Cash and cash equivalents at year end | 505 | 877 | 304 |

## Solvency

At the end of 2018 total equity (paid-in capital + retained earnings) amounted to € 83.5 million on a balance sheet total of € 191.8 million (solvency of 43.6%) compared to € 93 million on a balance sheet total of € 204 million (solvency of 45.6%) at the end of 2017.

## Outlook

The manufacturing of project Borssele 3+4 was delayed and consequently shifted into the first quarter of 2019. Main reasons were low water levels due to extreme drought in the summer of 2018 and production delays at our steel- supplier. This caused under utilization in 2018 but also impacts results in mainly Q1 2019 since Borssele 3+4 was acquired at a discount. With a signed contracts order book for 2019 at 210 Kton and 155 Kton in exclusive negotiations for the years beyond, expectations for the near future look healthy. For 2019 we expect earnings to gradually recover after the first quarter. In view of the expectations for the offshore wind market in the period after 2019 it is anticipated that capacity utilization will be healthy as the expected average annual growth of North Sea offshore wind amounts to 4.8 GW. In view of these expectations, we increased our staffing already from the third quarter 2018 and expect to return to close to 600 FTE during 2019 with approximately 40% flexible and 60% permanent staff.

Annual maintenance CAPEX will be € 6 to 8 million and annual depreciation between € 13 and 15 million.

The offshore wind industry is in transition. This is evidenced by amongst others industry- specific design- and engineering specifications that recently have been adopted. These will affect the whole offshore wind production chain and also Sif's business in the next few years. For 2019 this will require an investment by Sif of approximately € 8 million in additional coating capacity to match increased coating requirements by clients. Our coating facilities will be extended from 4 to 6 units at Maasvlakte 2. For 2019 to 2021 the implementation of PISA guidelines will require investments up to approximately € 32 million in total to adjust production lines and support- equipment. This is required to be able to handle larger diameters (up to 11 meter) in combination with lower wall thicknesses. Financing arrangements for Sif have been extended post closing of 2018 and are expected to comply with the requirements of Sif for investments and for working capital.

The application of IFRS 16 will impact balance sheet and EBITDA as of 2019. The capitalization of leases will impact EBITDA positively by approximately € 3.5 million per year. It will lead to an increase of the balance sheet with approximately € 30 million.

## Non- financial results

Longer-term financial results are the result of Sif's social effectiveness: The Company's social embedding in the community and our responsibility for the environment in which we operate. This integration with our day-to-day activities is also on the agenda of meetings with the Supervisory Board and of the budget meetings. Within that model, we monitor our social effectiveness, our environmental effectiveness and the way in which we also monitor throughout the chain. Sif considers the development of sustainable business management of prime importance for the continuity of the business, the wellbeing of its employees and of other stakeholders. In February 2019 the Executive Board of Sif announced Sif's strategy on Corporate Social Responsibility for the period 2019- 2021. Key elements are amongst others 20% reduction of gas consumption per Kton steel per year, a carbon neutral footprint in 2021 and 95% recycling of residuals.

## Non- financial results: social

Sif 2.0 is the company culture program that was initiated in 2018. Its main aim is to prepare the employees for the future. The transformation of Sif from a manufacturing company to a project- oriented energy services provider requires a different approach to information technology, to communication and to workplace behavior. More than before there is an emphasis on safety and workplace conditions.

Safety is a number-one priority for Sif. It is our responsibility to offer our employees a safe workplace, provide them with opportunities for training and contribute towards their personal development. All our manufacturing staff are SCC (Safety Health and Environment Checklist Contractors) or VCA** certificated. Our safety management systems are in accordance with OHSAS 18001 (Occupational Health and Safety Assessment Series) and safety and the environment are the first items on the agendas of all Supervisory Board and Executive Board meetings.

The aim of the policy is to prevent accidents and lost time due to accidents. Sif also invests in safety. In recent years, this policy and investments have led to a reduction in the number of accidents resulting in lost time (The Lost Time Injury Frequency (LTIF) = Lost Time Injury Frequency per million man hours worked).

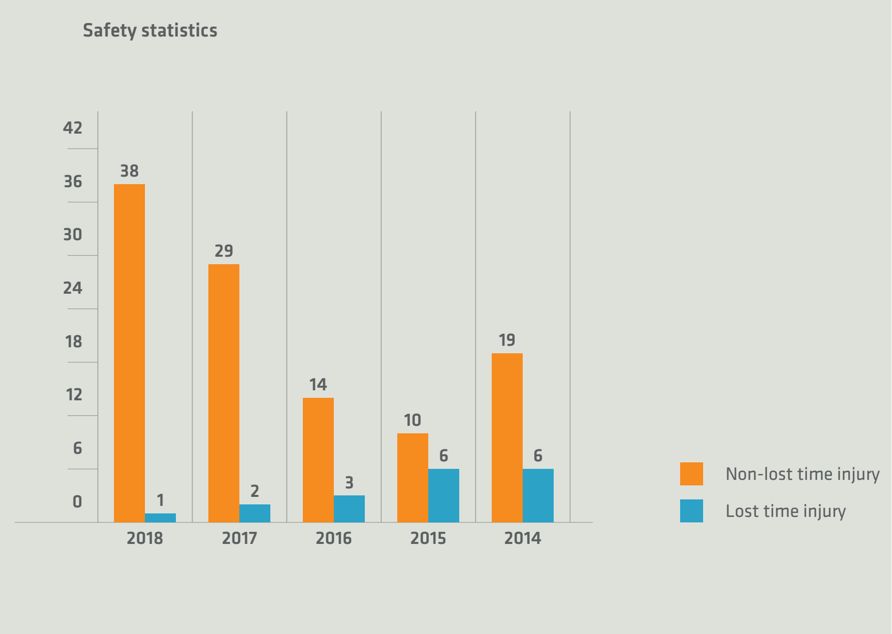
The LTIF of 0.97, caused by 1 Lost Time Injury (LTI), is well below the 2018 target of maximum 2.0. The number of Total Recordable Injuries (TRI) increased from 29 in 2017 to 38 in 2018. This resulted in a TRIF (Total Recordable Injury Frequency per million man hours worked) of 15.59 which just missed the 2018 target maximum of 15. Medical treatment or first aid was required in 28 cases out of the total of 38. Achieving improvement will require a more proactive and broader-based safety culture that is embraced by all employees. The ultimate goal is zero accidents and work-related illnesses: a 100% safe workplace. The target for the period 2019–2020 is to further reduce the LTIF and TRIF. The presented figures include the entire permanent and flexible workforce.

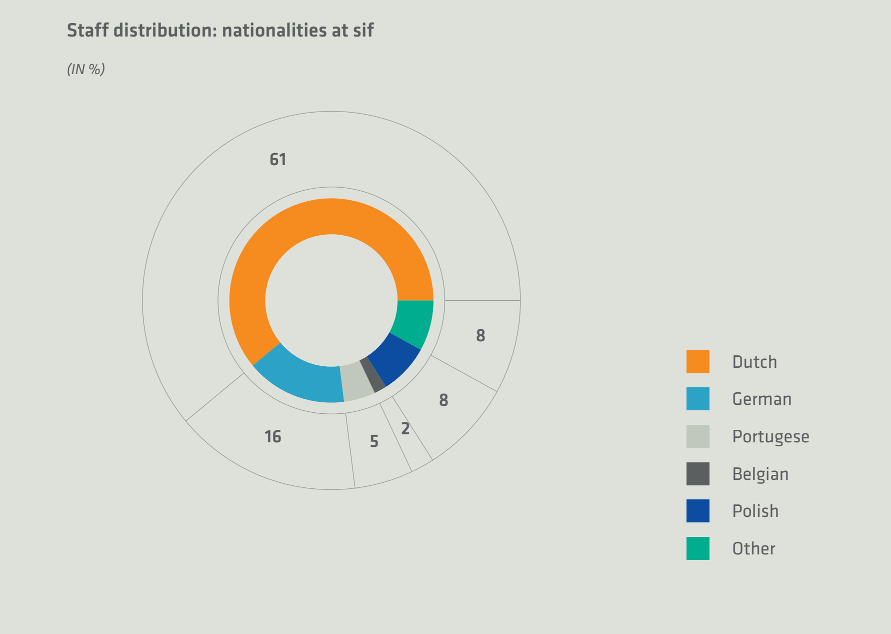
In 2018 sick leave rose to 7.24%, well beyond the industry branch average and well beyond numbers Sif is used to. Lost time injuries caused 0.04% of the sick leave and 4.75% had a long-term sick leave (between 43 and 365 days). The most important reason for the rise was an increased number of wear and tear complaints, mainly among older employees that, in several cases, required surgical intervention. Considerable attention is being paid to improving working conditions or find job-replacement in order to avoid such wear and tear impact. Management will be trained to earlier identify the risk of wear and tear.

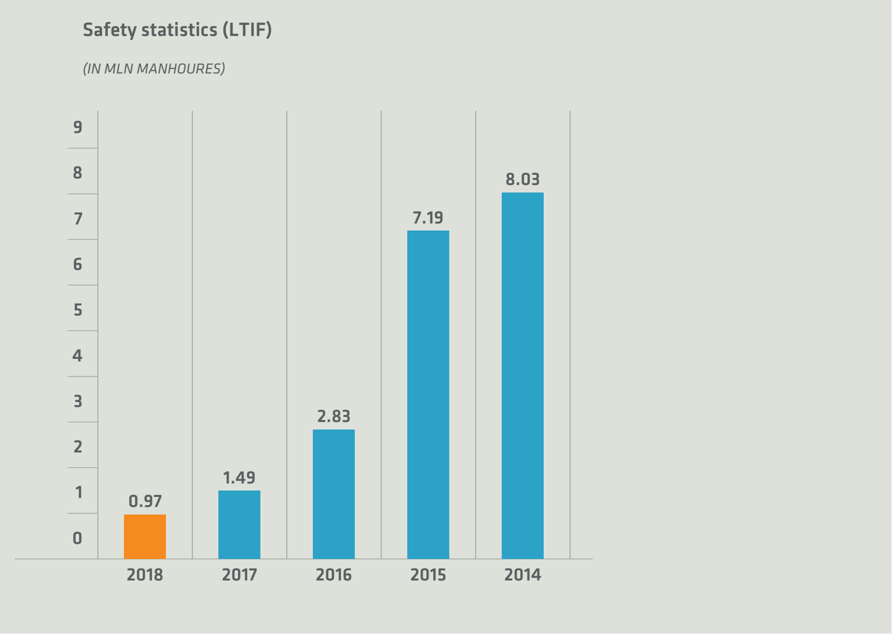
**SAFETY STATISTICS**

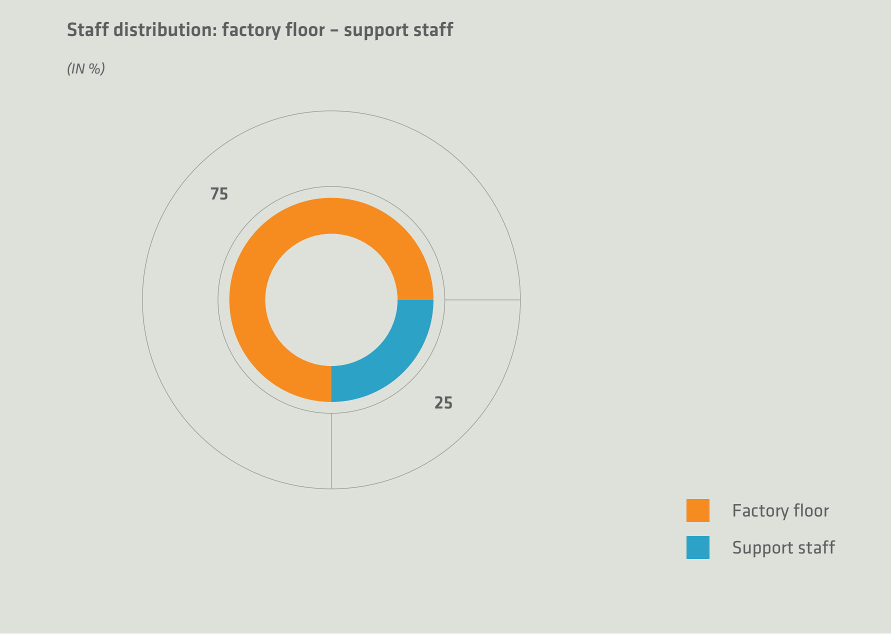
| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| LTI | 1 | 2 | 3 | 6 | 6 |
| LTIF (per 1 million hours worked) | 0.97 | 1.49 | 2.83 | 7.19 | 8.03 |
| TRI | 38 | 29 | 14 | 10 | 19 |
| TRIF (per million hours worked) | 15.6 | 15.7 | 9.4 | 12 | 17.4 |
| Sick leave % | 7.24 | 4.46 | 4 | 4.02 | 4.77 |

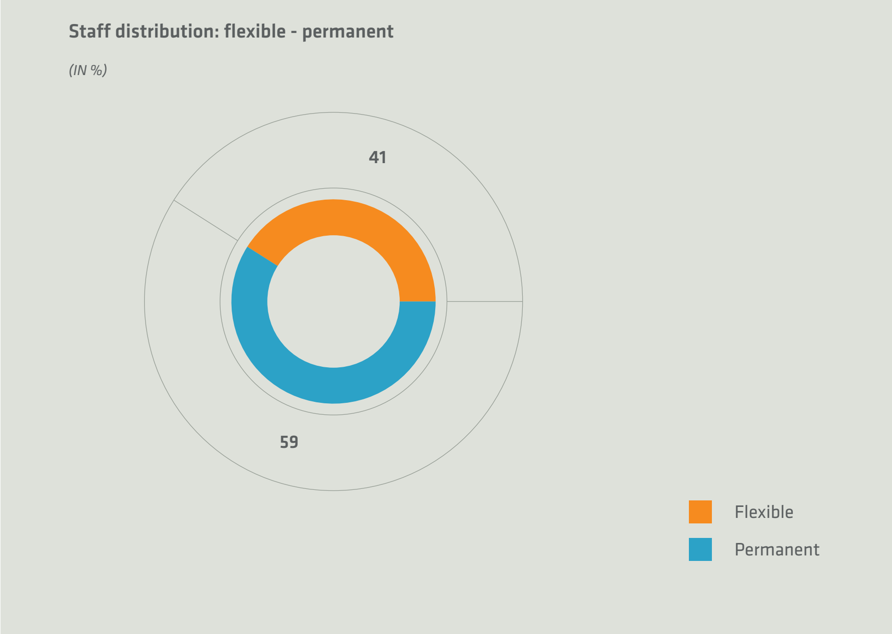
Most of the accidents in 2018 were caused by trips, slips, (wrong) lifting or during welding and grinding. In most cases this resulted in injuries to feet (20%), hands/arms (67%) and eyes (8%). We are striving to reduce the number of accidents through case discussions, better discipline on use of safety equipment and personal protection gear and the continuous training of less experienced newcomers. In 2018 45 near misses were reported of which 19 had a risk of personal injury.

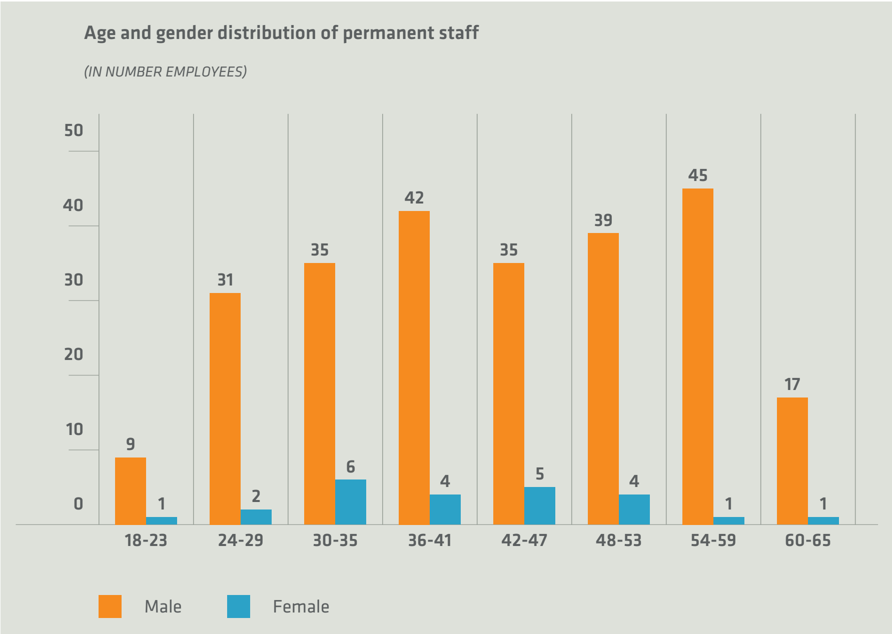

Safety statistics
42
36
30
24
18
12
6
0
38
1
29
2
14
3
10
6
19
6
2018
2017
2016
2015
2014
Non-lost time injury
Lost time injury


Staff distribution: nationalities at sif
(IN %)
61
8
8
2
5
16
Dutch
German
Portugese
Belgian
Polish
Other


Safety statistics (LTIF)
(IN MLN MANHOURES)
9
8
7
6
5
4
3
2
1
0
0.97
1.49
2.83
7.19
8.03
2018
2017
2016
2015
2014


Staff distribution: factory floor – support staff
(IN %)
75
25
Factory floor
Support staff




Improving safety statistics requires good communications, high commitment and permanent focus. Sif has issued Health, Safety and Environment manuals covering a range of topics including security procedures, personal protection measures, health measures and emergency procedures. Day-to-day awareness of safety hazards is increased through toolbox meetings during which specific risks and preventive measures are discussed 'on the job'. A designated HSE manager ensures that procedures are updated and implemented and promotes awareness of the measures and procedures throughout the organization, suppliers and subcontractors included.

'The nature of Sif's business requires a certain balance in permanent and flexible workforce.'

To be able to absorb the volatility inherent in the project business in which it is active, Sif needs a degree of flexibility in its workforce. In addition to its permanent (payroll) workforce, Sif employs external (flexible) workers on a project basis or through staffing agencies. This approach has proven itself in 2018 more than ever before. With a throughput of 138 Kton, production was low and the flexible workforce was reduced from 59% in 2017 to 41% of the total workforce in 2018. This is also reflected in the distribution over nationalities. Since the majority of flexible staff comes from outside The Netherlands, the percentage of Dutch workers increased from 53% in 2017 to 61% in 2018. At the end of 2018, the total workforce was 429 FTEs (full time equivalents) compared to 615 FTE at the end of 2017. In total 272 hereof were permanent employees and 157 were external flexible employees (end of 2017: 252 permanent and 363 flexible). The average number of permanent employees in 2018 was 259 FTE (243 FTE in 2017). At 44 years, the average age of the permanent staff was slightly higher than in 2017. In 2018, the proportion of Sif's permanent staff that was female averaged almost 9% (13% in 2017). The graphs on pages 34 and 35 show the distribution over nationalities, the split between factory floor workers and support staff, the split between flexible and permanent employees and the age and gender distribution of permanent staff. Sif does not employ anyone under the age of 18 and ensures its suppliers and subcontractors do not employ anyone under the age of 18. All employees are offered an annual medical check-up. As all Sif's activities are carried out in the Netherlands, all Sif's employees are paid on the basis of the Dutch Collective Employment Agreement and working hours and employment conditions are in-line with the employment conditions applicable in the Netherlands. Deductions and remittances take place in conformance with European standards, regulations and legislation. Sif ensures its suppliers and subcontractors pay the workers they supply a fair wage based on a fair working hours regulation and under fair employment conditions.

## Employee Participation

Sif's employees are represented by a Works Council that looks after the interests of Sif's employees and is consulted on business-economics decisions made by the Executive Board. The most important tasks of the Works Council include ensuring there is sufficient consultation, that working conditions are good, that the rules related to employment conditions, working hours and rest periods are complied with, that employees are treated and paid equally and that Sif employs people with disabilities and residents of the Netherlands who have an immigrant background. Consultation meetings between the Works Council and the CEO during which the Company's general business progress is discussed take place in average every two months formally and on a need-to-discuss basis as often as deemed necessary by one of the parties. The CEO notifies the Works Council of the important decisions he is preparing and how he will involve the Works Council in the decision-making.

Since the elections in 2017, the Works Council has seven members. In 2018 the Works Council met 5 times with (a member of) the Supervisory Board and the CEO and was consulted on the following management decisions: alcohol, tabacco and drugs policy, nomination of a new CEO, new personnel manual. The Works Council advised on the profile for the new CEO and his nomination. And agreed to the proposed changes in the three- shift schedules and the proposed alcohol, tabacco and drugspolicy. Developments at Sif required more involvement of the Works Council in 2018. The discussions were fruitfull and highly appreciated by executive and supervisory boards.

## Diversity

Diversity is reflected in the distribution over gender, age, nationality/race and education/experience.

The expertise, experience and competencies of the members of the Executive and Supervisory Boards should contribute towards Sif's profile and strategy. The Supervisory Board Profile as published on the Company's website defines the required expertise, experience and competences of the Supervisory Board members. The Board Profile matches the profiles of the individual Supervisory Board members. In the year under review, Sif had two Executive Board (both male) and five Supervisory Board members. One Supervisory Board member (20%) is female. Sif's diversity policy for Executive Board and permanent staff is based on a best-candidate-for-the-job-basis. In case of equal capabilities, preference is given to female candidates. Although a more balanced division will be taken into account when filling positions, both in the Executive and Supervisory Boards as in staff positions, the nature of the industry combined with the geographical location of Sif and the presence of high- tech and industrial companies in the region make competition for female management and female Directors on Sif's Executive and Supervisory Boards, but also for (technical) other staff positions fierce.

Sif pursues more balance in gender distribution as well as a broader spread and better balance in terms of age. The distribution over nationalities is visualized on page 34 of this annual report. Diversity is high in this respect with 61% Dutch and 39% other nationalities.

## Integrity

Sif is committed to conducting its business in line with applicable laws and regulations and in accordance with its Code of Conduct. The Code of Conduct formulates Sif's values and the standards that must be adhered to in order to ensure these values are achieved. The Code of Conduct contains general principles that all Sif employees must comply with and promote. These principles relate to:

Fair competition: Sif operates in a relatively young market environment with a limited number of clients and vendors. Articles 7 and 8 of the Code of Conduct deal with Competition and Anti- trust matters and with Bribery and Money laundering. Sif trains employees and promotes fair and respectful dealing with customers, suppliers and other business and industry partners, fair and honest competition. Fair and respectful dealing means that Sif employees refrain from influencing business partners and from obtaining personal opportunities or advantages by offering or accepting items of value. Fair dealing also implies that insider trading regulations are observed. New employes are instructed on this when hired.

Workplace safety: Workplace safety is dealt with in articles 4 and 5 of the Code of Conduct. It relates to safety from business accidents but it also relates to discrimination, intimidation or (sexual) harassment on the workfloor. Sif has no business with organizations that use forced child labour or that do not respect human rights. The Sif business environment is mainly North West Europe with European clients, mainly European suppliers and contractors. Workplace safety also implies that privacy of employees or business partners is observed. The Algemene Verordening Gegevensbescherming (AVG) applies from May 2018. Sif has performed a privacy impact assessment and appointed a data security officer and is compliant with the AVG.

Company property & sustainable business: Articles 6, 10-13 deal with environmental impact, the obligation of record keeping of all financial transactions. Efficient and legitimate use of company property & resources, e- mail and Internet usage for professional purposes only is pursued and use of corporate opportunities for personal benefits are prohibited.

Our Whistle blower's regulation encourages Sif employees, who may remain anonymous if wished, to report contraventions of the Code of Conduct or other transgressions. Reports are immediately followed-up appropriately and the Executive Board is notified. There have been reports under the whistle blowers regulation in 2018 but no violations of the Code of Conduct were assessed. Programs to further embed the Code of Conduct in the organisation were implemented during 2018 as part of the Sif 2.0 program.

## Non- financial results: environmental

Sif supplies products that contribute towards sustainable energy generation and towards enabling sustainably generated energy to compete in terms of cost with other less sustainably generated alternatives. From the sustainable generation point of view, the manufacture of monopiles, transition pieces and jacket components offers opportunities for improvement. It must be possible to reduce the amount of energy (gas, water and electricity) used during the manufacturing process, or to replace it with more sustainably generated energy. The same applies for the quantity of waste. The products Sif uses the most of during the manufacturing process are shown below.

**SIF ENVIRONMENTAL FOOTPRINT BASED ON 2015 = 100**

| PER KTON PRODUCED | 2018 (138 Kton) | 2017 (232 Kton) | 2016 (191 Kton) | 2015 (150 Kton) |
|---|---|---|---|---|
| Natural Gas m³ | 120 | 59 | 88 | 100 |
| Industrial gas (Apachi) kg | 210 | 167 | 211 | 100 |
| Electricity MWh | 140 | 115 | 98 | 100 |
| Water m³ | 267 | 75 | 81 | 100 |
| Scrap metal (ton) | 96 | 90 | 83 | 100 |
| Oxygen kg | 145 | 140 | 113 | 100 |

The strong increase in use of (household, potable) water is mainly due to the full occupation of the Rotterdam factory in 2018 combined with relatively low production output on that location.

Manufacturing environments have a risk of environmental incidents. In 2018, 8 incidents were reported. In 5 cases this related to oil- spills from transportation equipment. All pollution from these spills was contained, removed and sites were cleaned. In 3 cases the reported incidents related to sparks from welding or cutting that caused small fires. All fires were extinguished immediately and caused limited smoke development.

Targets are aimed at a more efficient use of cleaner, more sustainably generated energy and water during Sif's production processes. In 2018 Sif used 53,254,364 MegaJoule energy in its production process. The target is to produce energy neutral. To enable this target to be achieved, all the lights within Sif's facilities have been replaced with LED lights and solar panels will be installed on the roofs of the production facilities in Roermond and Rotterdam, probably in 2020. In addition, one 12 MWh GE wind turbine will be installed on a test- basis at the production facility in Rotterdam. The turbine will go into operation in the second half of 2019 or first half of 2020. An energy audit is carried out once every four years in order to ascertain whether the targets related to the reduction of energy usage are being achieved and where further wins could be achieved. To compensate for the impact of the anticipated electricity consumption in 2019, Sif has purchased 20,000 MWh of Guarantees of Origin (GoOs) from Powerhouse B.V. (20,400 MWh for 2018). These Guarantees of Origin are derived from the generation of Wind Power in Europe. The net CO2 emission in 2018 was 2,432.23 ton compared to 16,643.08 ton in 2017. This is mainly realized by the application of 100% sustainable electricity in 2018. The net CO2 emission per ton steel produced decreased from 72.4 kg in 2017 to 17.6 kg in 2018.

The reduction of consumables usage and the reuse and recycling of manufacturing materials are priorities in Sif's production processes. Residual product is separated with the help of colour-coded containers and currently 96.4% (97.8% in 2017) of the residual material is reused. Steel and minerals are fully recycled as are wood, paper and waste film. Welding slugs are used in road foundations. In 2017, the disposal of waste and residual material remained constant at 4.5%. In absolute terms, this is a reduction.

Environmental management systems are in accordance with ISO 14001. The facilities in Roermond comply with EU Directive 2010/75/EU (industrial emissions).

## Supply chain governance

The materials Sif uses the most during its production process are steel plate, flanges, welding wire, welding powder and utilities (water, industrial gas and electricity). The services Sif uses are coating, non-destructive testing and transport. These materials and services are purchased from third parties, mostly European. Sif expects its suppliers and sub-contractors to work in accordance with the principles laid-down in Sif's Code of Conduct. Application of these principles may deviate slightly due to geographical or cultural reasons.

Dillinger Hütte in Germany and Posco in South Korea supply most of the steel. The base materials for the steel are minerals and recycling/recycled materials. Flanges are purchased primarily from Euskal in Spain and Taewong in South Korea.

In 2018, Sif carried out 27 inspections and 10 audits of suppliers, business partners and sub-contractors. These audits concerned, among others, processes and materials, welding procedures and quality, coating, flame cutting and forging.

**MATERIALS USED DURING PRODUCTION**

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Steel (ton) | 138,000 | 232,000 | 191,000 | 150,000 | 133,000 |
| Welding powder (ton) | 1,517 | 2,540 | 2,103 | 1,840 | 1,654 |
| Welding wire (ton) | 1,456 | 2,302 | 1,944 | 1,706 | 1,431 |

## Risk management

Executing its strategy and running its daily operations exposes Sif to certain strategic, operational, legal, regulatory and financial risks. In view of the risk management and control measures in place within Sif, and considering our risk-appetite, the level of risks to which Sif is exposed is acceptable. However errors, fraud, losses or unlawful acts may occur.

Sif has formulated mitigating measures to limit risks. The table on the next page lists the most important mitigating measures and the status of their implementation. The table also shows which risks Sif is willing to accept in order to achieve its strategy and which risks it will definitely not countenance.

Effective risk management is pursued through various measures including a compliance framework that focuses on Sif's organizational structure, processes and culture. The organizational structure includes good governance and appropriate checks and balances. Sif's processes are supported by policies such as a contracting policy, an insider trading policy, a fair disclosure policy and a whistle-blower policy. Operating processes are designed in accordance with various standards and audited on a semi- annual basis. Projects are subject to a monthly financial review by management during which both progress and the development of the risk profile are also reviewed. Adjustments to anticipated project expenses and results are made if and as required. The statement of financial position, the statement of profit and loss and other comprehensive income and cash flow statements are reported to and reviewed by management and the Supervisory Board on a monthly basis whereby the amount of steel used (in Ktons) and manhours spent in relation to completed products are key- indicators. The key component to sound risk management is Sif's culture. Sif's values have been translated into standards through the formulation of policies and a Code of Conduct and must be implemented through good leadership, a drive for innovation, acquisition and transfer of knowledge and the provision of a rewarding, non- discriminatory and open working environment.

Based on the above and the amount of irregularities, the Executive Board of Sif is of the opinion that Sif's internal risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance and that the risk management and control systems worked properly in the year under review.

Risk matrix

**Strategic risk**
- geographical dependence
- dependence on limited products
- dependence on offshore wind energy with limited number of clients and projects
- competition from new entrants or vertically integrated manufacturers

**Operational risk**
- dependence on limited number of suppliers
- volatility of project related business
- inadequate alignment of existing and new factories
- limited availability of skilled and experienced staff
- unfavorable gender and age distribution of staff
- safety hazards

**Risk mitigation**
- Product development (innovation)
- Geographical diversification
- Increase inhouse detail engineering skills
- Cost-leadership, supply chain flexibility and innovation
- Strong solvency and cash- position
- Management Control and speak-up culture

**Financial risk**
- inadequate reporting process
- fluctuating material prices
- credit and interest rates
- changes to global economic conditions

**Legal and regulatory risk**
- damage to reputation due to fraud
- violation of values in the Code of Conduct
- product liability

During the year under review some of the risks in the Sif Risk matrix emerged. This mainly concerned the volatility that can result from the combination of dependence on a limited number of markets, clients and projects. The size of the majority of the projects on the market makes it a challenge to optimize factory utilization. In 2018 Sif was faced with underutilization. The impact of the emergence of this risk was mitigated by reducing our flexible workforce to the minimum.

An important mitigation tool is innovation and product development. Most of the innovations are related to executed projects. Such as in 2018 in Triton Knoll (detail engineering in contract scope of Sif) and Borssele 3+4 (windfarm without transition pieces). In addition Sif invests in average approximately € 1 million out-of-pocket per year on innovative projects. In 2018 these innovation initiatives included, amongst others, design for floaters, new installation techniques (vibro elements on monopiles)

| **Formulated** | **In progress** | **Completed** |
|---|---|---|
| We identified risks and considered the measures and risk appetite. | We identified risks, formulated measures and risk appetite. Imlementation is in progress. | We identified risks, related measures and risk appetite. This resulted in sufficient response and therefore the status is completed and incorporated in our internal control environment. |

| Strategic risk | Measures to mitigate strategic risk | Risk appetite | Status |
|---|---|---|---|
| Dependence on political and financial driven geographical (North-west European) market can disrupt the business | Select joint- venture partners in emerging markets Japan, Taiwan and United States to diversify geographically and limit dependence on Northsea projects | Sif will only take equipment and know-how to markets outside North-west Europe but preferably supply from existing production facilities in The Netherlands. | In progress |
| Dependence on limited number of products | Develop new products and add-on services to limit dependence on limited number of products (monopiles, transition pieces and jacket components) | Sif will only develop new products for existing markets | In progress |
| Dependence on offshore wind energy with limited number of clients and projects | Maintain cost leadership and maintain a certain flexible workforce for required flexibility to deal with volatile project environment | Safeguard balance between permanent and flexible workforce and include critical positions in permanent workforce. | Completed |
| Competition from new entrants or from vertically integrated manufacturers | Develop core competences and innovate to maintain product and cost- leadership | Not applicable | In progress |

| Operational risk | Measures to mitigate operational risk | Risk appetite | Status |
|---|---|---|---|
| Dependence on limited number of suppliers or clients may disrupt production | Develop relationship with steel suppliers in other regions and treat steel as a pass-through cost to avoid pricing risk. Negotiate sound payment conditions, performance bonds or credit insurance | Maintain conditions as defined in contracting policies<br>Steel is always a pass- through cost<br>Positive cash flow from projects | ✓ |
| Volatility of project related business | Maintain a flexible workforce to adjust workforce to workload. Scale- up inhouse detail engineering for earlier involvement | Safeguard balance between permanent and flexible workforce | > |
| Inadequate alignment of existing and new factories may cause delays or disruptions | Transfer working methods and techniques from experiences Roermond-staff to Maasvlakte2.<br>Scale up inhouse detail engineering capabilities | Uninterrupted production flow | > |
| Limited availability of skilled and experienced staff may cause delays or deficiencies | Strengthen talent development and develop employee training and loyalty program to retain key personnel.<br>Maintain good relationship with staffing agencies | Uninterrupted production flow | > |
| Insufficient flexibility or resources to adapt to changing regulations and specifications | Talent development, training and inhouse engineering know-how | Market leadership in manufacturing capacity en skills | |
| Safety hazards | Embed safety in company culture and maintain focus on health of employees | Zero accidents | > |

| Financial risk | Measures to mitigate financial risk | Risk appetite | Status |
|---|---|---|---|
| Inadequate reporting proces | Strengthen project control function | Timely and reliable monthly financial reporting | ✓ |
| Fluctuating material prices | Pass-through costs for certain materials (steel) | Very limited to no risk on price-changes | ✓ |
| Credit, interest rate and liquidity risk | Follow a credit policy, maintain solvency and healthy cash levels and follow treasury policy guidelines as explained in note 24 of the Financial Statements 2018 paragraphs 'credit risk', 'liquidity risk' and 'market risk' respectively | Zero breaches of banking covenants or covenant holidays when needed | ✓ |
| Changes to global economic conditions | Good contracting policies, flexible workforce, strong balance sheet and cash management | Zero risk of changes of prices for raw materials; steel is a 100% pass- through item | > |

| Legal and regulatory risk | Measures to mitigate legal and regulatory risk | Risk appetite | Status |
|---|---|---|---|
| Damage to reputation due to fraud, bribery or corruption | Authorization matrix. Control and assurance. Company culture. | Zero incidents | |
| Violation of values in Code of Conduct | E-learning and speak-up culture | No violations of company values | |
| Product liability | Quality control and assurance. Contracting principles. Insurance | Zero defects to finished products | |

# Corporate Governance

## Corporate Governance statement

The Executive Board states that all information, which must be disclosed pursuant to Article 2a of the “Besluit inhoud bestuursverslag” (Decree content of the Report of the Executive Board), is included in this Executive Board Report, to the extent that it is applicable to Sif Holding N.V.

Sif Holding N.V. endorses the principles of the Revised Dutch Corporate Governance Code 2016 (the ‘Code’) and applies virtually all the best practice provisions of the Code. The Code can be found on https://www.mccg.nl/?page=3779. Sif’s current non-compliance with some of the provisions is explained below. The latest versions of the policies and Charters for the different committees and boards are published on the Sif-website.

The best practice provisions of the Code with which Sif does not comply are as follows (paragraph numbers refer to the best practice provisions of the Corporate Governance Code):

- 2.3.10 Company Secretary.
  The Secretary of the Executive Board monitors compliance with procedures and statutory obligations, provides the Supervisory and Executive Boards with the necessary information and supports the Supervisory Board during its meetings.
- 4.2.3 Meetings and presentations.
  Sif’s policy is outlined in its Fair Disclosure Policy. Sif announces press releases, presentations and press conferences in advance. Analysts conference calls and meetings are scheduled and announced for Full and Half year presentations and are audio webcast live. Transcripts of the calls are published on the website. Meetings with individual investors are not webcast for practical reasons, nor can they be followed through direct phone connections or otherwise.
- 1.3.1- 1.3.5 Internal audit function.
  Given the size of Sif and the functioning of its corporate bodies, the Supervisory and Executive Boards do not consider it opportune at this stage to appoint an internal auditor or to set up a separate audit department. However, this is remedied by certain financial and operational audit activities and carried out by internal and/or external parties on an ad hoc basis. Designated employees with external support carry out other audits (safety, quality, integrity).
- 2.1.6 Diversity.
  As explained elsewhere in this annual report, Sif does not comply with diversity recommendations and regulations. Of five Supervisory Board members, one is female. Of two Executive Board members, none are female.
- 2.3.2 Committees.
  The Supervisory Board has not installed a selection & nomination committee. The relevant best practice conditions apply to the full Supervisory Board
- 2.3.4 Organisation of the Supervisory Board and reports:
  Composition of the Committees, Independent Audit Committee. Sif’s Audit Committee has two members. One of the members is not independent as understood in 2.1.8 since he is the ultimate beneficial owner of the major shareholder on the Supervisory Board.
- 3.2.2 and 3.2.3 Severance payment:
- Executive Directors may be eligible for severance payment upon termination of office as determined by the Supervisory Board. No severance will be paid in case of seriously culpable or negligent behavior on the part of the management board member. Severance payment for Executive Board members at Sif shall not exceed his annual fixed salary. If this maximum would be manifestly unreasonable for an Executive Board member who has been dismissed during his first term of office, Sif may deviate from this maximum and pay twice the amount of his annual fixed salary as a maximum severance payment.
- 3.4.1 Remuneration report:
  Sif does not disclose quantified financial and personal targets for variable annual cash bonus awards to avoid market guidance on EBITDA/EBIT/Net debt or contribution.

## Appointment, dismissal and powers of Executive and Supervisory Board members

As of 1 February 2019, Sif is subject to the ‘Volledig Structuurregime’ as is required by Dutch law and as was already foreseen in the Articles of Association. This implies that certain responsibilities have been transferred from the Annual Meeting of Shareholders to the Supervisory Board. These responsibilities relate primarily to the nomination and resignation of Supervisory and Executive Board members.

The rules governing the appointment and dismissal of Board members are included in the Articles of Association. To summarize these rules: members of the Supervisory Board are appointed by the General Meeting of Shareholders with certain rights of (enforced) recommendation for the Supervisory Board and for the Works Council. Both the General Meeting of Shareholders and the Works Council can object nominated candidates by the Supervisory Board but these objections can be ignored. Appointments for Supervisory Board members are in principle for a period of four years. Executive Board members are appointed, dismissed and suspended by the Supervisory Board. The Executive Board has adopted internal rules regulating its organization, decision-making process and other internal Executive Board-related matters.

The powers of the Executive Board are set out in the Articles of Association and arise from legislation and regulations. The General Meeting of Shareholders has authorized the Executive Board to issue shares and/or to limit or exclude legal pre-emption rights. On 3 May 2018 the General Meeting of Shareholders extended the authorization of the Executive Board to resolve, subject to Supervisory Board approval, to issue shares or grant rights to subscribe for shares and/or to limit or exclude pre-emption rights in relation to an issuance of shares or a grant of rights to subscribe for shares by a period of 18 months (therefore until 3 November 2019). The authorization is limited to a maximum of 5% of the issued capital as at 3 May 2018 plus, in the case of and related to acquisitions, mergers, unravelling of mergers and strategic alliances, an additional 5% of the issued capital as at 3 May 2018.

The General Meeting of Shareholders has authorized the Executive Board to acquire fully paid-up shares subject to certain legal and statutory constraints. The Executive Board has been authorized for a period of 18 months (therefore until 3 November 2019) to resolve, subject to Supervisory Board approval, to repurchase shares for a price that is higher than € 0.20 and that does not exceed 110% of the average market price of the Company’s shares during the five consecutive trading days prior to the date the repurchase is decided upon by the Company. The authorization is limited to 10% of the issued share capital of the Company as at 3 May 2018.

## Anti-takeover measures and relationship large shareholder

The duties and powers of the General Meeting of Shareholders, the Supervisory Board and the Executive Board are balanced in respect of control and influence. The interests of all the Company’s stakeholders are taken into account when essential and strategic decisions are taken and the decision-making process can always be followed and reconstructed. The Company has no actual or potential anti-takeover measures in place. Sif and GKSE Holding B.V. (‘GKSE’) have entered into a Relationship Agreement. The main elements of this Agreement relate to the composition of the Supervisory Board and the Board’s committees. The Relationship Agreement also contains agreements regarding an orderly market arrangement and information sharing. GKSE, when holding more than 50% of the shares in Sif, is entitled to nominate and propose replacements for two Supervisory Board members. At least one of these two Supervisory Board members must be independent as defined by the Code. When holding between 20 and 50% of the shares in Sif, GKSE is entitled to nominate and propose a replacement for one Supervisory Board member. This is the situation as per 13 April 2017. The Relationship Agreement will terminate at the moment GKSE ceases to hold at least 20% of the shares in Sif.

## Insider trading

Sif Holding N.V. has an insider trading policy. The Compliance Officer maintains an up-to-date list of all permanent and deal-related insiders and informs insiders of all obligations deriving from the applicable regulations. The full text of the insider trading policy is published on Sif’s website (https://sif-group.com/en/about-us/corporate-governance).

## Executive Board declaration

The Executive Board declares that, to the best of its knowledge:

1. The Report of the Executive Board provides sufficient insight into the shortcomings (which did not occur during the financial year) and operating effectiveness of the internal risk management and control system;
2. The aforementioned systems provide a reasonable degree of assurance that the financial reporting does not include any inaccuracies of material importance;
3. The current state of affairs justifies the preparation of the financial statements on a going concern basis (for which we refer to the paragraph: 'outlook');
4. The financial statements as included in this report provide a true and fair view of the assets, liabilities, financial position and profit for the financial year of Sif Holding N.V. and the group companies included in the consolidation;
5. The report of the Executive Board as included in this report provides a true and fair view of the situation on the balance sheet date, the business development during the financial year of Sif Holding N.V. and of its affiliated group companies included in the financial statements. The Report of the Executive Board describes the material risk to which Sif Holding N.V. is exposed;
6. The report states those material risks and uncertainties that to the best of our knowledge are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.

Roermond, 20 March 2019
Fred van Beers (CEO)
Leon Verweij (CFO)

**FINANCIAL CALENDAR 2019**

| | | |
|---|---|---|
| 5 | April | AGM record date |
| 26 | April | Deadline for registration or voting for AGM |
| 3 | May | Release of Q1 2019 trading update |
| 3 | May | Annual General Meeting of Shareholders |
| 8 | May | Quotation ex-dividend |
| 8 | May | Dividend record date |
| 9 | May | Payment of net dividend to Financial Intermediaries for distribution to shareholders |
| 13 | May | Payout of gross dividend to large shareholders |
| 28 | August | Publication of 2019 interim results |
| 7 | November | Publication of Q3 2019 trading update |


R=3562

# Report of the Supervisory Board

The Supervisory Board supervises the implementation of the strategy for long term value creation by the Executive Board. In performing this task, the Supervisory Board is guided by financial, commercial, and operational information. We focus on the interest of all the stakeholders of the company.

The Supervisory Board is composed in such a way that the knowledge, experience and insights with regard to the themes at Sif as well as the markets and activities relevant to Sif are well represented. Each member of the Supervisory Board possesses the specific expertise necessary to fulfill this role and carry out this task. The Supervisory Board aims for diversity in its composition in terms of age, gender, background, nationality and occupational experience. The above-mentioned elements are included in the profile drawn up by the Supervisory Board and archived on the website of the company. The Dutch Management and Supervision Act (Art. 2:166BW) stipulates a requirement to make efforts towards achieving a quota of at least 30% women and 30% men in the Supervisory Board, in so far as these seats are occupied by natural persons. The Supervisory Board currently consists of five members, one of which is a women (20%). When vacancies (excluding reappointments) arise, the quota will be one of the points of attention. The decisive factor when filling vacancies is the ‘best man or woman for the job’ principle. The composition of the Supervisory Board is such that the members are able to operate critically and independently of one another, the Executive Board and any particular interests. During 2018, there were no conflicts of interest with members of the Executive and Supervisory Boards as understood in Article 2.7.3-2.7.4 of the Corporate Governance Code.

Peter Visser, as a Supervisory Board member and ultimate beneficial shareholder of 49.38% of the shares, is potentially in a conflicting position. Whether this situation can lead to a conflict of interest situation is evaluated at every meeting and before every agenda item.

All transactions between Sif Holding N.V. and any of the Supervisory Board members are agreed on terms that are customary in the market. Decisions to enter into transactions that are of material significance to the company and any of its Supervisory Board members require the approval of the Supervisory Board. Such transactions are published in the annual report. In 2018 there were no such transactions.

The Supervisory Board convened a closed meeting in October 2017 to discuss its own performance and that of its individual members. In the lead up to this meeting, the individual Board members were interviewed by governance consultants, the results and conclusions of which were then discussed by the full Board. The evaluation covered the Board’s composition, independence, expertise and team effectiveness, as well as the quality of information provision, role of the chairman and relations with the Executive Board.

It has been concluded that the Supervisory Board functioned well, both in collective terms and each individual separately. The members are of the opinion that they complement each other sufficiently in the context of their role in advising the company. During this closed meeting, the items for attention as stated in the best-practice provision of the Code regarding the independence of the Supervisory Board (2.1.7.) as well as its individual members (2.1.8.) and the chairman (2.1.9.) were assessed. Within the context of the evaluation of the Executive Board, the chairman of the Supervisory Board held talks with the individual members of the Executive Board.

It was concluded that a good working relationship exists between the Supervisory Board and the Executive Board. It was also established that none of the members of the Executive Board have more than two supervisory positions as referred to in the Dutch Management and Supervision Act. The Supervisory Board has no indications of any kind of conflict of interest between the company and members of the Executive Board.

## Financial accountability, dividend policy and dividend for the 2018 financial year

The Report of the Executive Board and the 2018 financial statements were submitted to the Supervisory Board in accordance with the provisions in Article 30 of the articles of association. The financial statements were submitted for auditing to Ernst & Young Accountants LLP ('EY'), which subsequently issued, on the basis of its audit, an unqualified auditor's report on the financial statements. The Supervisory Board has discussed the financial statements with the Executive Board in the presence of the external auditor, and subsequently approved the financial statements on 20 March 2019. The Supervisory Board submits the financial statements for the 2018 financial year to the AGM of 3 May 2019 and recommends adopting the financial statements. The Supervisory Board is of the opinion that the financial statements constitute a sound basis for the account given by the Executive Board of its management and by Supervisory Board of its supervision of the management.

The Supervisory Board also proposes to approve the proposed profit appropriation and to discharge the Executive Board in respect of the policy pursued and the Supervisory Board in respect of the supervision conducted.

## Report of the Supervisory Board

The Supervisory Board met six times during 2018. All the members attended all the meetings. Most of the scheduled meetings took place in the Company's offices. The Chairman of the Supervisory Board and the CEO met on a regular basis in one-to-one meetings to discuss business progress and prepare the Supervisory Board meetings. During one of the Supervisory Board meetings the functioning of the Executive Board, the Supervisory Board and the individual Board members was discussed in the absence of the Executive Board. The Supervisory Board is of the opinion that in 2018 the Executive Board performed satisfactory in the difficult circumstances of low utilization and changes in executive management. The Supervisory Board is thankful to Leon Verweij who was available for a combined CFO- CEO a.i. position during the period between resignation of Jan Bruggenthijs on 3 May 2018 and appointment and start of Fred van Beers on 1 September 2018.

During the Supervisory Board meetings the topics discussed with the Executive Board, supplemented with the commercial and operational directors, included business progress, market developments, internationalisation, product development and result development. Other topics discussed were staffing and succession, risks and risk management, governance and compliance with legislation and regulations. The Supervisory Board supervises the manner in which the Executive Board implements the strategy for long-term value creation. The Supervisory Board regularly discusses the strategy, the implementation of the strategy and the main risks coupled with the strategy. During a two-day off-site meeting, the Supervisory Board discussed the Company's strategy with the Executive Board.

## Corporate Governance

The Supervisory Board has determined that the Corporate Governance structure as applied by Sif Holding N.V. is effective.

**COMPOSITION OF SUPERVISORY BOARD COMMITTEES**

| | Audit committee | Remuneration Committee |
|---|---|---|
| André Goedée | | |
| Caroline van den Bosch | | Member |
| Peter Gerretse | | Chairman |
| Peter Visser | Member | Member |
| Peter Wit | Chairman | |

## Remuneration Committee, Selection & Appointment Committee and Audit Committee

Sif 's Supervisory Board, in accordance with Article 10 of the Supervisory Board Charter, had three committees in 2018: the Selection and Appointment Committee, the Remuneration Committee and the Audit Committee. The committees all have their own set of rules defining their conduct. These rules, which have been updated in view of the revised Code, ensure among other things that the provisions laid down in the Code are complied with. These committees have the task of laying the groundwork for the decision-making process of the Supervisory Board.

### Remuneration Committee: Peter Gerretse (Chairman), Caroline van den Bosch and Peter Visser

The Remuneration Committee Charter defines tasks, roles and responsibilities for the Remuneration Committee (https://sif-group.com/en/about-us/corporate-governance). They include the Company's remuneration policy, the remuneration of the individual Executive Board members (remuneration structure, amount of the fixed remuneration, shares and/or other variable remuneration components, pension rights, redundancy payments as well as the performance criteria and their application), scenario analyses regarding different levels of variable remuneration, and the Supervisory Board's remuneration report. The Remuneration Committee met once in 2018 in attendance of the CEO. All the members of the remuneration committee attended the meeting.

### Selection & Appointment Committee:

The Committee assesses the size and composition of the Boards as well as the functioning of individual Board members. The appointments as per 3 May 2018 and 1 September 2018 of Peter Wit (Supervisory Board) and Fred van Beers (Executive Board) respectively involved all of the Supervisory Board members. Given the size of the company and the experience with nomination procedures so far, it was decided that the Selection & Appointment Committee seizes to exist as of 1 January 2019.

### Audit Committee: Peter Wit (Chairman) and Peter Visser

The Audit Committee Charter defines tasks, roles and responsibilities of the Audit Committee (https://sif-group.com/en/about-us/corporate-governance) and include supervising the effectiveness of the internal riskmanagement and control systems and of the financial information to be disclosed by Sif. The Audit Committee also supervises Sif's compliance programme, tax-planning policy, information & communication technology and financing. The Audit Committee maintains regular contact with the external auditor and nominates the external auditor for appointment by the General Meeting of Shareholders. In 2018, the Audit Committee assessed the audit requirements, discussed the audit plan and the key audit findings with the external auditor and advised the Supervisory Board regarding the need for an internal audit function. Sif has not appointed an internal auditor, but has implemented alternative measures in order to arrive at an internal audit plan, to ensure contacts between the Audit Committee and the external auditor proceed properly and to ensure proper documentation of these contacts.

The Audit Committee met four times during 2018. The CFO of Sif attended all the Audit Committee meetings. During the meetings key audit findings were discussed and progress on follow-up was reported. The Audit Committee and the Supervisory Board as a whole met once with the external auditor in the absence of the Executive Board. The external auditor was present at three meetings of the Audit Committee. During monthly calls the CFO of Sif presented the monthly numbers to the Supervisory Board members.

## External auditor

During the General Meeting of Shareholders on 3 May 2018, Ernst & Young Accountants LLP was appointed external auditor for the reporting years 2018 and 2019. Ernst & Young Accountants LLP audited the 2018 financial statements and explained its findings during a meeting of the Supervisory Board. Other topics discussed during the same meeting included the 2018 audit plan, the management letter and the reports of the Executive Board and the Supervisory Board in respect of 2018.

## Remuneration report

The Supervisory Board determines the remuneration of the Executive Board members in accordance with the remuneration policy approved by the General Meeting of Shareholders and as published on the Company's website (https://sif-group.com/en/about-us/corporate-governance). The aim of Sif's remuneration policy is to attract, motivate and retain qualified managers with relevant experience. The starting point is remuneration based on the best possible balance between short-term results and longer-term value creation. In order to link individual remuneration to the company's performance, the remuneration package includes a significant variable part in the form of an annual cash bonus incentive and a long-term incentive in the form of performance shares. The main components of the remuneration policy are:

a. A fixed basic salary. The fixed basic salary is determined on the basis of, and is subject to an annual review by the Supervisory Board in the light of the Executive Board member's performance, the company's performance and such other factors as the Supervisory Board may deem appropriate. In 2018 the Supervisory Board, based on the advice of the Remuneration Committee, decided to increase the 2019 fixed basic salary of the CEO and CFO by 2% to compensate for inflation;
b. Variable annual cash bonus for short-term results, partly linked to the results of the company (one calendar year). Personal and the financial targets reflect an average of 50% weighting each of the variable annual cash bonus. The results are compared with financial targets (EBITDA, net debt and contribution) and personal targets based on areas of responsibility and set by the Remuneration Committee at the beginning of the calendar year. If the targets are achieved ('on target') the variable salary of the CEO amounts to 40% of the fixed basic salary (CFO 35%). The maximum variable salary is 60% of the fixed basic salary for the CEO ('above target') and 50% of the fixed basic salary for the CFO;
c. Pension accrual based on participation in a pension plan. The Executive Board members do not contribute to the premium;
d. A Long Term Incentive Plan (LTIP). The benefits of an LTIP include the creation of long-term value and the stimulation of talent retention. It also brings the interests of the Executive Board members more in-line with the interests of our shareholders. LTI awards can be made annually and amount to at maximum 20% of annual basic payment. In 2018, CFO Leon Verweij was conditionally awarded 3,100 Performance Share Units (PSUs) with a value of € 54,064 (3,039 PSU's with value € 52,998 in 2017). After three years, the PSUs will be unconditional and multiplied by the current stock exchange price of the shares divided by the stock exchange price of the shares at the time of conditional award. The price is the weighted average of the share price over the last three months prior to the stated date. The PSUs are not paid out if the intended recipient is no longer employed by Sif and the eventual pay out can be reduced by a maximum of 30% if certain pre-determined criteria are not complied with. Settlement is in cash or, completely at the discretion of the Supervisory Board, in Sif- shares. The value of the number of PSUs awarded will never be more than 20% of the fixed basic salary;
e. Members of the Executive Board are engaged by means of a services agreement. The term of which is set at four years. Executive Directors may be eligible for severance payment upon termination of office as determined by the Supervisory Board. No severance will be paid in case of seriously culpable or negligent behavior on the part of the management board member. In case of termination, severance payment is limited to a maximum of one year's base compensation. If this maximum would be manifestly unreasonable for an Executive Board member who has been dismissed during his first term of office, such Executive Board member may be eligible for a severance payment not exceeding twice the amount of his fixed salary. CEO Jan Bruggenthijs was not available for reappointment and resigned on 3 May 2018. A settlement agreement was signed and an addendum was agreed with CFO Leon Verweij to take on CEO-responsabilities on an interim basis until appointment of successor CEO Fred van Beers on 1 September 2018. During the period 3 May 2018- 31 August 2018 Leon Verweij was awarded a higher basic salary and STI.

An overview of the total costs for Sif related to the remuneration of executives is given in table below.

### EXECUTIVE BOARD REMUNERATION

| | Fred van Beers CEO[3] | Jan Bruggenthijs CEO[2] | | Leon Verweij CFO[1] | |
|---|---|---|---|---|---|
| Type of recompense In €, excluding VAT | 2018 | 2018 | 2017 | 2018 | 2017 |
| Base salary | 120,000 | 231,419 | 355,000 | 300,235 | 132,500 |
| Employer's pension contributions | 4,369 | 15,621 | 26,971 | 39,995 | 18,500 |
| Pension compensation | 16,806 | 43,470 | 63,969 | 39,420 | 20,547 |
| Annual bonus | 72,183 | 24,204 | 125,050 | 174,199 | 93,350 |
| Other benefits (car lease, travel expenses and relocation expenses) | 14,749 | 28,116 | 54,162 | 46,294 | 20,623 |
| Social security and other payments | 3,570 | 6,247 | 9,924 | 10,710 | 4,962 |
| Placement reward IPO | – | – | – | – | – |
| Placement reward IPO under clawback | – | 236,200 | 708,602 | – | – |
| Termination fee | – | 181,050 | – | – | – |
| Total remuneration | 231,677 | 766,327 | 1,343,678 | 609,852 | 290,482 |

1. Chief Financial Officer on an ad interim basis for the period 1 January 2017 till 18 May 2017. During the period December 2016 till July 2017 L.A.M. Verweij performed his services under a service contract between the Group and Edelenboshessels Consultancy B.V. Edelenboshessels Consultancy B.V. charged for fees and expenses EUR 65 over 2016 and EUR 230 over 2017. CEO on an interim basis for the period 3 May 2018- 1 September 2018.L.A.M. Verweij is appointed as Chief Financial Officer during the AGM meeting on 18 May 2017. Only the expenses from July 2017 to December 2017 are included in this overview.
2. Chief Executive Officer until 3 May 2018.
3. Chief Executive Officer as of 1 September 2018.

Pensions for Executive Board members are determined by the collective labour agreement for the metal industry. The Supervisory Board confirms that the results on which the 2018 bonus for the Executive Board members is based, are derived from the audited financial statements. Executive Board members are entitled to contractual severance payments amounting to six months' salary in the event of a change of control of the Company and in the case of early dismissal at the request of the Supervisory Board and the General Meeting of Shareholders other than for termination due to cause.

The average total pay per FTE of members of the Executive Board (CEO and CFO) in comparison to a reference group of all Sif- employees (the pay ratio) is 8.5 (7.6 in 2017). The pay ratio at Sif is calculated as the gross expenses of all Sif-employees, Executive Board members excluded. Gross expenses for all Sif employees include Wages & salaries, Social security contributions and Pension expenses as reported in note 7 of the financial statements. This results in total gross expenses of € 19,526 thousand for 259 FTE (€ 18,019 thousand for 243 FTE In 2017) when excluding Executive Board members or € 75,390 (€ 74,152 in 2017) per Sif employee. The comparable expenses for Executive Board members include Base salary, Employer's pension contributions, Pension compensation, Annual bonus and Social security and other payments as reported in note 31 of the financial statements. This results in total gross expenses of € 1,282 thousand for 2 FTE (€ 848 thousand for 1.5 FTE in 2017) or € 641,250 (€ 565,000 in 2017) per Executive Board member.

The General Meeting of Shareholders determines the remuneration of the Supervisory Board members. The remuneration is in no way dependent on Sif's results. Supervisory Board members receive a fixed amount as remuneration: They do not receive a variable remuneration nor are they awarded (options on) Sif shares.

**SUPERVISORY BOARD REMUNERATION**

| AMOUNTS IN EUR | 2018 | 2017 |
|---|---|---|
| A. Goedée* | 70,000 | 70,228 |
| J.C.M. Schönfeld****** | 20,440 | 60,426 |
| P.J. Gerretse** | 45,869 | 47,332 |
| C.A.J. van den Bosch** | 46,469 | 46,715 |
| P.E. Visser**** | 45,000 | 7,626 |
| P.E. Wit***** | 30,000 | - |
| A.P.W. van Wassenaer*** | - | 37,638 |
| | **257,778** | **269,965** |

* Member of the supervisory board as of 14 January 2016.
** Member of the supervisory board as of 12 February 2016.
*** Member of the supervisory board as of 14 January 2016, resigned as per 23 October 2017.
**** Member of the supervisory board on an ad interim basis as of 1 November 2017.
***** Member of the supervisory board as of 3 May 2018.
****** Member of the supervisory board as of 12 February 2016, resigned as per 3 May 2018.

## A word of thanks

The members of the Supervisory Board have signed the financial statements in compliance with their statutory obligations pursuant to Article 2:101, Paragraph 2 of the Dutch Civil Code.

Projections by Wood Mackenzie show a healthy development of demand over a longer period (2018- 2027). Shareholders, employees and other stakeholders see large amounts of work that regretfully and due to circumstances beyond Sif's control, could not be smoothly spread for execution over this multi- year period: political and legal procedures caused delays in execution. We therefore had to focus on cost- reduction and delayed maintenance in 2018 in combination with an appeal for loyalty with our employees and subcontractors. Pulling forward the Borssele 3-4 project did not entirely have the intended effect since it could not entirely be completed in 2018. But it realized a certain utilization of idle production facilities for the second half of 2018. We consider this an investment in the future. It is positive to see with which loyalty and involvement the employees within Sif perform their work. They are of decisive importance for the successes at Sif. We sincerely express our appreciation and thanks to the Executive Board and all employees for the special efforts they have made over the past year. We would also like to thank all other stakeholders, including shareholders for the confidence they have shown in the company.

Roermond, 20 March 2019

André Goedée (Chairman)
Peter Wit
Caroline van den Bosch
Peter Gerretse
Peter Visser


MICHAEL
MaxiFlex

# Financial statements 2018



# Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018

| AMOUNTS IN EUR '000 | Notes | 2018 | 2018 | 2017 | 2017 |
|---|---|---|---|---|---|
| **Total revenue from contracts with customers** | 6 | | 235,140 | | 327,180 |
| Raw materials | | 104,839 | | 144,627 | |
| Subcontracted work and other external charges | | 44,829 | | 23,529 | |
| Logistic and other project related expenses | | 11,136 | | 23,390 | |
| Direct personnel expenses | 7 | 24,165 | | 36,208 | |
| Production and general manufacturing expenses | | 9,689 | | 14,415 | |
| Indirect personnel expenses | 7 | 14,808 | | 15,663 | |
| Depreciation and amortization | | 13,682 | | 13,153 | |
| Facilities, housing and maintenance | | 6,648 | | 6,192 | |
| Selling expenses | 8 | 648 | | 781 | |
| General expenses | 9 | 4,073 | | 5,721 | |
| Other expenses | 10 | 1,716 | | 2,074 | |
| **Operating profit** | | | (1,094) | | 41,427 |
| Finance income | | - | | - | |
| Impairment losses on financial assets | | (39) | | - | |
| Finance costs | | (1,677) | | (1,442) | |
| **Net finance costs** | | | (1,716) | | (1,442) |
| Share of profit of joint ventures | 11 | | 13 | | 12 |
| **Profit before tax** | | | (2,797) | | 39,997 |
| Income tax expense | 12 | | (746) | | 9,237 |
| **Profit after tax** | | | **(2,051)** | | **30,760** |
| Attributable to: | | | | | |
| Non-controlling interests | | | - | | - |
| Equity holders of Sif Holding N.V. | | | (2,051) | | 30,760 |
| **Profit after tax** | | | **(2,051)** | | **30,760** |
| **Earnings per share** | 13 | | | | |
| Number of ordinary shares outstanding | | | 25,501,356 | | 25,501,356 |
| Basic earnings per share (EUR) | | | (0.08) | | 1.21 |
| Diluted earnings per share (EUR) | | | (0.08) | | 1.21 |

# Consolidated statement of financial position as at 31 December 2018 (before appropriation of result)

| AMOUNTS IN EUR '000 | Notes | 31-Dec-2018 | 31-Dec-2017 |
|---|---|---|---|
| **Assets** | | | |
| Intangible fixed assets | 14 | 1,230 | 91 |
| Property, plant and equipment | 15 | 111,370 | 121,574 |
| Investment property | 16 | 400 | 400 |
| Investments in joint ventures | 17 | 41 | 28 |
| Other financial assets | | - | 10 |
| **Total non-current assets** | | 113,041 | 122,103 |
| | | | |
| Inventories | 18 | 367 | 303 |
| Contract assets | 19 | 28,891 | 30,510 |
| Trade receivables | 20 | 47,608 | 48,632 |
| Other financial assets | | 90 | 5 |
| Prepayments | | 754 | 1,842 |
| CIT receivable | | 543 | - |
| Cash and cash equivalents | 21 | 505 | 877 |
| **Total current assets** | | 78,758 | 82,169 |
| **Total assets** | | **191,799** | **204,272** |

| AMOUNTS IN EUR '000 | Notes | 31-Dec-2018 | 31-Dec-2017 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 22 | 5,100 | 5,100 |
| Additional paid-in capital | 22 | 1,059 | 1,059 |
| Retained earnings | | 79,430 | 56,320 |
| Result for the year | | (2,051) | 30,760 |
| Non-controlling interests | | - | - |
| **Total equity** | | 83,538 | 93,239 |
| | | | |
| **Liabilities** | | | |
| Loans and borrowings | 23 | - | 25,984 |
| Other non-current financial liabilities | | 50 | - |
| Employee benefits | 26 | 315 | 294 |
| Deferred tax liabilities | 12 | 80 | 177 |
| Other non-current liabilities | | 1,981 | 407 |
| **Total non-current liabilities** | | 2,426 | 26,862 |
| | | | |
| Loans and borrowings | 23 | 30,882 | - |
| Provisions | 24 | 263 | - |
| Trade payables | | 42,353 | 52,592 |
| Contract Liabilities | 19 | 21,079 | 21,624 |
| Employee benefits | 26 | 1,555 | 1,371 |
| Wage tax and social security | | 1,471 | 1,353 |
| VAT payable | | 4,276 | 1,504 |
| CIT payable | | - | 1,921 |
| Other current liabilities | | 3,956 | 3,806 |
| **Total current liabilities** | | 105,835 | 84,171 |
| **Total liabilities** | | 108,261 | 111,033 |
| **Total equity and liabilities** | | **191,799** | **204,272** |

# Consolidated statement of changes in equity for the year ended 31 December 2018

| AMOUNTS IN EUR '000 | Share capital | Additional paid-in capital | Retained earnings | Result for the year | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2018** | 5,100 | 1,059 | 56,320 | 30,760 | 93,239 | - | 93,239 |
| Appropriation of result | - | - | 30,760 | (30,760) | - | | - |
| Issue of share capital | - | - | - | - | - | | - |
| **Total comprehensive income** | | | | | | | |
| Profit attributable to the shareholder | - | - | - | (2,051) | (2,051) | | (2,051) |
| **Total comprehensive income** | - | - | - | (2,051) | (2,051) | | (2,051) |
| **Transactions with owners of the Company** | | | | | | | |
| Dividend distributions | - | - | (7,650) | - | (7,650) | | (7,650) |
| Total transactions with owners of the Company | - | - | (7,650) | - | (7,650) | | (7,650) |
| **Balance as at 31 December 2018** | **5,100** | **1,059** | **79,430** | **(2,051)** | **83,538** | | **83,538** |
| Balance as at 1 January 2017 | 5,100 | 1,059 | 28,391 | 37,365 | 71,915 | - | 71,915 |
| Appropriation of result | - | - | 37,365 | (37,365) | - | | - |
| Issue of share capital | - | - | - | - | - | | - |
| **Total comprehensive income** | | | | | | | |
| Profit attributable to the shareholder | - | - | - | 30,760 | 30,760 | | 30,760 |
| Total comprehensive income | - | - | - | 30,760 | 30,760 | | 30,760 |
| **Transactions with owners of the Company** | | | | | | | |
| Dividend distributions | - | - | (9,436) | - | (9,436) | | (9,436) |
| Total transactions with owners of the Company | - | - | (9,436) | - | (9,436) | | (9,436) |
| **Balance at 31 December 2017** | **5,100** | **1,059** | **56,320** | **30,760** | **93,239** | | **93,239** |

# Consolidated cash flow statement for the year ended 31 December 2018

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | (2,797) | 39,997 |
| Adjustments for: | | |
| Depreciation and amortization | 13,682 | 13,153 |
| Fair value adjustment on investment property | - | (25) |
| Unrealized changes in joint ventures | (13) | (12) |
| Impairment losses on financial assets | (39) | |
| Net finance costs | 1,677 | 1,442 |
| Changes in net working capital | | |
| o Inventories | (65) | (113) |
| o Contract assets and liabilities | 1,074 | (22,609) |
| o Trade receivables | 540 | 20,480 |
| o Prepayments | 1,014 | 2,090 |
| o Trade payables | (11,811) | 10,071 |
| | 6,059 | 24,477 |
| VAT payable and receivable | 2,772 | 994 |
| Employee benefits | 206 | (116) |
| Provisions | 263 | - |
| Wage tax and social security | 118 | 430 |
| Other current liabilities | 2,181 | (579) |
| | 5,540 | 729 |
| Income taxes paid | (1,815) | (9,725) |
| Interest paid | (1,439) | (1,592) |
| **Net cash from operating activities** | **5,548** | **53,886** |

# Consolidated cash flow statement for the year ended 31 December 2018 (continued)

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Purchase of intangible fixed assets | (1,191) | - |
| Purchase of property, plant and equipment | (1,952) | (27,587) |
| Loans and borrowings to joint ventures | (75) | - |
| **Net cash from (used in) investing activities** | **(3,218)** | **(27,587)** |
| | | |
| **Cash flows from financing activities** | | |
| Movements in revolving credit facility | 4,899 | (16,289) |
| Proceeds from new borrowing | 50 | - |
| Dividends | (7,650) | (9,436) |
| **Net cash from (used in) financing activities** | **(2,701)** | **25,725** |
| | | |
| **Net increase / (decrease) in cash and cash equivalents** | (372) | 573 |
| | | |
| Cash and cash equivalents at 1 January | 877 | 304 |
| | | |
| **Cash and cash equivalents at 31 December** | **505** | **877** |

# Notes to the consolidated financial statements for the year ended 31 December 2018

## 1 Reporting entity

Sif Holding N.V. (the 'Company') is a company domiciled in the Netherlands. The Company's registered office is at Mijnheerkensweg 33, Roermond. These consolidated financial statements comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies'). Information on the structure of the Group is provided in note 28. The company is registered with the Netherlands Chamber of Commerce Business Register under number 13016026.

The consolidated financial statements of the Group for the year ended 31 December 2018, were authorised for issue in accordance with a resolution of the executive board on 21 March 2019.

The Group is primarily involved in the manufacturing of metal structures, parts of metal structures, pipes, pipe structures, components for the offshore industry and foundation piles for offshore wind farms.

As from 12 May 2016 the shares of the company have been listed on Euronext Amsterdam.

## 2 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs).

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investment property that have been measured at fair value. The Group's consolidated financial statements are presented in EUR ('000), which is also the Company's functional currency, if not stated otherwise. All values are rounded to the nearest thousands (EUR '000) on individual line items which can result in minor rounding differences in sub-totals and totals, except when otherwise indicated.

### Management estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make estimates and assumptions. To make these estimates and assumptions the Group uses factors such as experience and expectations about future events that are reasonably expected to occur given the information that is currently available. These estimates and assumptions are reviewed on an ongoing basis.

Revisions of accounting estimates and assumptions, or differences between accounting estimates and assumptions and the actual outcomes, may result in adjustments to the carrying amounts of assets and liabilities, which would be recognised prospectively.

### Contract assets and liabilities

Revenues from contracts with customers and direct costs are recognised in the statement of profit or loss in proportion to the satisfaction over time of each performance obligation. The satisfaction over time is assessed based on the actual hours incurred compared with the estimated hours needed to complete the full performance obligation. In addition, management estimates at each reporting date the total expected costs to be incurred for each individual performance obligation and adjustments are made where appropriate. Detailed explanations of the degree of judgment and assumptions used are included under the respective section in the notes to the financial statements related to revenues from contracts with customers.

### Leases

The Group rents warehouse/factory facilities and several housing units in order to carry out its activities. These rental contracts are accounted for as operating leases. As of September 2015, the Group entered into a lease agreement with Havenbedrijf Rotterdam N.V. for the lease of two plots in the Rotterdam harbor. The lease of plot A started at 1 September 2015 and will end on 1 July 2041 (cancellable as per 1 July 2031), the lease of plot B started at 1 July 2017 and will end on 1 July 2041 (cancellable as per 1 July 2021 and as per 1 July 2031). It is the Group's opinion that it does not possess the principal risks and benefits associated with ownership of the assets.

### Jubilee scheme

The costs of the jubilee scheme are calculated according to actuarial methods. The actuarial method uses assumptions about discount rates, future salary increases, and retention rates. Such estimates are very uncertain, owing to the long-term nature of the scheme. The assumptions used are reviewed each reporting date.

## 3 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

## 3.1 Basis of consolidation

### Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

1. Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
2. Exposure, or rights, to variable returns from its involvement with the investee;
3. The ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## 3.2 Profit or loss accounts

### (a) Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the (serie of) goods or services.

The Group is primarily involved in the manufacturing of metal structures, parts of metal structures, pipes, pipe structures, components for the offshore industry and foundation piles for offshore wind farms. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the (serie of) goods or services before transferring them to the customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard only to contracts that are not completed at this date. The cumulative effect of initially applying IFRS 15 should have been recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Based on detailed analysis in the course of 2018 no adjustment was necessary, as the method of revenue recognition has not materially changed under IAS 18 / IAS 11 compared to the new accounting standard and requirements in accordance with IFRS 15.

**The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:**

**Identify the contract(s) with a customer**

The group identifies a contract with a customer when all the criteria of IFRS 15 are met. The price as agreed upon may vary in the beginning of the project. The initial contract price is normally determined based on situations in the past and the company is working with its customers on the final design and development of the project. The change in the contract price is a change within the existing contract and relates mainly to adjustments before the start of the production. A combination of contracts is considered for every individual contract, although mostly not applicable as contract prices are determined on a standalone basis and no discounts are given related to other contracts. Contract modifications are relatively limited.

The company previously recognized cost to obtain a contract, as selling, general and administrative expenses when incurred. Under IFRS 15 cost to obtain a contract - when they are incremental - and if they are expected to be recovered —should be capitalized and then amortized consistently with the pattern of revenue for the related contract. However, since the expected amortization period is approximately one year or less, the cost to obtain a contract are expensed when incurred.

**Identify the performance obligations in the contract**

The goods of the Group include mainly monopiles, transition pieces, legs, piles and pilesleeves. Goods within a contract that are substantially the same and that have the same pattern of transfer to the customer are considered as series of distinct goods. These series and the other individual goods are identified as separate performance obligations as the customer can benefit from the goods on its own or with readily available resources and the goods are distinct within the context of the contract. This results in an accounting treatment with a serie of goods spread over separate performance obligations for the aforementioned goods, as the serie of goods are designed for a specific project and connected to each other without having the opportunity to adjust these easily. The aforementioned goods are separated as these can be considered to be distinct.

**Determine the transaction price**

The transaction price is the price that the company expects to receive for the delivery of the performance obligations taking into account among others discounts, financing components, liquidated damages and penalties. Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame. The variable considerations are relatively limited, as the company provides no volume rebates, no rights of returns, no performance bonuses, no refunds nor credits.

**Allocate the transaction price to the performance obligations in the contract**

The transaction price will be allocated to the performance obligations using the expected cost plus margin approach. The group is forecasting its expected costs of satisfying a performance obligation and then add an appropriate margin for that (series of) goods or service resulting in the estimated standalone selling price. Sales prices are separately agreed for the relevant performance obligation or are spread over the performance obligations based on the calculation which was the basis for the contract.

### Recognise revenue when (or as) the entity satisfies a performance obligation

The group recognizes revenue when (or as) a performance obligation is satisfied, i.e., when "control" of the (series of) goods or services underlying the particular performance obligation is transferred to the customer. The Group recognise revenue over time, since its performance creates or enhances an asset that the customer controls as the asset is created, its performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

### Revenue recognition – Policy applicable before 1 January 2018

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risk.

Contract revenues and costs are recognized in the statement of profit or loss in proportion to the stage of completion of the project. The stage of completion is assessed by reference to the proportion of hours spent in relation to the total projected hours up to completion of the project. Contract revenues include the contractually agreed amount plus any agreed additional work. If contract results cannot be determined reliably, contract revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Work in progress takes into account the expenses of raw materials, subcontracted work, logistic and other project related expenses, as well as direct personnel and production and general manufacturing expenses that are attributable to contract activity. Contract costs are recognized as incurred unless they create an asset related to future contract work. Expected project losses are recognized immediately in the statement of profit or loss.

## (b) Employee benefits

### Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Wage tax deductions (WBSO) are recognised in profit or loss over the periods in which the Group recognises the related costs which the grants are intended to compensate.

### Post-employment benefit plan

The Group has a defined benefit scheme for which premiums are payable to an industry pension fund (Bedrijfstakpensioenfonds) that is separately managed: the Pensioenfonds Metaal en Techniek (PMT). This pension scheme is administered together with those of other legal entities. The pension obligation is based on the duration of the participation in the plan and their salary levels. The related obligations are covered by the periodical premiums to the industry pension fund. The associated businesses are not obliged to compensate any deficits in the pension funds, nor are they entitled to any surpluses. Furthermore, the structure of the administration does not allow for providing the required information to the Group for accounting for the pension scheme as a defined benefit scheme in accordance with IAS 19. As such, this pension scheme has been accounted for as a defined contribution scheme in the financial statements.

Obligations for contributions to the industry pension fund are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

### (c) Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense; and
- the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised using the effective interest method.

### (d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

### (e) Income tax

Income tax expense comprises current and deferred tax. Income taxes are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

#### Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- and temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible unused tax losses, tax credits and unused deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income (OCI) or directly in equity.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 3.3 Balance sheet accounts

### (f) Intangible fixed assets

Intangible fixed assets (software) are recognised at cost less accumulated amortisation and accumulated impairment. Amortization is based on the estimated useful contribution of the assets concerned. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The estimated useful lives of intangible fixed assets for current and comparative periods are as follows:

- Software 3 years

### (g) Property, plant and equipment

#### Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other borrowing costs are expensed in the period in which they occur. All other repair and maintenance costs are recognised in profit or loss as incurred.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

#### Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

#### Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Land is not depreciated.

Assets which are under construction are capitalised under property, plant or equipment whereby depreciation will start when the asset is available for use.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- Buildings: 6 – 20 years
- Plant and equipment: 5 – 10 years
- Other fixed assets: 5 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (h) Investment property

Investment property is initially measured at cost. After initial recognition, the fair value model is applied in accordance with IAS 40.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

## (i) Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's investments in its joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint ventures since the acquisition date.

## (j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## (k) Positions related to contracts with customers

### Contract assets

Contract assets represent the gross amount expected to be collected from customers for contract work performed to date. They are measured as costs incurred plus profits recognised to date less progress billings and recognised losses.

### Contract liabilities

Contracts for which progress billings, advances received from customers and recognised losses exceed costs incurred plus recognised profits are presented as contract liabilities.

## (l) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand, which are subject to an insignificant risk of changes in value.

Because of the short term nature of the instrument, the Group recognises the current account at its contractual par amount. Similar to trade receivables, the current account involves one single cash flow which is the repayment of the principal. Therefore, the cash flows resulting from the receivables meet the SPPI test of payments of principal and interest despite the interest component being zero.

The Group holds the current account in order to collect contractual cash flows. The current account is therefore classified as measured at amortised cost.

## (m) Financial assets

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a change from IAS 39. The Company applied IFRS 9 prospectively, with an initial application date of January 1, 2018. The Company has not restated the comparative information over 2017, which continues to be reported under IAS 39. The new standard brings changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The impact, net of tax, of transition to IFRS 9 on the opening balance reserves and retained earnings is considered immaterial, therefore no opening balance sheet adjustment has been recognized and the Company accounts for IFRS 9 as of January 1, 2018.

### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets at amortised cost are the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised,

modified or impaired. The Group's financial assets at amortised cost includes trade receivables, assets contracts with customers and a loan to an associate.

## Impairment

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs, as these positions do not contain a significant financing component. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors such as macro economic information and the loss given default, specific to the debtors and the economic environment.

## Subsequent measurement

### Derivative financial instruments

The Group may use interest rate swaps and foreign currency contracts to hedge its interest-rate and foreign currency risk exposures arising from project and financing activities. In accordance with its treasury policy, the Group does not hold derivatives for trading purposes. Interest-rate swaps and foreign currency contracts are measured at fair value.

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward currency contracts is determined using the forward foreign exchange rates as at the closing date.

### Fair Value measurement

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

#### Non-derivative financial instruments

Non-derivative financial instruments consist of trade and other receivables, cash and cash equivalents, loans and borrowings, and trade payables. These instruments are recognised initially at fair value, plus all directly attributable transaction costs.

### Derecognition and offsetting

The Group derecognises financial assets if the contractual rights to the cash flows arising from those financial assets expire, or if the Group transfers the financial asset to another party without retaining control or without substantially retaining all the risks and rewards of the asset. Any interest retained in such derecognised financial asset is recognised as a separate asset or liability by the Group. Financial liabilities are derecognised if the Group’s commitments specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

### Financial instruments– Policy applicable before 1 January 2018

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale (AFS) financial assets. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Groups financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments. Finance transaction costs are capitalised at cost and amortised until the expiring date of the financing agreement.

## (n) Share capital

### Cash dividend and non-cash distribution to the shareholder

The Company recognises a liability to make cash or non-cash distributions to the shareholders when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws in the Netherlands, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

## (o) Non-controlling interests

Non-controlling interest is defined as the equity in a subsidiary non attributable, directly or indirectly to a parent. For each business combination, in which the company holds less than 100% of the equity interests in the acquiree, the company recognizes an amount for the non-controlling interest in the acquiree recognized.

### (p) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Initial recognition of provisions for warranties are recognized based on historical experience. The initial estimate of warranty-related costs is revised annually.

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract. An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

### (q) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

#### Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease, which is not applicable for the Company.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

#### Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### (r) Impairment

Each reporting date, the Group assesses whether there is any indication that the Group's assets, excluding contract assets and liabilities, inventories and deferred tax assets have been impaired. If there are such indications, an estimate is made of the recoverable amount of the asset or CGU (Cash generating unit) concerned. An impairment is only recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Any impairments are recognized in the statement of profit or loss under depreciation and impairment expenses.

The recoverable amount of an asset or cash-generating unit is the higher of the value in use and the fair value less costs of disposal. The recoverable amount is calculated for each asset individually, unless that asset does not generate any cash flows that are largely independent from those of other assets or groups of assets. The calculation of the value in use is based on a discounting of the estimated future cash flows, using a discount rate that reflects the current market assessments of the time value of money and the specific risks associated with the asset. For the calculation of fair value minus cost of disposal use is made of an appropriate valuation model.

A previously recognized impairment loss is only reversed if the assumptions used to determine the asset's recoverable amount have changed since the most recent impairment loss. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

## 4 Changes in accounting policies and disclosures

### New and amended standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described earlier. The adoption of IFRS 15 and IFRS 9 has not resulted in a significant effect on the Company's accounting policies.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

## 5 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

The following has not yet been endorsed by the EU: Amendments to References to the Conceptual Framework in IFRS Standards, Amendment to IFRS 3 Business Combinations, Amendments to IAS 1 and IAS 8: Defenition of Material.

### IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

## Transition to IFRS 16

The Company will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is smaller than EUR 5,000. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

Due to the adoption of IFRS 16, the Group's operating profit will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17. The Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

**RECONCILIATION OPERATING LEASE OBLIGATION AS AT 31 DECEMBER 2018 TO LEASE LIABILITY AS AT 1 JANAURY 2019:**

| AMOUNTS IN EUR '000 | |
|---|---|
| **Operating Lease obligations at 31 December 2018** | **33,123** |
| Relief option for short-term leases | -338 |
| **Gross lease liablities at 1 January 2019** | **32,785** |
| Discounting | -4,265 |
| **Lease liabilities as at 1 January 2019** | **28,520** |

Based on the information currently available the company estimates that it will recognize for both a right of use asset and a lease liability of EUR 28.5 million of which 2.8 million is current.

**IMPACT ON THE STATEMENT OF PROFIT OR LOSS (INCREASE/(DECREASE)) FOR 2019:**

| AMOUNTS IN EUR '000 | 2019 |
|---|---|
| Depreciation expense | 2,787 |
| Operating lease expense | -3,468 |
| **Operating profit** | **681** |
| Finance costs | 676 |
| Income tax expense | 1 |
| **Profit for the year** | **4** |

The application of IFRS 16 in 2019, will not have any impact on the existing and new loan covenants, for which IFRS 16 is contractually not taken into consideration.

## Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of material

The amended definition of material clarify that the materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions.

The amendments clarify that the assessment of materiality will depend on the nature or magnitude of information. The amendments also clarify that, in assessing whether an information could reasonably be expected to influence decisions of the primary users, an entity must consider the characteristics of those users as well as its own circumstances.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

### Amendments to IFRS 3 Business Combinations – Definition of a business

The narrow-scope amendments clarify how to determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.

Companies are required to apply the amended definition of a business to acquisitions that occur on or after 1 January 2020. Earlier application is permitted. These amendments will apply only to any future business combinations of the Group.

### IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

### Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

### Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

### Annual Improvements 2015-2017 Cycle (issued in December 2017)

The IASB issued the 2015-2017 cycle improvements to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. These improvements will be applied as per
1 January 2019 and include:

#### IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

#### IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

#### IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

#### IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

## 6 Operating segments

For management purposes, the Group is organised into divisions based on its products and services and has three operating segments:

> Wind, which produces and delivers monopiles, transition pieces or other foundation components for the off-shore wind industry;

> Oil and Gas, which produces and delivers piles, pile sleeves, pin-piles etcetera for application in the oil and gas industry;

> Other, not Wind or Oil and Gas.

These divisions offer different products and services, and require different technology and target different markets. The Group's CEO reviews internal management reports of each division at least quarterly.

Information related to each operating segment is set out below.

Segment contribution constitutes the difference between revenue from contracts with customers and cost of sales. Cost of sales includes the costs of raw materials, subcontracted work and other external charges as well as logistic and other project related expenses. The gross profit is determined by subtracting costs relating to direct personnel expenses and production and general manufacturing expenses, from segment contribution.

Finance income, finance costs, indirect personnel expenses, depreciation and amortization, facilities, housing and maintenance, selling expenses, general expenses and other income/expenses are not allocated to individual segments as these are managed on an overall group basis. Costs of sales like raw materials, subcontracted work and other charges and logistic and other project related expenses depend on underlying contract with customers. Gross profit before tax is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries. Total assets, which are located in the Netherlands, are not allocated to individual segments as these are managed on an overall group basis.

## Information about operating segments

| AMOUNTS IN EUR '000 | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Wind | Oil & Gas | Other | Total | Wind | Oil & Gas | Other | Total |
| Revenue from contracts with customers | 195,158 | 35,835 | 4,147 | 235,140 | 299,833 | 24,901 | 2,446 | 327,180 |
| Segment contribution | 51,344 | 20,778 | 2,214 | 74,336 | 120,040 | 13,903 | 1,691 | 135,634 |
| Gross profit | 29,896 | 9,086 | 1,500 | 40,482 | 77,876 | 5,923 | 1,212 | 85,011 |
| Indirect personnel expenses | | | | (14,808) | | | | (15,663) |
| Depreciation and impairment | | | | (13,682) | | | | (13,153) |
| Facilities, housing & maintenance | | | | (6,648) | | | | (6,192) |
| Selling expenses | | | | (648) | | | | (781) |
| General expenses | | | | (4,073) | | | | (5,721) |
| Other (income) / expenses | | | | (1,755) | | | | (2,074) |
| Net finance costs | | | | (1,677) | | | | (1,442) |
| Joint ventures | | | | 13 | | | | 12 |
| **Total profit before tax** | | | | **(2,797)** | | | | **39,997** |

## Geographical information

The Wind, Oil and Gas, and Other segments are managed centrally. No segment assets or liabilities are applicable as the manufacturing facilities and sales offices operate solely from the Netherlands.

The geographic information below analyses the Group's revenue by the Company's country of domicile, the European Community (EC) and other countries outside the EC and Europe. In presenting the following information, segment revenue has been based on the geographical location of customers.

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in Note 3. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements. Contract balances and information about receivables, contract assets and contract liabilities are disclosed in Note 19 and Note 20.

The group did not adjust the promised amount of consideration for the effects of a significant financing component, as at contract inception the period between when the entity transfers a promised (serie of) goods or service to a customer and when the customer pays for that (series of) goods or service will be one year or less. Payment terms within the group's contracts are normally in line with project milestones, which are in accordance with the satisfaction over time of the performance obligation.

### Transaction price allocated to the remaining performance obligations

The revenue from contracts with customers expected to be recognized in the future related to performance obligations that are unsatisfied (or partly unsatisfied) at the reporting date are not disclosed as the identified performance obligations are part of contracts that has an original expected duration of one year or less.

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| The Netherlands | 172,496 | 66,950 |
| All foreign countries: | | |
| European Community (EC) | 54,603 | 252,876 |
| Europe outside EC | 8,042 | 7,354 |
| Outside Europe | - | - |
| **Total revenue from contracts with customers** | **235,140** | **327,180** |

### Major customers

Revenues from three customers of the Group's Wind segment represented approximately EUR 149 million (2017: three customers EUR 241 million) of the Group's total revenues. In 2018 the largest customer represented a revenue of approximately EUR 62 million, the second customer approximately EUR 44 million and the third customer approximately EUR 43 million. In 2017 the largest customer represented a revenue of approximately EUR 142 million, the second customer approximately EUR 71 million and the third customer approximately EUR 28 million.

## 7 Personnel expenses

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 16,356 | 14,883 |
| Hired staff and temporary workers | 14,669 | 29,577 |
| Compensation/grants received | (104) | (76) |
| Social security contributions | 2,287 | 2,040 |
| Pension expense | 2,165 | 1,944 |
| Other employee benefit expenses | 3,600 | 3,503 |
| | **38,973** | **51,871** |

### Pension expenses

Obligations for contributions to the industry pension fund are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The pension fund coverage ratio of the PMT industry fund at 31 December 2018 amounted to 99,4 % (2017: 102,1%). The 2018 pension premium has remained at a level similar to the 2017 premiums. The Group's participation in the industry pension fund is less than 0.05 % (2017: less than 0.05%) based on number of active participants in the plan. The Group expects to incur costs for pension contributions of approximately EUR 2.8 million in 2019.

### Number of employees

The average number of employees employed by the Group in 2018 amounts to 259 FTE (2017: 243 FTE). The table below provides an overview of the average number of FTE split per functional area. All employees are based in the Netherlands.

| | 2018 | 2017 |
|---|---|---|
| Production and distribution | 181 | 165 |
| Management | 6 | 6 |
| Purchasing | 6 | 6 |
| Sales | 11 | 11 |
| Administrative | 8 | 8 |
| Other | 47 | 47 |
| | **259** | **243** |

## 8 Selling expenses

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Travel and representation | 260 | 304 |
| Promotional and advertising costs | 215 | 248 |
| Other | 173 | 229 |
| | **648** | **781** |

## 9 General expenses

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Consultancy fees | 861 | 2,094 |
| Insurances | 1,792 | 1,918 |
| Software, license fees | 540 | 690 |
| Office expenses | 421 | 481 |
| Other | 459 | 538 |
| | **4,073** | **5,721** |

## 10 Other expenses

The other expenses include a total of EUR 0.7 million (2017: EUR 2.5 million) of amortization of the secured claw back arrangement in relation to the initial public offering (IPO) of the Company. As at 31 December 2018 all amounts related to the secured clawback arrangement of management recorded on the statement of financial position, are amortised. The IPO was successfully completed on 12 May 2016.

Furthermore a provision for doubtfull debtors is recorded on the statement of financial position as at 31 December 2018, amounting to EUR 1.3 million.

## 11 Net finance costs

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Interest on bank balances and on current account | - | - |
| **Finance income** | **-** | **-** |
| | | |
| Interest on loans and borrowings | (911) | (1,208) |
| Fair value changes of interest rate swaps | - | 392 |
| Borrowing cost finance facility | (368) | (201) |
| Other | (398) | (425) |
| Finance costs | (1,677) | (1,442) |
| | | |
| **Net finance costs recognised in profit or loss** | **(1,677)** | **(1,442)** |

## 12 Income tax expense

### Income tax recognised in profit or loss

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Current year income tax charge | (587) | 9,388 |
| Movement in deferred tax position | (97) | (151) |
| Prior year adjustment | (62) | - |
| **Tax expense recognized in statement of profit & loss** | **(746)** | **9,237** |

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

## Movement in deferred tax balances

| AMOUNTS IN EUR '000 | Net balance at 1 January | Recognised in profit or loss | Net balance at 31 December | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Property, plant and equipment | (187) | 97 | (90) | - | (90) |
| Derivatives | - | - | - | - | - |
| Investment property | 10 | - | 10 | 10 | - |
| **Tax assets (liabilities) before netting** | (177) | 97 | (80) | 10 | (90) |
| Netting of tax | | | | (10) | 10 |
| **Net tax assets (liabilities)** | | | | **-** | **(80)** |

| AMOUNTS IN EUR '000 | Net balance at 1 January | Recognised in profit or loss | Net balance at 31 December | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Property, plant and equipment | (441) | 254 | (187) | - | (187) |
| Derivatives | 97 | (97) | - | - | - |
| Investment property | 16 | (6) | 10 | 10 | - |
| **Tax assets (liabilities) before netting** | (328) | 151 | (177) | 10 | (187) |
| Netting of tax | | | | (10) | 10 |
| **Net tax assets (liabilities)** | | | | **-** | **(177)** |

## Unrecognised deferred tax assets and liabilities

At 31 December 2018 and 31 December 2017, the Group has recognised all deferred tax assets and liabilities applicable to the Group.

## Reconciliation of effective tax rate

| % | 2018 | 2017 |
|---|---|---|
| Tax using the Company's domestic tax rate | 25.0 | 25.0 |
| Reduction in tax rates due to tax incentives | 0.0 | (1.8) |
| Prior year tax adjustment | 2.2 | - |
| Participation Exemption | 0.1 | - |
| Non tax deductible expenses | (0.6) | - |
| | **26.7** | **23.2** |

# 13 Earnings per share

## Basic and diluted earnings per share

The calculation of basic and diluted earnings per share has been based on the profit attributable to the ordinary shareholders of the company and the weighted-average number of ordinary shares outstanding.

### Weighted-average number of ordinary shares

| | 2018 | 2017 |
|---|---|---|
| Issued ordinary shares at 1 January | 25,501,356 | 25,501,356 |
| Issued ordinary shares at 31 December | 25,501,356 | 25,501,356 |
| Weighted average number of ordinary shares at 31 december | 25,501,356 | 25,501,356 |

The issued share capital of the Company amounted to EUR 5,100, consisting of 25,501,356 shares with a nominal value of EUR 0.20 (20 eurocents per share).

# 14 Intangible fixed assets

## Reconciliation of the carrying amount

| AMOUNTS IN EUR '000 | Software |
|---|---|
| **Cost** | |
| Balance at 1 January 2017 | 156 |
| Additions | - |
| Disposals | - |
| **Balance at 31 December 2017** | **156** |
| | |
| Balance at 1 January 2018 | 156 |
| Additions | 1,191 |
| Disposals | - |
| **Balance at 31 December 2018** | **1,347** |
| | |
| **Accumulated depreciation** | |
| Balance at 1 January 2017 | (13) |
| Depreciation | (52) |
| Disposals | - |
| **Balance at 31 December 2017** | **(65)** |
| | |
| Balance at 1 January 2018 | (65) |
| Depreciation | (52) |
| Disposals | - |
| **Balance at 31 December 2018** | **(117)** |
| | |
| **Carrying amounts** | |
| At 31 December 2017 | 91 |
| At 31 December 2018 | 1,230 |

## 15 Property, plant and equipment

### Reconciliation of the carrying amount

| AMOUNTS IN EUR '000 | Land and buildings | Equipment | Other fixed assets | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2017 | 111,027 | 73,463 | 2,246 | 186,736 |
| Additions | 11,707 | 7,524 | 341 | 19,572 |
| Disposals | - | - | - | - |
| **Balance at 31 December 2017** | **122,734** | **80,987** | **2,587** | **206,308** |
| | | | | |
| Balance at 1 January 2018 | 122,734 | 80,987 | 2,587 | 206,308 |
| Additions | 948 | 2,389 | 178 | 3,514 |
| Disposals | (61) | (290) | - | (351) |
| **Balance at 31 December 2018** | **123,621** | **83,086** | **2,765** | **209,471** |
| | | | | |
| **Accumulated depreciation** | | | | |
| Balance at 1 January 2017 | (33,722) | (36,773) | (1,138) | (71,633) |
| Depreciation | (4,750) | (8,074) | (277) | (13,101) |
| Disposals | - | - | - | - |
| **Balance at 31 December 2017** | **(38,472)** | **(44,847)** | **(1,415)** | **(84,734)** |
| | | | | |
| Balance at 1 January 2018 | (38,472) | (44,847) | (1,415) | (84,734) |
| Depreciation | (5,092) | (8,237) | (288) | (13,618) |
| Disposals | - | 250 | - | 250 |
| **Balance at 31 December 2018** | **(43,564)** | **(52,834)** | **(1,703)** | **(98,101)** |
| | | | | |
| **Carrying amounts** | | | | |
| At 31 December 2017 | 84,261 | 36,141 | 1,172 | 121,574 |
| At 31 December 2018 | 80,057 | 30,251 | 1,062 | 111,370 |

At 31 December 2018 and 2017 all property, plant and equipment was collateralized as part of the financing agreements in place (see note 23).

## 16 Investment property

### Reconciliation of the carrying amount

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Balance at 1 January | 400 | 375 |
| Additions | - | - |
| Revaluation | - | 25 |
| Balance at 31 December | 400 | 400 |

Investment property comprises a commercial property that is leased to a third party. The lease contains an initial non-cancellable period till January 2019, with annual rents indexed to consumer prices. Subsequent renewals are negotiated with the lessee. No contingent rents are charged. Further information about this lease is included in note 29.

Fair value as of 31 December 2018 is estimated at EUR 400 (2017: EUR 400) determined by external, independent property valuators, having appropriate recognised professional qualifications and recent experience in the location and category of the property. The external valuation of the property dates from 16 February 2017. Based on recent market conditions the movement in fair value is deemed immaterial. The fair value measurement has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

## 17 Investment in joint ventures

The group has a 50% interest in SBR Engineering GmbH, a joint venture consisting of engineering capacity of experienced workforce. The group's interest in SBR Engineering GmbH is accounted for using the equity method in the consolidated financial statements. The investment in joint ventures can be specified as follows:

The group has a 50% interest in Smulders Sif Steel Foundations B.V., a joint venture focused on project management in the offshore winds industry. The group's interest in Smulders Sif Steel Foundations B.V. is accounted for using the equity method in the consolidated financial statements. As per year-end 2018, the joint venture only performed activities with limited financial impact, resulting in an equity of EUR 3. The main activities of the joint venture will start during 2019. The investment in joint ventures can be specified as follows:

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Balance at 1 January | 28 | 16 |
| Additions | - | - |
| Result for the year | 13 | 12 |
| Dividends paid | - | - |
| Balance at 31 December | 41 | 28 |

The group entered during 2016 into a loan agreement with the joint venture for the amount of EUR 15. This loan will be repaid in yearly instalments of EUR 5 starting on 1 January 2018 until the loan has been fully repaid. The amount of the loan agreement is classified as current financial assets (EUR 10).

## 18 Inventories

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Raw materials and consumables | 367 | 303 |
| | **367** | **303** |

During 2018 and 2017 no inventories were written down to the lower of net realisable value and no provision has been recognised.

## 19 Contract assets and liabilities

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Contract assets | 28,891 | 30,510 |
| Contract liabilities | (21,079) | (21,624) |
| | **7,812** | **8,886** |
| Expenses incurred including realized profit to date | 668,076 | 966,925 |
| Invoiced terms | (660,265) | (958,039) |
| | **7,812** | **8,886** |

Management periodically reviews the valuation of contract assets and liabilities based on project agreements, project results till date and estimates of project expenses to be incurred. Each period end management assesses the status of the projects and takes into consideration all aspects in order to finalize the projects in line with contractual agreements and relating contingencies, such as potential upward or downward adjustment in the projected estimates, and accounts for them accordingly. Due to changes in estimates, fluctuations in the anticipated project result can occur over the contract term.

The company has managed to successfully complete a project for which at year-end 2017 a significant lower gross margin was expected based on potential project related risks. These risks did not materialize and therefore the costs of the project were lower than estimated. The successful completion of the project had a positive impact on the operating result by some EUR 4.4 million.

The contract assets concern all projects in progress for which the incurred expenses, including realized profit and project losses to date (if any), exceed the terms invoiced to customers. Contract liabilities concern the balances of all projects in progress for which the invoiced terms exceed expenses incurred plus recorded profit minus project losses if any.

Both the contract assets and liabilities predominantly have durations shorter than 12 months and are therefore considered to be current.

## 20 Trade receivables

All trade and other receivables mature within 12 months. Trade receivables are non-interest bearing and are generally on terms of 30 to 60 days. At 31 December 2018 an amount of EUR 1.3 million of the trade receivables were provided for (2017: EUR 0). With respect to the debtors, customer payments depends on certificates of completion (of stages). From one period end to the other, this may result in a significant movement in the outstanding amounts depending on the date of invoice (due to satisfaction over time). Based on an individual impairment analysis of trade receivables, an impairment of EUR 1.3 million deemed necessary for unrecoverable receivables. In addition, an amount of EUR 39k for impairment costs due to expected credit losses (IFRS 9) has been reported.

### Credit and market risks, and impairment losses

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables, excluding construction contracts in progress, is included in note 25.

As at 31 December, the ageing (without the provided trade receivables) analysis of trade receivables is as follows:

| AMOUNTS IN EUR '000 | Total | Not past due | <30 days past due | 30 – 60 days past due | 61 – 90 days past due | 91 – 120 days past due | > 120 days past due |
|---|---|---|---|---|---|---|---|
| 31 december 2018 | 47,608 | 31,035 | 8,711 | 4,506 | 80 | - | 3,276 |
| 31 december 2017 | 48,632 | 43,734 | 3,050 | 812 | 139 | 897 | - |

## 21 Cash and cash equivalents

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Cash | 9 | 10 |
| Bank balances | 496 | 867 |
| Cash and cash equivalents | 505 | 877 |

The balance of the cash and cash equivalents are freely accessible and available to the Group and no restrictions apply.

## 22 Capital and reserves

### Share capital

On 14 January 2016, the authorised capital of the Group was increased to EUR 25 million, consisting of 125,000,000 shares with a nominal value of EUR 0.20 (20 eurocents) per share. The issued shares were converted into 25,501,356 shares, each having a nominal value of EUR 0.20 (20 eurocents per share). All ordinary shares rank equally with regard to the Company's residual assets.

### Additional paid-in capital

The additional paid-in capital results from contributions in kind by the shareholder in relation to the issuance of loans as the transaction costs related to the issuance of additional loans were not passed on by the shareholder.

### Dividends

The following dividends were declared and settled by the Company during the year:

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Number of ordinary shares dividend eligible | 25,501,356 | 25,501,356 |
| Rounded dividend per ordinary share (EUR '000) | 0.30 | 0.37 |
| **Dividends declared and settled during the year (EUR '000)** | **7,650** | **9,436** |

Sif's dividend policy is a payout of dividend in line with Sif's medium to long-term financial performance and targets, with the aim of increasing dividends-per-share over time. The proposed dividend payout per share (to be approved by the shareholder) for 2018 is a cash dividend of € 0.10 per share.

The non-controlling interest consist of 40% related to Twinpark Sif BV.

## 23 Loans and borrowings

The company has the following financing arrangements:

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Non-current portion | - | 25,984 |
| Current portion | 30,882 | - |
| Bank overdraft | - | - |
| **Total Loan and borrowings** | **30,882** | **25,984** |

The movement in financing arrangements can be specified as follows:

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Balance at 1 January | 26,293 | 42,759 |
| Financing costs | (309) | (486) |
| **Net value of loans and borrowings** | 25,984 | 42,273 |
| | | |
| Drawn | - | - |
| Repayment | - | - |
| Additions financing costs | (250) | (24) |
| Amortisation financing costs | 362 | 201 |
| Movements in revolving credit facility | 4,786 | (16,466) |
| | | |
| Balance at 31 December | 31,079 | 26,293 |
| Financing costs | (197) | (309) |
| **Net value of loans and borrowings** | **30,882** | **25,984** |

Information about the Group's exposure to interest rate, foreign currency and liquidity risk is included in note 25. From the above movements the amortization financing costs are non-cash.

As per 30 December 2016, the secured bank loans are refinanced into a EUR 90 million revolving credit facility. Given the nature of this funding, the entire facility is presented as non-current loans and borrowings. The EUR 90 million revolving credit facility is funded on Euribor + supplement and will expire on 30 June 2019. As a result the net value of loans and borrowings is presented as a current liability and per year-end 2018 an amount of EUR 31 million is outstanding and an amount of EUR 59 million has not been drawn.

### Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

| AMOUNTS IN EUR '000 | Currency | Nominal interest rate (%) | Year of maturity | Fair value 2018 | Carrying amount 2018 | Fair value 2017 | Carrying amount 2017 |
|---|---|---|---|---|---|---|---|
| Revolving Credit Facility | EUR | Euribor + supplement | 2019 | 30,882 | 30,882 | 25,984 | 25,984 |
| **Total interest-bearing loans and borrowings** | | | | **30,882** | **30,882** | **25,984** | **25,984** |

The supplement to the Euribor interest rate of the revolving credit facility depends on the leverage ratio as defined in the loan agreement and ranges between 150 and 225 bps. The revolving credit facilities are collateralized by the following items:

- Current assets (inventory and construction contracts net position);
- Trade receivables;
- Intercompany receivables;
- Credit balances;
- Receivables from hedging activities;
- Receivables from insurance contracts;
- Shares in Sif Netherlands B.V. and Sif Property B.V. by Sif Holding N.V.;
- Non-current assets.

### Loan covenants

As per year-end the Group has one revolving credit facility which has to be repaid in full on 30 June 2019. The interest is based on EURIBOR plus a supplement that depends on the leverage per quarter. The following financial ratios have to be met:

- a cash flow cover (ratio of cash flow to debt service in respect of any relevant period) of greater than 1.00 for that relevant period; and
- a leverage ratio (the ratio of total debt on the last day of the relevant period to EBITDA in respect to that relevant period) which shall not exceed1.50x.

In anticipation of the lower activity levels in 2018 a covenant holiday was concluded with the banks in Q1 2018.  As part hereof two new covenants were concluded; e.g. normalized EBITDA level to exceed minus EUR 2.5 million and Capital expenditure not exceeding EUR 8.0 million.  At yearend 2018 the Company met the applicable covenants.

The application of IFRS 16 in 2019, will not have any impact on the existing and new loan covenants, for which IFRS 16 is contractually not taken into consideration.

## 24 Provisions

The balance for provisions is as follows:

| AMOUNTS IN EUR '000 | 2018 |
|---|---|
| **At 1 January 2018** | **2,579** |
| Utilized | -2,316 |
| **At 31 December 2018** | **263** |

As per year-end, loss making contracts have been identified by management. These contracts, with a total expected loss of EUR 3.1 million (2017: EUR 2.8 million), are recorded as part of the provisions for onerous contracts as per 1 January 2018. Per year end the provision includes the remaining amount of the total expected loss making contracts. IFRS 15 contains no specific requirements to address contracts with customers that are, or have become, onerous. IAS 37 have been applied to the identification and measurement of onerous customer contracts as per 1 January 2018. It is expected that the provision will be utilized within 12 months.

## 25 Financial instruments

### Financial risk management

The Group has exposure to the following risks arising from financial instruments:

> credit risk;
> liquidity risk;
> market risk.

#### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables on customers.

The carrying amount of financial assets represents the maximum credit exposure.

#### Trade and other receivables

The Group's exposure to credit risk is mainly influenced by the individual customer characteristics. In addition, management considers general factors that may influence the credit risk of its customer base, including the default risk of the industry and the countries in which customers operate.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available. An impairment for trade and other receivables based on expected credit loss has been accounted for in accordance with IFRS 9.

#### Cash and cash equivalents

The Group held cash and cash equivalents of EUR 505 at 31 December 2018 (2017: EUR 877). The cash and cash equivalents are held with bank and financial institution counterparties, which are at least rated A- based on rating agency ratings.

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under the normal course of business, and within the covenants as agreed with the banks and financial institutions.

The Group aims to maintain the minimal level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

#### Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted:

| AMOUNTS IN EUR '000 | Carrying amount | Contractual cash flows Total | 3 months or less | 3-12 months | 1 - 2 years | 2 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **31 december 2018** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Revolving credit facility | 32,132 | (32,132) | (500) | (31,632) | - | - | - |
| Trade payables | 42,353 | (42,353) | (42,353) | - | - | - | - |
| | **74,485** | **(74,485)** | **(42,853)** | **(31,632)** | **-** | **-** | **-** |

| AMOUNTS IN EUR '000 | Carrying amount | Contractual cash flows Total | 3 months or less | 3-12 months | 1 - 2 years | 2 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **31 december 2017** | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Revolving credit facility | 27,346 | (27,346) | (227) | (681) | (26,438) | - | - |
| Trade payables | 52,592 | (52,592) | (52,592) | - | - | - | - |
| | **79,938** | **(79,938)** | **(52,819)** | **(681)** | **(26,438)** | **-** | **-** |

As disclosed in note 23, the Group has a revolving credit facility within the finance facility that contains loan covenants. A future breach of covenants may require the Group to repay the loan earlier than indicated in the table above. The interest payments on the revolving credit facility are included in the table above for the same amount (interest and commitment fee) as the fourth quarter of 2018 as these amounts are uncertain (depends on the outstanding amount of the revolving credit facility).

## Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

As per year-end 2018, the Group uses no derivatives to manage market risks. All such potential transactions would be carried out within treasury policy guidelines.

### Interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to management of the Group is as follows:

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| **Variabele rate instruments** | | |
| Total loans and borrowings | 30,882 | 25,984 |
| Balance covered by interest rate swaps | - | - |
| **Balance at 31 December** | **30,882** | **25,984** |

The Group has performed a cash flow sensitivity analysis for variable rate instruments. A reasonable possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) profit or loss before tax by the amounts shown below. A sensitivity analyses on equity has not been prepared since the impact on equity will be equal to the increase (decrease) on the sensitivity analysis of profit or loss before tax (excluding tax effect).This analysis assumes that all other variables remain constant.

| AMOUNTS IN EUR '000 | 50 basis points increase | 50 basis points decrease |
|---|---|---|
| **31 december 2018** | | |
| Variable rate instruments | 158 | (158) |
| Interest rate swaps | - | - |
| **Net impact** | **158** | **(158)** |
| | | |
| **31 december 2017** | | |
| Variable rate instruments | 133 | (133) |
| Interest rate swaps | - | - |
| **Net impact** | **133** | **(133)** |

### Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of Group companies is the Euro. The currency in which transactions are primarily denominated is also the Euro. The currency risk is limited since the Group almost fully conducts its sales, purchases and borrowings in its functional currency and closes hedge contracts at the time of entering into contracts in foreign currencies.

## 26 Employee benefits

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Jubilee provision | 315 | 294 |
| Accrual for employee bonuses | 713 | 547 |
| Accrual for employee vacation days outstanding | 612 | 603 |
| Personnel expenses payable | 230 | 221 |
| **Total employee benefits liabilities** | **1,870** | **1,665** |
| | | |
| Non-current | 315 | 294 |
| Current | 1,555 | 1,371 |
| | **1,870** | **1,665** |

The movement in the jubilee provision can be specified as follows:

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Balance at 1 January | 294 | 252 |
| Additions | 36 | 83 |
| Used | (15) | (41) |
| Released | - | - |
| **Balance at 31 December** | **315** | **294** |

## 27 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders as well as to maintain an optimal capital structure to continue to be able to qualify for large commercial tenders while optimizing the overall cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group aims for a financing structure that ensures continuing operations and minimises cost of capital. For this, flexibility and access to the financial markets are important conditions. The Group monitors its financing structure using a solvency ratio. Solvency is calculated as total equity divided by total assets. At year-end 2018, the solvency ratio was 43.6% (2017: 45.6%).

In addition, the loan covenants are closely monitored to ensure that these remain within agreed thresholds. The current loan covenants include the cashflow cover and leverage ratio for which reference is made to note 23.

## 28 List of subsidiaries

Included in the consolidated financial statements are the following subsidiaries:

| Name | Location | Share in issued capital % |
|---|---|---|
| Sif Property B.V. | Roermond | 100 |
| Sif Netherlands B.V. | Roermond | 100 |
| Twinpark Sif BV | Roermond | 60 |

## 29 Operating leases

### Leases as lessee

The Group leases several company cars, a house and an apartment under operating leases. The lease for the company cars runs for a remaining period of 12 to 15 months, the lease for the house runs for one month (cancellation period) and the lease for the apartment runs for a remaining period of 6 months (cancellation period).

The Group entered into a lease agreement with Havenbedrijf Rotterdam N.V. for the lease of two specific plots in the Rotterdam harbour. The lease of plot A started at 1 September 2015 and will end on 1 July 2041 (cancellable as per 1 July 2031), the lease of plot B started at 1 July 2017 and will end on 1 July 2041 (cancellable as per 1 July 2021 and as per 1 July 2031). The annual committed lease payments of EUR 0.8 million during the initial building phase will increase up to EUR 3.1 million after five years when the plots and buildings are fully in use. The discount during the initial building phase is partly accounted as a non-current liability (EUR 1,053) in order to properly allocate the expense on a straight-line basis over the lease term.

### Future minimum rentals payable

At 31 December, the future minimum rentals payables under non-cancellable leases can be specified as follows:

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Less than 1 year | 3,806 | 2,703 |
| Between 1 and 5 years | 11,265 | 10,868 |
| More than 5 years | 18,052 | 19,944 |
| | **33,123** | **33,515** |

### Amounts recognised in profit or loss

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Lease expenses | **3,869** | **2,952** |
| | **3,869** | **2,952** |

### Leases as lessor

The Group leases out its investment property (see note 16) and some antenna locations for telecom providers.

### Future minimum rental receivable

At 31 December, the future minimum rental receivables under non-cancellable leases are as follows:

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Less than 1 year | 9 | 10 |
| Between 1 and 5 years | - | 3 |
| More than 5 years | - | - |
| | **9** | **13** |

## 30 Off-balance sheet commitments

### Commitments for the purchase of property, plant and equipment

At 31 December 2018, the Group commitments for the purchase of property, plant and equipment amounts to EUR 1,296 (2017: EUR 255) relating to the purchase of property, plant and equipment items.

### Guarantee facilities

At 31 December guarantee facilities of the Group can be specified as follows:

| Name | Type | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|
| AMOUNTS IN EUR '000 | | Total facility | Used | Total facility | Used |
| Euler Hermes Interborg N.V. / CHUBB | General | 100,000 | 48,790 | 100,000 | 58,129 |
| Nationale Borg Maatschappij | General | 10,000 | - | 10,000 | - |
| Coöperatieve Rabobank U.A. | General | 20,000 | 13,448 | 20,000 | 2,417 |
| ING Bank N.V. | General | 20,000 | 9,182 | 20,000 | 17,674 |
| ABN AMRO Bank N.V. | General | 20,000 | 11,446 | 20,000 | 13,099 |
| Nationale Borg Maatschappij | Project | 6,788 | 6,788 | 6,788 | 6,788 |
| Coöperatieve Rabobank U.A. | Project | 16,034 | 16,034 | 16,034 | 16,034 |
| ING Bank N.V. | Project | 8,459 | 8,459 | 7,151 | 7,151 |
| **Total** | | **201,281** | **114,146** | **199,973** | **121,292** |

The Group is jointly and severally liable for all amounts to which Euler Hermes, CHUBB, Coöperatieve Rabobank U.A., ING Bank N.V., ABN Amro Bank N.V. and Nationale Borg Maatschappij have a right to claim in relation to the above mentioned guarantees. The former shareholder is also jointly and severally liable for all amounts of the pending guarantees which have been provided before 12 May 2016.

## 31 Related parties

### Transactions with joint ventures

During the year, the group received invoices for work performed by SBR Engineering GmbH for a total amount of EUR 87 (2017: EUR 188). Furthermore the group sent invoices to Smulders Sif Steel Foundations B.V. for project related work performed for a total amount of EUR 17,578 (2017: EUR 0).

### Transactions with companies with which Supervisory Board members are involved as a shareholder

During the year there are no transactions with companies with which supervisory board members are involved as a shareholder.

## Transactions with key management personnel

The members of the supervisory board and the executive board are considered key management personnel.

The remuneration (including expenses) of the supervisory board members can be specified as follows:

| AMOUNTS IN EUR | 2018 | 2017 |
|---|---|---|
| A. Goedée* | 70,000 | 70,228 |
| J.C.M. Schönfeld****** | 20,440 | 60,426 |
| P.J. Gerretse** | 45,869 | 47,332 |
| C.A.J. van den Bosch** | 46,469 | 46,715 |
| P.E. Visser**** | 45,000 | 7,626 |
| P.E. Wit***** | 30,000 | - |
| A.P.W. van Wassenaer*** | - | 37,638 |
| | **257,778** | **269,965** |

* Member of the supervisory board as of 14 January 2016.
** Member of the supervisory board as of 12 February 2016.
*** Member of the supervisory board as of 14 January 2016, resigned as per 23 October 2017.
**** Member of the supervisory board on an ad interim basis as of 1 November 2017.
***** Member of the supervisory board as of 3 May 2018.
****** Member of the supervisory board as of 12 February 2016, resigned as per 3 May 2018.

The remuneration of the current executive board members can be specified as follows:

**COMPENSATION OF THE CURRENT EXECUTIVE BOARD MEMBERS**

| | G.G.P.M. van Beers* | | L.A.M. Verweij | |
|---|---|---|---|---|
| AMOUNTS IN EUR | 2018 | 2017 | 2018 | 2017 |
| Base salary | 120,000 | - | 300,235 | 132,500 |
| Employer´s pension contributions | 4,369 | - | 38,995 | 18,500 |
| Pension compensation | 16,806 | - | 39,420 | 20,547 |
| Annual bonus | 72,183 | - | 174,199 | 93,350 |
| Other benefits (car lease, travel expenses and relocation expenses) | 14,749 | - | 46,294 | 20,623 |
| Social security and other payments | 3,570 | - | 10,710 | 4,962 |
| **Total remuneration** | **231,677** | **-** | **609,852** | **290,482** |

* G.G.P.M. van Beers is appointed as Chief Executive Officer as per 3 September 2018 during the AGM meeting on 31 August 2018.

COMPENSATION OF FORMER EXECUTIVE BOARD MEMBERS

| | J.B.J. Bruggenthijs* | |
|---|---|---|
| AMOUNTS IN EUR | 2018 | 2017 |
| Base salary | 231,419 | 355,000 |
| Employer's pension contributions | 15,621 | 26,971 |
| Pension compensation | 43,470 | 63,969 |
| Annual bonus | 24,204 | 125,050 |
| Other benefits (car lease, travel expenses and relocation expenses) | 28,116 | 54,162 |
| Social security and other payments | 6,247 | 9,924 |
| Placement reward IPO | - | - |
| Placement reward IPO under clawback | 236,200 | 708,602 |
| Termination fee | 181,050 | - |
| **Total remuneration** | **766,327** | **1,343,678** |

* Chief Executive Officer of the group as per September 2014 untill 1 August 2018.

In 2016 the Executive Board members were awarded their placement reward IPO in cash. The placement reward is subject to a secured clawback arrangement, which operates as a lock-up arrangement, whereby 50% of the net placement Reward received by any individual may be reclaimed by the Company if, amongst others, the management or employment agreement of the individual terminates within one year and 25% in case of termination within two years. The amount recorded as the placement reward IPO under clawback, contains the release of the claw-back reservation during 2017.

The number of shares owned by directors as per year-end can be specified as follows:

| | 2018 | 2017 |
|---|---|---|
| G.G.P.M. van Beers | - | - |
| L.A.M. Verweij | - | - |
| J.B.J. Bruggenthijs | Unknown | 58,307 |
| **Balance at 31 December** | **-** | **58,307** |

## 32 Service fees paid to external auditors

The total service fees of external auditors related to the financial year can be specified as follows:

| | Ernst & Young Accountants LLP | | Other EY firms | |
|---|---|---|---|---|
| AMOUNTS IN EUR '000 | 2018 | 2017 | 2018 | 2017 |
| Audit of financial statements | 235 | 224 | - | - |
| Other assurance services | 25 | 31 | - | - |
| Tax advise | - | - | - | - |
| **Total** | **260** | **255** | **-** | **-** |

## 33 Events after the reporting period

As per 22 February 2019 Sif has amended and restated his Financing Arrangements.

# Separate statement of profit or loss for the year ended 31 December 2018

| AMOUNTS IN EUR '000 | Notes | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Management fee | 37 | 1,969 | | 1,765 | |
| **Total revenue** | | | 1,969 | | 1,765 |
| Indirect personnel expenses | | 1,971 | | 1,765 | |
| General expenses | | 573 | | 542 | |
| Other expenses | | 673 | | 774 | |
| **Operating profit** | | | (1,248) | | (1,316) |
| Finance income | | - | | 221 | |
| Finance costs | | (371) | | (555) | |
| **Net finance costs** | | | (371) | | (334) |
| **Profit before tax** | | | (1,619) | | (1,650) |
| Income tax expense | | | 465 | | 390 |
| Result of participation in subsidiaries | 38 | | (906) | | 32,008 |
| Result of participation in joint ventures | | | 9 | | 12 |
| **Profit after tax** | | | **(2,051)** | | **30,760** |

# Separate statement of financial position as at 31 December 2018 (before profit appropriation)

| AMOUNTS IN EUR '000 | Notes | 31-dec-18 | 31-dec-17 |
|---|---|---|---|
| **Assets** | | | |
| Investments in subsidiaries and joint ventures | 39 | 128,118 | 129,369 |
| Other financial assets | | 75 | 10 |
| Deferred tax assets | | - | - |
| Total non-current assets | | 128,193 | 129,379 |
| | | | |
| Intercompany receivables | 40 | - | - |
| Other financial assets | | 10 | 5 |
| Wage tax and social security | | - | - |
| VAT receivables | | 216 | 236 |
| CIT receivables | | 510 | - |
| Prepayments | | 219 | 562 |
| Cash and cash equivalents | | 157 | 560 |
| Total current assets | | 1,112 | 1,363 |
| **Total assets** | | **129,305** | **130,742** |

| AMOUNTS IN EUR '000 | | 31-dec-18 | 31-dec-17 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | | 5,100 | 5,100 |
| Additional paid-in capital | | 1,059 | 1,059 |
| Retained earnings | | 79,430 | 56,320 |
| Result for the period | | (2,051) | 30,760 |
| Total equity | 41 | 83,538 | 93,239 |
| | | | |
| **Liabilities** | | | |
| Other non-current financial liabilities | | - | - |
| Total non-current liabilities | | - | - |
| | | | |
| Trade payables | | 291 | 219 |
| Intercompany payables | 40 | 44,941 | 34,826 |
| Employee benefits | | 261 | 235 |
| Wage tax and social security | | 62 | 109 |
| VAT payable | | - | - |
| CIT payable | | - | 1,905 |
| Other current liabilities | | 212 | 209 |
| Total current liabilities | | 45,767 | 37,503 |
| Total liabilities | | 45,767 | 37,503 |
| **Total equity and liabilities** | | **129,305** | **130,742** |

# Notes to the separate financial statements for the year ended 31 December 2018

## 34 Basis of preparation

The separate financial statements (before profit appropriation) of Sif Holding N.V. have been prepared in accordance with the provisions of Part 9, Book 2, of the Netherlands Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Netherlands Civil Code to prepare the separate financial statements, using the same accounting policies as those used for the consolidated financial statements (we refer to note 3). The separate financial statements have therefore been prepared in accordance with the measurement and recognition requirements of the International Financial Reporting Standards as adopted by the European Union (EU-IFRSs). Investments in subsidiaries are accounted for using the net asset value. The separate financial statements are presented in EUR ('000), which is also the Company's functional currency, if not stated otherwise.

## 35 Significant accounting policies

The Group has consistently applied the accounting policies to all periods presented in these separate financial statements. For the principles of valuation of assets and liabilities and for the determination of the result, reference is made to the notes of the consolidated financial statements.

## 36 List of subsidiaries and joint ventures

Included in the separate financial statements are the following entities:

| Name | Location | Share in issued capital % |
|---|---|---|
| Sif Property B.V. | Roermond | 100 |
| Sif Netherlands B.V. | Roermond | 100 |
| Twinpark Sif B.V. | Roermond | 60 |
| SBR Engineering GmbH | Siegen-Netphen | 50 |

Sif Holding N.V. issued a guarantee as mentioned in Article 403, Part 9, Book 2 of the Netherlands Civil Code for its subsidiaries Sif Property B.V. and Sif Netherlands B.V. Furthermore Sif issued a parent company guarantee on behalf of Twinpark Sif BV.

## 37 Management fee

The management fee contains the settlement of charges between Sif Holding N.V. and Sif Netherlands B.V. The management fee also includes compensation of the management board and supervisory board.

## 38 Result of participation in subsidiaries

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Result in Sif Netherlands B.V. | 3,349 | 35,706 |
| Result in Sif Property B.V. | (4,255) | (3,698) |
| Twinpark Sif B.V. | - | - |
| **Result of participation in subsidiaries** | **(906)** | **32,008** |

## 39 Investments in subsidiaries and joint ventures

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Sif Netherlands B.V. | 129,289 | 126,294 |
| Sif Property B.V. | (1,208) | 3,047 |
| SBR Engineering GmbH | 37 | 28 |
| Twinpark Sif B.V. | - | - |
| **Investments in subsidiaries and joint ventures** | **128,118** | **129,369** |

The movement in the investment value of Sif Netherlands B.V., Sif Property B.V. and SBR Engineering GmbH is related to the result over 2018 of these subsidiaries.

## 40 Intercompany accounts

| AMOUNTS IN EUR '000 | 2018 | 2017 |
|---|---|---|
| Intercompany receivables (current assets) | - | - |
| Intercompany payables (current liabilities) | (44,941) | (34,826) |
| | **(44,941)** | **(34,826)** |
| | | |
| Intercompany account Sif Netherlands B.V. | (42,844) | (34,147) |
| Intercompany account Sif Property B.V. | (2,097) | (679) |
| | **(44,941)** | **(34,826)** |

The intercompany accounts are free of interest and are frequently settled.

### Amounts due from group companies

Amounts due from group companies are stated initially at fair value and subsequently at amortised cost. Amortised cost is determined using the effective interest rate. The company recognise a credit loss for financial assets (such as a loan) based on an expected credit loss (ECL) which will occur in the coming twelve months or — after a significant decrease in credit quality or when the simplified model can be used — based on the entire remaining loan term. For intercompany receivables the ECL would be applicable as well, however this could cause differences between equity in the consolidated and separate financial statements. For this reason, the company elected to eliminate these differences through the respective receivable account in the separate financial statements.

## 41 Equity

The statement of changes in equity and disclosure to that statement are included in the consolidated financial statements.

The appropriation of the 2018 profit is at the free disposal of the General Meeting of Shareholders and has not been recorded in the financial statements.

## 42 Related parties

### Transactions with subsidiaries

During the year several transactions between Sif Holding N.V., Sif Netherlands B.V. and Sif Property B.V. took place. These transactions also includes compensation of the management board and supervisory board. Transactions between Sif Holding N.V. and its subsidiaries takes place through the intercompany accounts. As per year-end the intercompany accounts amount to a liability to Sif Netherlands B.V. of EUR 42,844 and a liability to Sif Property B.V. of EUR 2,097.

### Transactions with joint ventures

During the year, the group received invoices for work performed by SBR Engineering GmbH for a total amount of EUR 87 (2017: EUR 188).

## Articles of association related to profit appropriation

### Article 34

**34.1** Subject to Article 32.1, the profits shown in the Company's annual accounts in respect of a financial year shall be appropriated as follows, and in the following order of priority:

**a.** the Executive Board shall determine with the approval of the Supervisory Board which part of the profits shall be added to the Company's reserves; and

**b.** subject Article 29, any remaining profits shall be at the disposal of the General Meeting for distribution to the shareholders.

**34.2** Without prejudice to Article 32.1, a distribution of profits shall be made after the adoption of the annual accounts that show that such distribution is allowed.

**34.3** The Executive Board may resolve with the approval of the Supervisory Board to make interim distributions, provided that it appears from interim accounts to be prepared in accordance with Section 2:105(4) DCC that the requirement referred to in Article 32.1 has been met.

## Dividend policy and proposed dividend distribution for the year under review

Sif will pay a regular dividend in line with mid to long-term financial performance of the Company with the aim being a gradual increase of the dividend per share. Sif will pay-out 25% - 40% of annual net earnings as reported in the approved financial statements of the Company in any year. The retained earnings will be added to the reserves of the Company to finance future investments or other spending of the Company or to improve liquidity or for other purposes. The achievement of this reservation and dividend policy is, however, subject to certain legal limitations and the Company's liquidity position. Dividend may be distributed in cash, in stock or in a combination of cash and stock as an optional dividend. Profit attributable to the shareholder for 2018 amounted to -€ 2,745 million. During the Annual General Meeting of Shareholders on 3 May 2019 the Executive and Supervisory Boards will propose that € 0.10 per share is paid out as dividend. With 25,501,356 shares issued and listed this amounts to € 2,550 million.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## Independent auditor's report

To: the shareholders and supervisory board of Sif Holding N.V.

### Report on the audit of the financial statements 2018 included in the annual report

#### Our opinion

We have audited the financial statements 2018 of Sif Holding N.V. (hereafter: "the Company") based in Roermond. The financial statements include the consolidated financial statements and the separate financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Sif Holding N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying separate financial statements give a true and fair view of the financial position of Sif Holding N.V. as at 31 December 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2018
- The following statements for 2018: the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement
- The notes comprising a summary of the significant accounting policies and other explanatory information

The separate financial statements comprise:

- The separate statement of financial position as at 31 December 2018
- The separate statement of profit or loss for 2018
- The notes comprising a summary of the accounting policies and other explanatory information

#### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Sif Holding N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Materiality

| | |
|---|---|
| Materiality | EUR 1.500.000 (2017: EUR 2.000.000) |
| Benchmark applied | Around 5% of a four years average of profit before tax |
| Explanation | Based on our professional judgment we have considered an earnings-based measure as the appropriate basis to determine materiality. As a result of the historical profitability and the current loss making situation due incidental market conditions, we used the average of a four years period (2015 up to and including 2018). We consider profit before tax to be the most relevant measure given the nature of the business and the users of the financial statements. |

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 75.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Scope of the group audit

Sif Holding N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Sif Holding N.V.

Our group audit focused on all group entities consisting of Sif Holding N.V., Sif Netherlands B.V., Sif Property B.V. and Twinpark Sif B.V. We have performed all audit procedures on the components ourselves. In total these procedures represent 100% of the consolidated financial statement’s total assets, revenue, operating costs and profit before tax.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group’s financial information to provide an opinion about the consolidated financial statements.

### Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Valuation of contract assets and liabilities (including revenue recognition)

| Risk | Our audit approach | Key observations |
| --- | --- | --- |
| As disclosed in Note 2, 3, 6 and 19 in the consolidated financial statements revenue from contracts with customers and costs in relation to contract assets and liabilities are recognized in the statement of profit or loss and other comprehensive income over time. Each period end management assesses the progress towards the complete satisfaction of the performance obligation taking into consideration all aspects in order to finalize the projects in line with contractual agreements and relating contingencies, such as potential upward or downward adjustments in the projected estimates. As circumstances change over time, fluctuations in the anticipated project result can occur over the contract and updated measures of progress to reflect any changes in the outcome of the performance obligation are accounted for. The progress towards the complete satisfaction is assessed based on the actual hours incurred compared with the estimated hours needed to complete the project.<br><br>Revenue recognition based on satisfied performance obligations over time requires management to make a number of estimates and assumptions surrounding e.g. the expected profitability of the project, the estimated degree of completion and the cost development. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized in a given period. The significant assumptions developed by management include: estimated labour hours, total estimated costs of completion and (any) claims/contingencies. | We have assessed the appropriateness of the Company's revenue recognition accounting policies and assessed compliance with EU-IFRS accounting policies and disclosures (IFRS 15) for 2018.<br><br>Our audit procedures included to address the risk identified among others: assessing contractual arrangements and reconciling total contract revenues to signed contracts, testing management's estimates of costs to fulfil a contract, estimated hours and the proper allocation of costs and actual hours to projects. We also performed counts at the production sites as per year-end to observe the progress towards the complete satisfaction of the performance obligation and performed procedures on management's assessment of expected profitability or losses on the projects and any claims/contingencies on projects.<br><br>Furthermore, we performed a look back analysis to challenge prior years estimates and to validate whether assumptions and estimates made by management in prior periods supports the actual results of significant estimates. | We assessed that the Company's revenue recognition accounting policies were appropriately applied and that the impact of the new revenue recognition accounting standard (IFRS 15) is appropriately disclosed in Note 2, 3, 6 and 19. Furthermore, we have assessed that the revenue recognized and the accompanying management assumptions and estimates are within an acceptable range. |

## Compliance with covenants of the financing agreement

| Risk | Our audit approach | Key observations |
|---|---|---|
| Due to market developments the 2018 production of monopiles and tubulars decreased resulting in a significant lower activity level for the Company. The Company has a debt and guarantee facility in place with a banking consortium, which expires on 30 June 2019.<br><br>As part of the financing agreement covenants were agreed upon for which the Company received a covenant holiday in 2018. In conjunction two new covenants were agreed upon which were applicable year-end 2018.<br><br>Furthermore the Company had to refinance the existing facility prior to expiry in order to continue operations. | As part of our audit procedures we evaluated whether the Company met the applicable financial covenants at year-end by recalculation of the covenants applicable.<br><br>Post balance sheet date Sif agreed on a renewed debt and guarantee facility with the banking consortium. The renewed facility has an expiry date of 31 March 2022.<br>As part of our audit procedures we reviewed the new financing agreement.<br><br>We evaluated the adequacy of the classification (long-term / short-term) and related disclosures provided by the Company. | By recalculating the covenants we noted that sufficient headroom was available as per year-end.<br><br>Per balance sheet date the refinancing (debt and guarantee) was not at the discretion of the Company, which resulted in a short-term classification of the loans and borrowings in line with IFRS requirements.<br><br>We assessed that the Company's classification of their loan and borrowings was accurate and appropriately disclosed in Note 23 and 29. Furthermore, the refinancing was accurate and appropriately disclosed as part of the events after the reporting period in Note 33 in the consolidated financial statements. |

### Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Report of the executive board
- Report of the supervisory board
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the executive board, in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Engagement

We were engaged as auditor of Sif Holding N.V. as of the audit for the year 2007 and have operated as statutory auditor ever since that financial year. The Company became a EU - public interest entity in 2016.

### No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

### Other non-prohibited services provided

Our services are only related to the audit of the financial statements.

## Description of responsibilities for the financial statements

### Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Eindhoven, 20 March 2019

Ernst & Young Accountants LLP

M. Moolenaar

# Glossary and Explanation of non-IFRS financial measures

| | |
|---|---|
| Contribution | Total revenue minus cost of raw materials, subcontracted work and other external charges and logistic and other project related expenses. |
| EBITDA | Earnings before net finance costs, tax, depreciation and amortization.<br><br>The company discloses EBITDA and Adjusted EBITDA as supplemental non-IFRS financial measures, as the company believes these are meaningful measures to evaluate the performance of the company's business activities over time. The company understands that these measures are used by analysts, rating agencies and investors in assessing the company's performance. The company also believes that the presentation of EBITDA and Adjusted EBITDA provide useful information to investors on the development of the company's business. EBITDA and Adjusted EBITDA are also used by the company as key financial measures to assess the operating performance of the operations. |
| Net earnings | Profit attributable to the shareholders |
| Earnings per share | Profit attributable to the shareholders divided by the average number of shares outstanding during the year under review |
| IPO | Initial Public Offering (of shares). |
| Net debt | Gross debt (loans and borrowings) minus cash and cash equivalents.<br><br>Net debt is presented to express the financial strength of the company. The company understands that this measure is used by analysts, rating agencies and investors in assessing the company's performance |
| Normalized EBITDA | EBITDA corrected for incidental IPO related expenses or income<br><br>The company discloses EBITDA and Adjusted EBITDA as supplemental non-IFRS financial measures, as the company believes these are meaningful measures to evaluate the performance of the company's business activities over time. The company understands that these measures are used by analysts, rating agencies and investors in assessing the company's performance. The company also believes that the presentation of EBITDA and Adjusted EBITDA provide useful information to investors on the development of the company's business. EBITDA and Adjusted EBITDA are also used by the company as key financial measures to assess the operating performance of the operations. |
| Solvency | Equity/balance sheet total |
| EPIC | Engineering procurement installation and commissioning: A contractform including the engineering, the procurement, the installation and the commissioning of a building or other form of construction. |

| | |
|---|---|
| Working capital | Inventories plus contract assets plus trade receivables plus current prepayments minus trade payables)<br><br>The company discloses working capital as a supplemental non-IFRS financial measure, as the company believes it is a meaningful measure to evaluate the company's ability to maintain a solid balance between growth, profitability and liquidity. Working capital is broadly analyzed and reviewed by analysts and investors in assessing the company's performance. This measure serves as a metric for how efficiently a company is operating and how financially stable it is in the short term. It is an important measure of a company's ability to pay off short-term expenses or debts. |
| Executive Board | Board of executive directors responsible for the day-to-day business at Sif. In 2017 comprised of CEO and CFO. |
| GKSE | GKSE Holding BV: the company in which the former owners hold their shares in Sif Holding NV. |
| IEA | International energy agency. |
| Kton | Kilotons: A weight measurement used in the steel industry. One Kiloton equals one million kilograms. |
| LCOE | Levelized costs of energy. |
| LTI | Lost Time Incidents. |
| LTIF | Lost Time Injury Frequency. |
| MAKE | MAKE consultants. |
| Orderbook | The total of signed contracts and contracts under exclusive negotiations. |
| Pull production system | The production system whereby sequential activities at hand are 'pulled through' the production process by starting production of the next component at a given work station only when the previously manufactured component has been used by the next step in the production. This prevents congestion in the factory and results in higher output levels through improved efficiency. It also results in higher job- satisfaction and higher quality and safety standards resulting in a process of 'continuous improvement'. |
| Production capacity | The capacity of the plants operated by Sif Group: The theoretical capacity is 300 Kton for the combined Maasvlakte 2 and Roermond plants. Actual capacity is between 80 and 90% of theoretical maximum capacity. |
| ROCE | Return on capital employed: Net earnings as a % of equity plus loans and borrowings |
| Sif Group | The group of companies that together establish the Sif Group: Also referred to as 'Company' or 'Sif' (reference is made to the schedule on page 10 of this annual report). |
| Sif Holding N.V. | The entity whose shares are listed on the stock exchange (reference is made to the schedule on page 10 of this annual report). |

# NOTES

1. An agreement within the United Nations Framework Convention on Climate Change (UNFCCC), dealing with greenhouse-gas-emissions mitigation, adaptation, and finance, starting in the year 2020. The agreement's language was negotiated by representatives of 196 state parties at the 21st Conference of the Parties of the UNFCCC in Le Bourget, near Paris, France, and adopted by consensus on 12 December 2015. As of November 2018, 195 UNFCCC members have signed the agreement, and 184 have become party to it. The Paris Agreement's long-term goal is to keep the increase in global average temperature to well below 2 °C above pre-industrial levels; and to limit the increase to 1.5 °C, since this would substantially reduce the risks and effects of climate change.
2. The Pile Soil Analysis (PISA) Project, established in 2013, addresses this problem through a range of theoretical studies, numerical analysis and medium scale field testing. The project was completed in 2016 and was ratified as per 1 July 2018.
3. WoodMackenzie Power and Renewables Intelligence December 2018

# Contact

## Sif Holding N.V.


| | |
|---|---|
| Corporate seat | Roermond |
| Address | Mijnheerkensweg 33<br>6040 AM Roermond<br>The Netherlands |
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| E-mail | info@sif-group.com |
| Chamber of Commerce | Roermond<br>No. 13027369 |
| Shareholder, clearing and settlement agent | Euroclear Nederland<br>Herengracht 459-469<br>1017 BS Amsterdam<br>The Netherlands |
| Listing and payment agent | ABN AMRO Bank NV<br>Gustav Mahlerlaan 10<br>1082 PP Amsterdam<br>The Netherlands |


## Colophon


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Sif

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