Sif Interim 2023 Results

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Fred van Beers: Good morning, everybody, here for this first half year '23 presentation of the Sif results. Welcome to the analysts here in this room. Welcome to everybody on the webcast, and welcome to the members on the Teams meeting for this meeting.

My name is Fred van Beers, CEO of the company. And I will start the presentation on what we achieved over the last half year, what our plans are for the second half of the year, and of course, how we are proceeding with our long-term strategic plan rollout.

Next to me is Ben Meijer, our CFO, who will take you through a set of numbers and achievements of the first half year. And Fons van Lith, our Investor Relation Manager.

If we go to the first page, then. First of all, I think it's important to mention that at this moment, there are no safety drills planned in this room, for those here in this room. So if the alarm buzzes, please follow the people of this venue to the right spot, and hopefully, to the exit, so we can survive this moment of truth, important to say.

If we then look at the performance of the company, I think, what at least gives us some comfortable - more comfortable feeling is that we see that the safety statistics slowly start moving in another direction in a better direction. Although the number of incidents was higher than the first half of last year, the lost-time injury frequency, based on the work hours, is slightly lower than what we saw in the first half of last year.

And to a large extent, we noticed that after the safety standdown we had early May, at the two sites, the impact of that started paying off. It's, of course, a continuous process of maintenance and attention. But there is one LTI after that moment, whereas we had six LTIs before that moment. So we keep a good pressure, focus and momentum on those actions that we agreed in those meetings, which we feel is extremely important. In the end, we want everybody to walk out of the factory the same way as they walked into the factory.

And what also starts paying off is the high attention to the new workforce coming in. We are constantly in need of new people. But before we push them into the factory, we pay more attention now to educating them, training them on the specific safety issues in our company before letting them go in the production. It pays off.

Second, as you also can see here is that, I myself, but others also of the production are having a clear KPI in their personal targets, which is basis for our salary in the end on LTIF and on safety statistics. And of course, as it is - subject to the limited assurance by our auditor, we also see that the official statistics and reporting, etc., is improving as we would like to see it happening.

Sick leave is still too high, but also gradually going down. There, we are taking – have taken, I must say, action in more support to the line management in order to help them deal with sick leave and taking measures on improving the working conditions, should that be necessary. But for us, still a concern, it's too high and as such, too costly. We want to go back to this 4.5%, 4% number as we have had it in '21.

If we then make a step to the next page. What are the highlights operationally for the first half year. First of all, we continued producing the monopiles for Dogger Bank B, and finished Dogger Bank A project. And we worked on the transition pieces, which is coming close to an end now in the coming two weeks for the He-Dreiht transition pieces. You see them in the picture at our partners yard of Smulders. These are transition pieces that five, six years ago would be a monopile. If you look at the weight, they are close to 600 tonnes, 580 tonnes each, 33 meters high, transition pieces for the He-Dreiht project, with a 50% conical part and 50% cylindrical, which is, from a production perspective, a quite interesting animal to produce, but we successfully are coming to the end of this project, which I think - I mean, I don't know if you can see here, but there is a person walking at the yard.

I don't know if somebody can see it, but that gives you an impression of the size. It's more than eight meters. If you look at what - there it is. Yeah. So it's sizable stuff from a transition piece perspective at the moment and let alone on the monopile perspective.

What we also did is we successfully built in the beam welding pilot into the Dogger Bank B project, which you can see on the top right picture. So that is an innovative way of welding compared to the traditional arc welding or powdered welding that we apply in a normal production. We are not going to, at this moment of time, introduce it in the production process because it's still too expensive, simply. It's a very sensitive process. But the fact that we were able to successfully complete this pilot, I think, gives us also enough basis for the long term to continue looking into this, whether that is yes or no, a good alternative for the more traditional way of welding. In the new factory, we will not implement it, though, because it's not that far yet.

Then we are finalising, at this moment, as we speak, the Siemens Gamesa, Hollandse Kust Zuid marshalling project, has been a very successful project operationally but also financially. Ben will come back to that point a little bit later, because it does clarify to a large extent how the development of our performance and our numbers is this year. And then I expressed it already, we had an important point, milestone on safety - on the safety standards. And we have decided that, at least once, but probably two times a year, we will repeat this as it is paying off dramatically good, so to say, in getting the awareness, especially when your crew is renewed quite a bit, the awareness on safety and quality actually as well.

So although it cost you one to two days production time, it's well spent money too actually and an investment in performance longer term.

With that, I'd like to hand over to you, Ben, to continue with the performance.

Ben Meijer: Thank you, Fred, and good morning, everybody. I would like to start with the order book development, order book additions year-to-date for the first half 2023. And overall, what we see, it has been a very busy first half year in terms of tender activity. And overall, what you see is that the order book, we have put in place additions of 185 kilotons in total, and it's basically buildup of two large projects.

The first one is Baltyk, Baltyk 2+3. Offshore wind project in Poland and is the first project under the long-term collaboration agreement with Equinor. And we're talking in total about 90 monopile foundations, reflecting 105 kilotons. And production of these two projects is spread over 2025 and 2026.

Second project, where we are selected as preferred supplier, and we have an exclusive negotiation position, is for a project where we cannot disclose the name at this stage, but in total, we are talking about 80 kilotons. So combined total of the two projects, additions of 185 kilotons. Later on, I will come back regarding the overall order book.

If we go to the next slide, we see the key financial parameters and the financial results for the first half 2023. If we start with production, we see a production output for the first half year of 94 kilotons. Last year, that was 89 kilotons. So we see it is slightly above last year, but also slightly below expectations. And it is below expectations because of a couple of reasons.

First of all, what Fred was mentioning is, the sickness rate is coming down gradually, but it is still high. For the first half year, we were having a sickness rate of 6.7%. And we are still confronted with challenging labour market. So we need more staff. Also the staff level overall has increased significantly in the first half. But if we look at the people coming in, more training is required. So because of the challenging labour markets, sometimes you are - in a lot of cases, you're bringing in less experienced people. You have to put in place a lot of training hours, which is impacting your efficiency.

And then also if they start production, the output level is at a lower level compared to the much more experienced staff we are having. And in addition, also the first half because of the larger products, also we were confronted in some cases with temporary machine breakdowns. In the end, it was always fixed. It's always temporarily, but this is, of course, negatively impacting your output level.

If we look at contribution, contribution margin per tonne. As most of you are aware, this is sales minus your raw material cost, minus subcontracted work, and minus logistical costs. So direct labour cost is not part of contribution margin, especially for the new analysts who are following Sif, to give this brief explanation. And contribution margin is important for us, much more important than sales because, for example, if you look at the steel cost, this is directly impacting your top line, and it's a pass-through for Sif. So if the steel price is going up, it's impacting your top line, but it's not directly impacting your contribution margin. So we say, for us, contribution margin is much more important because it is not being distorted by these developments.

If we look at the contribution margin per tonne, and over here, we have excluded marshalling, and we have also excluded the impact from engineering, from our engineering company, KCI, we see an increasing trend. And for the first half year 2023, we are at a level of €676 per tonne. And over the last couple of years, we see an increasing trend as mentioned, reflecting also the improved market conditions.

Adjusted EBITDA came in at €21.4 million, in line with expectations, slightly above prior year. And basically, the growth is coming from, first of all, a little bit higher volumes, but also if we look at the contribution margin per tonne, is at a higher level. On the other hand, this is being offset by the impact of lower efficiency and lower productivity. Reported EBITDA is impacted by the one-off costs in relation to the setup of the new manufacturing plant. And we also consider adjusted EBITDA as a much more relevant parameter to evaluate the underlying operational performance.

Working capital, negative minus €75 million and it's basically - also in the last two years, it was also negative. Also, on this one, as we have also discussed in previous meetings, on a project-by-project basis, on every individual project, we want to make sure that we are cash flow positive as of the beginning. In addition, the minus €75 million is impacted by the first payment of the advance factory payment, which is part of the financing structure of the new factory. And that is included for a number of €32 million.

So, if you look at the overall financing, €100 million of the overall financing structure was related to these advance factory payments. Of those €100 million, €32 million has already come in, in the first half.

For the full year, we keep our outlook, and that is that adjusted EBITDA is expected to come in, in line with prior year. And that is basically the consequence of higher volumes being offset by the loss in marshalling income. So for the first half year, you still see a significant contribution, close to €6 million of marshalling. That will disappear during the second half of this year because we need place over there to build the new facilities.

Social and environmental results, the three important KPIs, and also at year-end, this is again being supported by limited assurance by our audit company. First KPI is on CO2 emission, we see a strong decrease when we compare the first half of 2023 with 2022. And this is mainly coming from Scope 2, from energy with more compensation from the Haliade X, the wind turbine at our premises. More hours that it was operating during the first half, and this is positively impacting the CO2 level.

Regarding Scope 1, we also see a positive impact by replacing diesel by biodiesel, which is positively impacting your Scope 1 emissions. And the reporting - overall reporting is brought more into line with the greenhouse gas protocol. Scope 3 now, is only including business travel.

If we look at the second parameter, contribution to renewable energy. It has increased from 0.8 gigawatts to 1.3 gigawatts in the first half of 2023. The 1.3 gigawatt is reflecting roughly 1.3 million households. So basically, in the first half of 2023, we are involved in offshore wind foundations and what we have produced in terms of offshore wind foundations, these foundations are used to generate 1.3 gigawatts of renewable energy.

LTIF, slowly improving. Still not good enough, but also as Fred was mentioning, actions are taken regarding - to further improve the safety performance.

Order book further increased to a total level of 755 kilotons at the end of the first half year, and this is reflecting the increase compared to the end of last year, the additions from Baltyk and the undisclosed project. And if we look at the order book, it's an all-time record for Sif, a very high level at the moment. 2023, 2024, fully booked. 2025, largely booked and on track to reach our expected EBITDA level of €135 million. And also for the first half of 2026, we already see that we are largely booked at the moment. So overall, a very healthy order book position also at good pricing.

I would like to hand over to Fred again.

Fred van Beers: I will come back - thank you, Ben. I will come back to the robustness of this order book in a minute as well because as we all know, there is something interesting at the moment developing in the market. Some call it a perfect storm, some call it a rebaselining of the business.

But what we clearly see is that, like before, the ambitions for 2030 and onwards are increasing, actually still quarter-by-quarter. So there is, from a political, long-term perspective and a strategic perspective, no change in the demand for offshore wind in the various parts of the world, as you can see, and you've seen this picture before in the market.

So we have – we see no reason to change that and bring that down. It's actually the same or increasing, as I said. However, we also see that there is an increasing pressure on the returns of some projects. And that leads to FID delays or reconsiderations. And the question mark here is, as I already said, is the - and some other say as well in the industry, is there a perfect storm building at the moment?

And on the left side of this picture, you see what some publications have been in the market. BP publishing this message on renegotiating their PPAs for the offshore wind projects, Empire and Beacon, which, of course, is triggering and has been a trigger for us also internally to immediately contact our partner here and say, okay, are we here in a new vineyard situation or not? And I can, with a lot of confidence, confirm here that this is not the case.

We clearly noticed that there's a lot of determination and also no action at all that justifies the fact that we would see a delay or cancellation of the Empire project, which is, of course, extremely important for us, as it is the start of a project for the new factory and a big part of the robust - what we still consider a very robust order book we have.

So as you probably also have seen, as a note that only BP has published some questions on this in the press and that you haven't seen any confirmation or remarks or whatsoever from Equinor on this, and I think that can be seen as a sort of signal.

But on the other hand, you also see that Avangrid has terminated four PPAs and taking the hit on the penalty. Vattenfall is stopping the Boreas project in the UK. And Sweden is rejecting Vattenfall's application to build Stora Middelgrund for another reason. But what you see happening is that there is, on the one side, a huge potential and a huge demand for offshore wind. On the other hand, you also see certain projects not making it to the end game.

And in a broader perspective, you can say that there is a push now from developers and supply chain together to discuss, at the take-off, the price that has to be paid for building these wind farms and simply some of the PPAs are too low. And that is, of course, a massive clash of powers that is, at this moment, building a little bit for us. And that's on the right-hand side. We have taken remedies against this. And I think, we talked about that quite a lot of times in these sort of meetings that we are not running after the project with the initial highest price.

We're running after the projects that give us the best confidence of realizing those in time, at the right moment with parties that understand this business and don't get nervous straight away when certain things change in the market. Whereby we have said we need - if we take orders on board, we want them to be supported by a delay and cancellation clause to underpin this trust in each other that this is actually going to happen. And that's paying off now for us.

So at the moment, we can simply confirm that we do not see any reason to adjust or delay the order book as we have it at the moment in our order books. No signals whatsoever on that. I think that's the important message in a nutshell we would like to bring across at this moment on order book stability from ourself and the customers that we deal with.

Then if we look at the operational situation today in more detail. The supply chain is as it was. I mean, steel availability is secured. Steel is a pass-through item, as Ben already mentioned, all the projects that we have in our order book or in exclusive negotiation are supported by confirmation of steel supply and flange supplies. So there's no reason to be concerned on that. And the energy prices are largely fixed for '23. So we don't see any risk in that respect on energy.

If you then look at tenders and given the situation of the market that I just painted, we do not see any decrease in the number of tenders at the moment. It's extremely high, the tendering activity. About 40, 45 tenders we have now actively - that we are actively working on. And that is especially the EU, North Sea and Baltyk projects that are firmly progressing. There is some concerns and delays that we see in the UK and US for the reasons that I just painted out on the PPAs and the FIDs, not being too sure.

But if you look in the EU and for example, especially in the Dutch and German waters, with all the already invested money through TenneT in the grid connections, these farms are being pushed through massively.

We, as a company, have decided to push back a little bit more now on the tender requirements. So we are sort of giving a framework to interested parties in offshore wind monopiles for certain projects, and we say, okay, we are happy to offer and deal with you in a tender. But on these terms and conditions, otherwise, sorry, we cannot support you in the tender. And we've seen for, especially Dutch and the German, let's call it, North Sea waters, tenders that do not stop developers from asking quotes and then input from us. So we can be a little bit more balanced in part with their power - negotiation power, so to say.

Then on the personnel, an important one and a very high attention area for us as a management is that, although the labour market is a bit more relaxing, you've seen the numbers, maybe you've heard about the numbers in the Netherlands coming out recently, that is now the other way around, 100 applicants to 145 vacancies it was. And it's now 125, but still that is the wrong way around. But it's a bit more relaxing.

The availability of skilled workers remains low. And of course, the question pops up, what - how the hell are you going to fill that in your factory where you need a lot more people? Well, we've made big progress there. We have the first people in actually that are in training already, especially on the rolling side, where you need the longest training period. So we managed to find these people. Why? Because we are on a journey of contributing to the climate change, which attracts young people that are thinking a little bit longer term, than we now think as older guys. So that is helping us out and also the fact that they can be part of a high-tech, process-oriented, next level production unit. I mean, the fact that we are building quite something interesting at the Maasvlakte at the moment is paying off and also gaining interest from people.

We have staffed up our recruiting and HR team so that we are actually able to handle all these recruitment needs and support that you need to have in-house to make that happen. So they are all in place. And we are rolling out now, or we have started rolling out an extensive labour market campaign, which is also supported by quite a significant attendance at, for example, Wereldhavendagen, what you call it in English? World Harbour days next weekend. So I invite you all in Holland here to go there and have a look at our booth, so to say, which is actually four transition pieces on a barge next to the Erasmus Bridge. So you can see us sitting there.

There are open days planned in Maasvlakte and Roermond. There's the whole campaign running. So we are pretty confident that we get the basic people in that we need. In parallel to continuously getting the right people in our Roermond facility, to make sure that we can deliver the order book, and that is the other - but that's a dedicated team sitting on that part of the game so that we don't dilute the influx of personnel from our new factory with the influx of personnel for today's production.

And by that, we do see the first positive signs, which makes us also confident that we can achieve the numbers that Ben was just a bit explaining in the volumes. But it's hard work to make it happen. I cannot neglect that fact.

So we - in general, also when you look at competition and look at the other supply chain members, don't notice any slowdown at the moment. A bit coming back to the point of the macro situation in the market. We still - when plotting all the capacity, even plotting the capacity of the yesterday announced investment by Titan in Cuxhaven of their monopile factory that was already long on our radar. What are they going to do? Well, they now published that they will build a - or planning to build a factory and want to take FID by the end of this year, I believe, already.

Even if you plot that - we plot that one in, in the graph that you see on the top, then still, the demand is a lot, substantially higher - higher than the capacity in the market if everybody is successful. Well, yes, already in there. Before the meeting discussed, EEW has started deliveries from the USA factory. But to our understanding, they are delaying a little bit, the next phase development in that factory, given the operational challenges they are facing in general in this market, with the production also in Rostock, which they are doing well. But we see them coming out and we still consider them as the biggest one, but it doesn't come for free from that end as well.

Bladt, as you probably have read, has changed ownership. CS Wind is stepping in now, a very reputable tower builder from Korea, a lot of experience. So we will see them continue investments in foundation factory. That's also what they announced, and what we truly believe will happen. Actually, also underpinning the demand that is there in this market.

Windar has changed ownership, but the main shareholder is now Bridgepoint, investing - having big investment plans in foundation production, not to the levels that we have, but still, I think also very much needed to make the ambitions coming to reality. Not good English, but never mind.

SeAH in the UK is delayed a bit, as we see, but that is progressing. Teesside was a little bit late, but the construction work, the whole piling work, is coming to an end at the Teesside factory for that £400 million factory. I think they are also facing the challenges of personnel, but they are making steps. They are a professional organisation, and they will come to the market, later a little bit, I think, than planned for but they are coming.

And then, of course, Dajin, very aggressively able to take orders. What I think is important to say is that all the companies that are now putting orders into the Dajin organisation have first challenged and asked the European supply chain. So there is still a favour to go to the European supply chain. Why? Because from a cost perspective, it is probably the best solution if you compare building in China and having all the transport costs. And, of course, given the fact that by '25, I believe, the CBAM and ETS regulations should start kicking in, which will have an effect on the carbon - they will pay extra penalties for the carbon emissions for the fact that they are producing outside the EU and having to bring it into the EU, so there will be penalties on that.

And we very much support, actually, the fact that the EU is now not only looking at financial criteria, but starts looking also a lot more at non-financial criteria and setting that into tender and rules, but also into this sort of tax programmes.

Then if you look at the supply chain members, as you probably know, TenneT has basically finalised the whole grid connection ramp-up up till 2030, and is now fully working on the ramp-up for the time period between 2030 and 2040. And in order to be sure - make sure that all the grid connection is available for the Dutch and German offshore wind that needs to be installed up till 2040.

Also, I think underpinning the fact that we are not on something that is a short-term ambitious business plan only. This is really about a strategic decision being taken, to make sure that we get this renewable offshore wind installed as planned for long term, which gives us also a comfortable feeling, and more comfortable feeling even, that this business is going to be there for longer time.

Vessels, massive investments, not only installation vessels, but also crew and service vessels, is going on. You see the shipbuilding yards are fully booked. Prices are a little bit stabilising, and maybe expected to come down a little bit, but still at a very high level. Supply chain push for realistic pricing and slowdown of turbine size, we see also is coming more and more as a sort of consensus out in the market.

You see Vestas very transparent on this. Siemens, for reasons of also making sure that they get to the right profit level again, and that they are able to deal with their maintenance issues or service or warranty issues, is giving signals that they are also not so keen to ramp up the megawatt size of turbines in a very quick pace. We see that more and more coming to the market. And GE is also keen, more or less, to make sure that they now deliver their order book in the right time and quality.

And yes, they are working on this 15 to 18 megawatt platform. But we see a clear trend that probably that platform will be there a little bit longer than maybe two years ago, we expect, when everybody was talking about 20, 25 megawatt quite easily. We don't see that at this moment happening so quickly, which I think is a healthy sign of people coming to sense.

And the policymakers, last but not least, do pick up the message. And to make sure that on one side, we assure a level playing field. We are not afraid, as EU industry, for competition, but it has to be at a level playing field, competition from outside to EU. And they need, I think, to make steps now to also support fair energy prices, which is the battle that's going on as we speak, I think, in the market.

Then last picture. Maasvlakte, our investment programme, €330 million. How is that proceeding? It's proceeding extremely well. As you know, we – last week, we celebrated the highest point. At the far end of the picture on the left, you can see, that's where it is, 35.5 metres. And here, the building at the front of this picture is the start of the plate handling factory. That is basically yesterday, at least. The structure is completed already.

Train supports are being put in. All the groundwork has been done. The - all the groundwork for all the other halls, so the extension of the main hall, as it was today, is completed, and also the foundation work for the new final assembly hall is completed.

Everything on schedule. And as - well, you can read through here. Ben already said it as well. From getting the money in perspective, so to say, in time, we are well on track. The AFP is partly in, and the term-loans and the lease facilities can - we need to draw up upon, but we want to do that as late as possible because it costs money.

Ben Meijer: If I can add one more comment to that, Fred, regarding the AFP. I was mentioning, for the first half year number of €32 million, that was the situation for end of June. Situation for today is that, after AFP, €50 million has been raised, to explain the difference between these two numbers.

Fred van Beers: Other important milestone we achieved is the fact that now - a little bit more, actually, that 90% of our suppliers is fully committed and locked in. So all the contracts have been signed. Now it's - the remaining 10% is the nitty-gritty work of what kind of pavement or what colour of pavement do we put in? Do we put three or five flag poles in? I'm exaggerating a bit, but that's sort of level, that you're talking about.

But all the main components are in and all the final engineering has been done. So we know exactly what the equipment output will be. We have also - big chunks of the equipment are being - are ready already and are in storage of suppliers. But we also have a full detailed confirmation now of the total production line that is into the production stage. So we don't - we are not faced any - we're not having the risk of additional costs or surprises coming out of the engineering phase. It's now purely for the production - for the suppliers to actually produce, as we have agreed in time, and we're following that now, which is actually, from a risk perspective, quite important, we feel that we have reached that phase in this period of the programme.

So on schedule, time-wise. On schedule, budget-wise. On schedule also for the ramp-up of personnel, as said, but also the automation and management systems that we need, of course, to make sure that the production control is in place as well for this factory.

So we are pretty happy with that. And with that, I've come to the end of this presentation. And I open the floor, I guess, for questions, remarks, whatever you like.

Please, Fons you will manage the online questions, should there be any. And I would like to give the floor to the online people and the people here in the room or on Teams. Go on.

Questions and Answers

Roald Hartvigson (Clarksons) on Teams: Good morning. My first question. We've seen two downward revisions on production estimates for the current year. First from 221,000 kilotons at your Capital Markets Day and then to 218,000 tonnes at Q1 update, and now further down to 208 tonnes - sorry, kilotons. And you already touched upon the challenges with labour and sickness leave. But do you see any further risk of further revisions? And will the full volume shortfall compared to the previous estimates be moved into subsequent years?

Ben Meijer: Yes, overall, indeed. The trend you are saying is correct, indeed, because of the challenges we are just describing. And the consequence is, if production is not going to happen this year. Automatically, indeed, it will phase over in the next year. But at the moment, if we look based on the latest information, also the latest planning coming from production, also based on the latest information from HR, we say the best estimate at this stage is that you arrive at a level of around 208 kilotons. It's based on the latest production planning.

Fred van Beers: I may be good to add here because we didn't say that, because we're leaving now end of August. We managed to actually continue production during the summer holidays with a fully - throughout the whole holiday, three shift system. So another weekend shifts, but the three shift system in the production for both facilities with all fabrication halls up and running. So it's not only the monopile production, but also the transition piece production and the offshore support structure. So for pin piles and structural axe for the substations and some gas rigs has been in production continuously, meaning, that already in the first two months, so to say, of the new half year, in the second half year, we've seen quite some promising output materialising. Thijs?

Thijs Berkelder (ABN AMRO-ODDO BHF): Thijs Berkelder, ABN AMRO-ODDO BHF. First question on contribution margin. You report now €676 per tonne. Does this include the Korea contribution? What was the Korea contribution roughly? And the year-on-year jump, is that mainly related to, let's say, a higher contribution margin in the transition pieces? Or is it monopiles related - primarily monopile-related?

Ben Meijer: Okay. A couple of questions, Thijs. First one, the impact from GS Entec is not included in that number. And the impact for the first half year was rather limited. It's a couple of hundreds of thousands of euros. But it's not included in the contribution margin per tonne. Then the increase, if you look at the contribution margin per tonne, is the combination of higher margins on monopiles and transition pieces.

Thijs Berkelder: Okay. Clear. Yeah. Then a logical question on Empire Wind. In case the project gets delayed, how should we exactly see the, let's say, the cancellation clauses. What kind of compensation should we be looking for in case this happens? And is that coming to you no matter whether you, let's say, replace that production with another project at the same time? Or is it really interlinked system?

Fred van Beers: It's a bit - the political answer would be, we do not speculate on things that are not going to happen. We are not in the politics here. But on a serious note, there is no sign, whatsoever, that this Empire project will be delayed. Also not based on any of the information you can read in the press. That's one thing. And Empire One is very close, because next year, we need to start. So you can imagine steel plates, everything is in the production line, so you cannot do much.

Coming back to your second point. I said, I think, in other meetings as well, depending on the moment of either delay or cancellation, we get up to the total contribution margin of the project compensated.

If we are not able to actually fill that slot with order - another order. But even if we would do that, and that has to come at a price, then that price is part of the cancellation delay clause. So there is - from that perspective, from our customer side, no interest at all to go into that discussion.

And I think, interesting to mention here as well, which you shouldn't forget with the same, because it's a really partner and a shareholder, which gives also some interesting dynamics, Equinor. We have also the exclusive negotiation going on, on the Baltyk 2+3 projects besides Empire, so there is also some order book if need be to play with.

Thijs Berkelder: Next question on the expansion project and your statement on being on budget for 90%, or let's say, having fixed for 90% and being on budget. Do you then mean that you're on budget, let's say, for 90% of the €328 million?

Ben Meijer: No. On this one, total project budget is €328 million. And basically, you have a detailed budget what you're going to spend to the breakdown of the €328 million. Of the breakdown, more like in terms of construction supplies, equipment supplies, 90% of the price is fully fixed, has been fully negotiated. For the remaining 10%, it's more like you have decent quotes. You have detailed estimates to underpin that number, but it's not yet locked in.

So overall, 90% of your budget, fully fixed. 10% of your budget is based on estimates and latest quotations.

Fred van Beers: And the budget still includes a healthy portion of contingency.

Thijs Berkelder: Clear.

Fred van Beers: Next question.

Tijs Hollestelle (ING): Tijs Hollestelle, ING. Yeah, I also had a question about next year, you provide us guidance on the production level that is quite early because of the visibility. So that's helpful, I think, 200 kilotons. That basically means that you're going to produce, let's say, 50 per quarter, also what you basically predict for the second half of this year. And to my understanding, you start in the second half of last year - of next year, with the new facility, kind of test orders, but it is a real order, a bit slower. Is that included in this amount?

Ben Meijer: It's included.

Tijs Hollestelle: And you already have, let's say, visibility on EBITDA levels on that early production. But I would assume, with learning curves, etc., that it maybe has a breakeven EBITDA contribution in the beginning?

Fred van Beers: Yeah. Don't expect miracles on that part, for '24, I mean.

Tijs Hollestelle: Yeah. But can you then - I mean, is it possible to increase the kilotons then, on the existing facilities for next year? So you have room to add additional orders?

Fred van Beers: Basically, no. Because besides the production, we also have, next year, the integration elements of the old factory at Maasvlakte with the new one. So at a certain point, and we need to extend the hall, for example. So we have a bit of - that has a bit of an impact, not much. We need to reschedule equipment in our existing hall, hall A. That has a bit of an impact.

And then the main question, I think, on the table is, therefore, we have had - we have taken our reserves in time is the start-up of this factory. What we don't want to enter into is a squeeze that you, sort of, can't spend sufficient time in ramping up the factory itself. Meaning - and on the other hand, even if that would be very successful, we probably decided to, sort of, pull a little bit order book forward from '25 into '24 from the effect. But we cannot, just like that, add then new orders that fit at that moment in the production. Therefore, the time is to - is gone to do that. If you know what I mean.

Tijs Hollestelle: Yeah, I understand that. For me, that's helpful just to think about what's actually going on. So all things equal, if your profitability levels next year are similar to what they are now, the EBITDA - full year EBITDA guidance probably is going to be lower. All things equal, I understand that you try to increase margin. But if you assume similar production on existing, then there will be a negative impact on overall EBITDA from the new production starting up.

Ben Meijer: If you look, indeed, at - more like if I look at adjusted EBITDA level, all things being equal, you're talking about roughly the same level. And then if you look at reported EBITDA level, also for next year, what you will have is some non-recurring expenses because you have some people are coming in. They're not yet fully involved in the production and the operation. So it's basically these costs will have an impact on your non-recurring cost. So that will be at a higher level next year. That's the expectation.

Tijs Hollestelle: Okay. Yeah. I understand it. It was also one of my next questions because you have one-off cost, and like advisory consultancy costs for the financing, etc. But you probably, also next year, will include, kind of operational costs relating to the start-up.

Ben Meijer: Exactly.

Tijs Hollestelle: Okay. And any idea how much that will be?

Ben Meijer: It's too early at this stage.

Tijs Hollestelle: Yes, I thought so, but I was going to ask it anyway. Yeah. And then on the cash flow, I mean, you spent €75 million in the first half. Can you also give us a bit guidance for the third quarter, fourth quarter and also into next year? I assume that most of the spending is done, let's say, June next year?

Ben Meijer: So it’s roughly - expect roughly the same number for the second half of the year. And overall, the split is basically 50% will be spent this year, 2023, 50% in 2024. And if you look at the breakdown of the expenses, that's the overall number of the €328 million, 50% '23, 50% '24. The underlying nature of the spend, of course, this year, we will spend much more under construction. And then next year, much more will be spent on the equipment suppliers.

Thijs Berkelder: Yeah, that's obviously - and then also tail to the first half, I guess.

Ben Meijer: Yeah. Correct.

Tijs Hollestelle: And then you gave us good guidance on the prepayments. So the prepayments are also expected - the remainder to come in the second half of this year?

Ben Meijer: Correct.

Tijs Hollestelle: All at once, the remaining full part?

Ben Meijer: That is currently the expectation.

Tijs Hollestelle: Okay. More or less. And the rights issue is also the cash inflow in the third quarter?

Ben Meijer: Yeah. It is already on the bank account, but not reflected in the half year numbers.

Tijs Hollestelle: Yeah, exactly. Okay. Yeah, that’s helpful. Thank you.

Andre Mulder (Kepler Cheuvreux): Andre Mulder, Kepler. A few questions from my side as well. On staff hires, where are you currently? How many people do you need? Where are you now? What's the plan for, let's say, at the end of this year?

Fred van Beers: We roughly need 200, depending a bit on the - how many people we are motivating to move from - partly move from Roermond to Maasvlakte. We're in that process now. We have - at this moment, we are just below 10, I think, on people that we have actually onboard. And by the end of this year, we should have something like one-third of that accrual, give or take.

Andre Mulder: And that is developing according to your expectations?

Fred van Beers: Yes, we are in the early stages. That's why we are rolling this out. But we do get the names in now for talks, etc., yeah. And part of that will come from - we aim for, as much as possible, of course, out of the Netherlands. Out of the area. That's why we are promoting so much on our case now in the area, Rotterdam. But we, on the other hand, have quite a few partners that will recruit people outside Europe - outside Netherlands, sorry.

Andre Mulder: You showed this picture of He-Dreiht, but the transition piece is twice as large as they used to be. What about this trend towards TP-less monopiles?

Fred van Beers: It's a bit of a seasonal thing, it looks now and then. So you have certain moments that a lot of transition piece requests come in. And again, if you look, for example, at the Dutch projects, they typically tend to be TP-less, so we're offering quite a bit on that. On the other hand, depending really on developers, that some of them really stick to the traditional TP monopile split. So we, in our long-term considerations, basically look at a 50-50 balance max. If not 60% TPs, 40% TP-less.

Andre Mulder: Next question on - the energy prices are largely fixed for '23. But you stand for '24 compared to what you so far did in '23. So should we expect a decline there?

Ben Meijer: Yes. For '24, we expect energy levels to come in at a slightly lower level compared to '23.

Andre Mulder: Slightly low.

Ben Meijer: Yes.

Andre Mulder: Then the short question on - you talked about massive investments in the fleet, but I don't see that happening. We track a list of around 100 vessels. We see that on the top end, a number of these vessels, which used to work in oil and gas, are moving back into the segment. On the lower end, we see vessels dropping off. For example, NAT sold three small vessels there. So how do you look at that? It still seems that there's going to be a sort of acute shortage in the next few years?

Fred van Beers: Yes, I think, yes, because you see there will be a shortage. That doesn't mean that there is a need - but the need for investments is there for sure. What you do see happening, when I look a little bit in that market, also looking at, for example, the EDDA announcement last week. That in the CSV market, there is - if you look at the 2030 demand and look at the actual fleet, we're roughly at, what is it, one-third, I think, of what is needed in that fleet.

But on the other hand, the prices for new builds have been going through the roof. The order books are quite full, and we see sort of flattening, and maybe, and hopefully, drop in the prices. And I think that will also be the moment where new orders will be placed. I don't see anybody saying, we don't need these vessels anymore because the market is not there. But we do see there a push, of course. People say, it's becoming too expensive for me, and I'll wait a little bit because it takes anyhow a long time before I get my vessel.

Andre Mulder: Looking at that graph of additions that you showed, installation additions. Is that a gross one or net one? Does that mean, you're only looking at projects there? Or do you take into account the development of the installation fleet as well because that could curb the additions in time?

Fred van Beers: Yeah. We look at all, to be honest. So it's not - because we also look, in that respect, at the yes or no continuation of the rat race on bigger turbines, because that has an effect also on the installation vessels capacity, for example. But we try to look also at cables. We try to look at, as I said, for example, what is TenneT doing for specific markets, and what are others doing on grid connection because it's all part of a big ecosystem that you need to monitor.

So we have a team, a small team. Our former CCO is still – is in the team, for example, Michel Kurstjens, some of you know him, who is constantly with his team members, monitoring all these aspects to make sure that if you look at what we are doing and how we see the monopile demand and the total demand, how that is reflected in actually execution power throughout the whole supply chain, including developers positions, the other one. So, yeah. Long answer. The answer is yes, we are monitoring it constantly. Hope that answers your question. Any other questions?

Jeremy Kincaid (Van Lanschot Kempen): I'll ask one, please. Jeremy Kincaid from Van Lanschot Kempen. My question is just around the contribution margin per unit. After your presentation, there were a number of things there that made me think that could come under pressure because there's ongoing competition. A number of projects not making it past FID, and also the fact that you just mentioned you're happy to take lower-priced projects to have some certainty. But then when we actually look at your numbers, we're seeing the opposite. You're actually delivering a very good contribution margin per unit, and it's growing. So I suppose, could you just talk about those elements?

Fred van Beers: These are relative remarks I made. I mean, if we can make good contribution margin, we, of course, will do it. So if you take - you see the relative position of the contribution growing - going up. But in the consideration we are making, we are not only looking at contribution margin. We're also looking at stability of our customer and of the project itself.

That, I think - so you have to see these things in an inter-related context. That's one thing. But on the other hand. You clearly see that, given all the facts you just mentioned and assuming that all these competitors are successful in the implementation of their expansion programmes, you still have a gap. And then you can bet to what Andre was saying, then you need to also take into consideration installation vessels, support vessels, cable connection, grid connection, what have you, cable supplies, grid connection, in order to see, okay, how is this now balancing out altogether?

Are we on par with the whole supply chain here in order to make and continue with this price development? And at the moment, we clearly noticed that price is not the issue. But stability of supply is the issue. And that's what people - also our customers value in the end, a lot more than, yes or no, a bit lower price. And then we are, of course, not the thief of our own pocket. Does that answer your question a little bit? Not really?

Jeremy Kincaid: That does. So would you say the previous trend we've seen over the last, sort of, 18 months or so or two years of growing contribution margin should continue?

Fred van Beers: Yes.

Ben Meijer: It is, at the moment, what we see. And also to give a very simple answer to your question, the trend we showed in the graph is needed for the past couple of years. But also if we look at the latest tender activity, and also if we look at the latest additions to our order book and also ongoing discussions, we see margins at a higher level.

Maarten Verbeek (The IDEA): Maarten Verbeek, the IDEA. First, a very brief question. You took already part of the preferred dividend you will pay to Equinor. But which P&L line did you take that 0.7?

Ben Meijer: That is not included in the P&L line. Because the way of accounting, indeed, it is not being shown up in the P&L. But what we did is indeed is - what we did, if you look at the impact from the coupon, it is being corrected already when calculating the net profit per ordinary share.

Maarten Verbeek: Okay. So it's not included in the €5.2 million yet?

Ben Meijer: No.

Maarten Verbeek: Okay. And then secondly, you discussed the situation in the US and in the UK and have seen those announcements as well. But I've also seen a fight for the right to develop offshore wind industry plots in Germany, where billions have been paid. That makes me wonder, are these sites still feasible? Are they still profitable for those companies? Or what's happening exactly then in UK and the US?

Fred van Beers: Now if you go, there's a few things here that you're saying. I mean, it has been quite a shock or wave when we saw this announcement of this €12.6 billion sort of negative bidding conclusion on this - from BP in total on these German projects. And there is two lines of thinking. One line of thinking, of course, is that, this could be a very threatening and unhealthy development because in the end, this money has to be earned back somehow, some other way. And is this going to be pushed through to the supply chain that, by the way, the EU is very much supporting to develop further. And by doing things like this, local governments are actually killing that potential. That's one line of thinking.

And the other line of thinking is that, if you look at the total concept of a wind farm, you cannot exclude the cost of a wind farm from the cost of the grid connection. And if you look at Germany and Netherlands specifically, that grid connection is 100% paid by the tax payer because the TenneT investments are coming in the end from the tax payer. And you could also have a - make a case, so to say.

For me, that's a thing to explore. But makes sense to me that you say, okay, these governments are spending a lot of money in investments, in these grid connections. So to what extent is it fair to ask part of that back via the development of the wind farm because otherwise the wind farm could not be developed. It's those - it's everything between those two. But in the end, I think we, as a company and as part of the supply chain, do not support this sort of negative bidding - endless negative bidding scenario because it has to come back somewhere, either in the PPA, which is coming to the taxpayer then in the end again or by squeezing the supply chain.

But as we just discussed, we don't see that happening at the moment. That's one thing. And if you look at the UK, there, basically, you see the mechanism, that the CFD4 round, when that was executed, it was pre-war, pre - what is it? Yeah, the Ukraine war. But also interest rates were at a different level, and the CFD was fixed at a certain price. And simply the width of that CFD pricing is not matching today's development costs for these wind farms. So that's why they're saying, either we get more money from you in a higher price per megawatt hour or we simply cannot justify our business case.

And a bit - the same sort of discussion is happening in the US at the moment, whereby the take-off parts need to come to sense and understand a little bit that we cannot - the industry cannot supply wind farms and energy at a minus cost price level. So it's the whole mechanism of how these standards are being pushed out, and it's a phasing issue between PPA agreement and actual build of the wind farm.

Maarten Verbeek: Lastly, GS Corporation in Korea. If I'm right, your plan to set up a joint venture in US is more or less off the table?

Fred van Beers: No. It's in the so-called drawer of the table.

Maarten Verbeek: Okay. What we also see is now that Australia is really picking up. What are your plans for those two continents, LATAM and Australia?

Fred van Beers: Read the papers. We have no plans for those areas. We simply - and that's, on serious note, of course. We do read the papers, and we keep an eye on as with the same team that I just mentioned on those markets. But we talked about people and competence constraints. We talked about an investment of €328 million in a factory in Europe. And we need all our forces and our brain power and our time to actually turn this into success.

And we talked a bit about competition. I think you can also clearly see and read that composition. Those investments are not turning into a success, just like that. They also need focus on that. And for us, the horror scenario would be that we are jumping into time-consuming programmes to develop, to see how we can be part of that market. And behind our back, the home market, the investment is not successful, and that would be a drama. So it has been a conscious decision to not go in - step into these adventures before this programme has come to an end in a successful way.

I think that’s a clear answer.

Thijs Berkelder: Thijs Berkelder, again, ABN AMRO. Factual question, Baltyk project is monopile only and the new 80,000 project as well? Or do they both –

Fred van Beers: On the new - the undisclosed 80 kilotons, we cannot give any more information on this at this moment. Specific request of our partner. Baltyk is at the moment, exclusive negotiation is on the monopiles. Transition pieces is a separate discussion.

Thijs Berkelder: And you're still in the running also for the TPs there?

Fred van Beers: We have no reason to believe we are not.

Thijs Berkelder: Okay. Then on LTI, you said your bonus depends upon LTI coming down?

Fred van Beers: STI, Safety down - coming down. Sorry.

Thijs Berkelder: Yeah. Your safety improving. But what is the level you need to reach to get your bonus?

Fred van Beers: We will disclose that, when announcing the numbers of '23. Just to give now that information at this moment of time. But there's still a challenge. We're not there yet. It has to be substantially lower than what it is today.

Thijs Berkelder: So for this year, you won't make it for sure because you're already at 7.

Fred van Beers: But in order to make it next year, I need to push a lot to - otherwise next year is also down the drain. So I'm not - we are not giving up on that because of the fact that we're way off.

Thijs Berkelder: Okay. Clear. Then on the competition picture, I missed your view on Haizea. Can we have it?

Fred van Beers: Sure. Haizea is building their new factory. It looks like they're doing a good job. We - from what we get from the press, and we have no reason to believe that they are not going to complete that factory in time to be honest.

Thijs Berkelder: Okay. And I had a question on the electron beam welding. In case, it's - let's say, from a cost perspective, it gets more attractive. Can you roughly indicate what kind of FTE difference that would make in terms of your production?

Fred van Beers: No.

Thijs Berkelder: Is that reducing FTEs back 14% or so?

Fred van Beers: Good question, but – no. Good question, but too early. It's not - it's quite - it is a bit labour intense. Why? Because the conditions under which you can successfully execute this technology are laboratory kind of conditions. And so first of all, we see - and we haven't got a clue how much, but a substantial investment level that you need to do. We do believe that we could turn the new factory on those workstations around into electron beam welding, but that will, again, will take quite an effect.

And then maybe the question is more what kind of people do you need to manage that? And probably what you - why would you do it? You would do it because you can increase your output a lot more. Then you would do it. But otherwise, you won't do it because it's very critical process. You have to - I mean, it takes place under vacuum circumstances. Well, our products are not necessarily small to put under vacuum. We did manage it for long to do weld, but if you think about an 11.5 metre diameter circumstantial weld, and put that under a vacuum controlled - in a vacuum-controlled environment in an industrialised process, my guess is that we are, before that moment, living on Mars earlier than having this in place.

So it's a nice technology. We should always be - continue looking at it. But it has not got our priority attention at this moment at all.

Thijs Berkelder: My final question is on your argumentation on the Chinese monopiles and the transportation costs and the EU carbon tax penalties or so. Are you not suffering from the same penalties when shipping to the US?

Fred van Beers: To an extent, yes. Yeah, sure. But as you know, our priority market is the EU, the European market, and make sure that we stay in a level playing field there. And there, we are in advantageous situation, of course. This is because our steel comes from Europe. And we haven't got a problem there, in that respect. We're very close, actually. We're closest to the mill compared to anybody else. And our production takes place here, and we only have a limited additions to the fields. But if for the US, definitely, this will start playing a role as well.

So then the question is, and that's why I said it's not off the table. It's yes, it's off the table, but in the drawer underneath the table. For us, the US market remains likely for a very interesting market to keep a close eye on.

Andre Mulder: Andre Mudler, Kepler. Two remaining questions. First on GS Entec, that's Asia. Does that include Australia as well?

Fred van Beers: Not at this moment, no.

Andre Mulder: Last question on oil and gas. We see a major recovery with important countries like the UK, Norway developing plans. What's your feeling there? Are you involved in tenders already? And what do you think that could happen in the next few years, sort of revive all of that part?

Fred van Beers: Yes. We see quite some activity in that market. Not – and maybe even more from a substation market perspective because there's a lot of jackets to be built for the substations, and we get a lot of inquiries for that market, indeed. We have clear indications that, indeed, we could - would fill our order book up to 2030 with roughly 20 kilotons or so.

The strategic question for us on the table is, is this the right area to invest in? Or should we keep focused on monopile, transition pieces market or all three? We - that's a question on the table.

Andre Mulder: Is there still a possibility to switch capacity from that part? Or is it just standing idle?

Fred van Beers: There's nothing standing idle at the moment. What do you mean exactly which it will be?

Andre Mulder: The part of the capacity was reserved for oil and gas.

Fred van Beers: No, that capacity is now - is fully operational.

Andre Mulder: Okay.

Fred van Beers: So, as you know, these lines cannot be used for transition pieces or monopiles. But at the moment, our order book for the coming years, I would say, is filled or will be filled for these smaller lines. And as we speak, we are producing in pin piles for the Hollandse Kust West substation.

So it's already part of our total output. But my point comes a little bit more, just to add a little bit on this. Also from a labour shortage perspective, and where do we need to focus on perspective, whether we should, yes. And also the floor space because there's also a need for more transition pieces. So where do we go with this? That's simply a discussion we have on the table. And as you have learned, I think, in the meantime, we take our time to take these - make these considerations and do it in the right way. That was the question, Andre?

All right. Any more questions around the table or in the call? I don't see hands being raised there. Fons, do we have anything on the screen- coming from others? Final round. No? If we're through, then I'd like to thank you all for your attendance here, for your good questions, for listening into us, taking the time for that. And we hope to see you back soon, at least one - half year from now, when we discuss the annual numbers again. Okay. Thank you very much.

Ben Meijer: Thank you.

[END OF TRANSCRIPT]