Senvion SE

Analysts and Investors Conference Call

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Andreas Nauen

Hello to everyone. Very good morning, afternoon or evening to all of you. I understand that we are distributed quite far over the globe. Thanks for taking the time to join us for this investors call - actually it is our second. As last time, I'm joined by Manav Sharma, our CFO, and Dhaval Vakil, our Vice President Capital Markets.

From talking to Dhaval, I know that you have been in touch with him, quite actively. As you surely know, he leads our investor relations team, and he'll hopefully provide good service to you and your questions.

Very important, today, and I'm sure you have already had the chance to go through our presentation, where we've uploaded our quarterly results, and you will have noticed that we have now decided to implement a more refined revenue recognition policy. This is effective from this quarter onwards, and Manav will take the time to explain later, and I expect a number of questions to that as well. We'll take you through that, and I'm sure we can explain the changes and why we did it, and also the consequences.

But before going to that, I would like to share with you some details of our operational performance in the last quarter, and then hand over to Manav.

Manav will also give you the background to the accounting policy change. After that, as you're accustomed to, we'll have, of course, time to answer your questions.

Now the key take-aways, for the first quarter.

The first quarter started with solid order-intake, as we indicated already partly, in our last call, end of June. We booked more than 1 billion in net firm orders – and I emphasize the word firm orders – in Q1, which was largely due to the closing of two offshore orders worth, alone, 662 million. And on top of that, we booked onshore orders of around 400 million.- That number was driven by orders in France, UK, Germany and Portugal, which is a very nice distribution. And this represents an increase of 27%, even after excluding the offshore orders. So we have a good growth in our onshore orders, but on top of that two large offshore orders for which we have been fighting quite a long time. Last year, we booked 315 million of new onshore orders.

From the installation and execution of projects perspective, during the first half of the calendar year we were ranked second-largest supplier in Germany. It is not only an important market for us, but also an important milestone, and we are very satisfied that we have achieved that. In total, we installed wind turbines with the total capacity of nearly 280 megawatts, which is a small growth compared to last year.

What does that all mean, new orders coming in, others getting completed, for our order book?

Our order book now stands at very healthy 5.5 billion, that includes 3.7 billion turbines orders, made up of net firm orders and signed contracts – we always split that – and 1.8 billion service order book. We explained, that split in our roadshow in April already. Our net firm order book also was partly affected by the accounting policy change, as we actually de-recognised certain revenues, due to the change.

In line with our strategy, we also introduced new products.

One is the 3.2M 122 turbine for low-wind sites, which delivers a better yield. Not only do we introduce new products like this turbine that I just mentioned, we also go on the technology front ahead. We introduced what we call the Next Electrical System with a fully rated converter. That allows us to install wind turbines, also, in the most modern electrical grid codes that are currently being rolled out all over Europe. We are well-prepared for this new electrical rules.

On the operational front, we've progressed in various ways. We formally opened our R&D centre in Bangalore in India, which will allow us to scale up our R&D activities. I talked about the products a minute before. This will allow us to extend our team in order to further develop our engineering expertise and to strengthen our techniques and capabilities. They are all located in the north of Germany. And I think so far so good for orders execution, and I think now we come to the core of today's call, and I will hand over to Manav, who will explain the changes and the numbers.

Manav Sharma

Thank you Mr. Nauen. Hello, everyone. Good afternoon, evening, to all of you, from my side as well. You will have seen our quarterly performance report in the presentation as well as in the result release.

On the back of a solid quarterly result, I would like to focus on the accounting policy change and the background of this change as I expect that to be an interesting point for today's discussion. And I do request everyone to please bear with us for this quarter, as we get our books of accounts straight.

As announced to the market, we have decided to modify the way we recognise our revenues for onshore contracts.

Under the old policy, we used to recognise revenues from onshore turbines by reference to the proportion of the cost that was incurred to date, against the estimated total contract cost, as it reached a certain stage in production. As cost is often incurred early upon the production of nacelles and hubs and allocation of tower and blades to a specific project, revenue is often recorded earlier in the manufacturing process.

Under the new policy, we will recognise revenues not by cost but by reference to certain construction milestone, with the first milestone being at the point of dispatch of components.

So, simply put, independent of when the cost is incurred, revenue is only recorded when observable milestones reflecting actual progress in construction are reached. In simple terms, what this means: The revenue recognition cycle will start later than the current policy. Revenue recognition will start from dispatch, and the majority of revenue will be recognised at installation, which is a core service to our customers. Revenues will be more aligned with the physical construction cycle of the project. This may also lead to higher fluctuations in profit between the quarterly reporting and the annual reporting, but what is very important to point out: it will have absolutely no effect whatsoever on the project's underlying cash flows, and the physical activities of the company. And it will bring about a much more operational homogeneity with the numbers.

Prior comparative figures will also be adjusted under the revised policy for full transparency, so that you can make like-for-like comparisons. Our working capital effectiveness, which we talked a lot about during our roadshows, can be now driven and measured with much higher efficiency, because of this accounting change, as well.

The new policy is more representative of our business activities and risk profile and. It is in line with the internal processes and with our peers of comparable size and operating models. The revenue recognition will reflect actual physical progress and will be more aligned to the payment cycles as well. We expect that it will also enhance comparability and usefulness of information in consolidated financial statements.

In this IR presentation, we have also provided the last financial year's numbers, under the new as well as the old accounting policy, for ease of comparison.

Under the new policy, I'd like to point out that our EBITDA has reduced by around 2 million euros over the last year. There has been a few changes in the balance sheet as well. You can notice them in the results in detail and we are more than happy to answer any questions. The trade receivables, fundamentally, have gone down as we modify the revenues, and the advance payments and inventories have gone up, and also has had a consequent impact on the long-term liabilities of the other side of the balance sheet. I would like to, again, reiterate that this does not impact the underlying cash flows, and as such there is no impact on the cash at hand.

We are also in the process of adjusting our past figures, and should be able to provide re-stated quarterly financials for past year with our H1 results for comparison, as you would like to make sure that the numbers we are giving out are highly reliable numbers.

From this quarter onwards, there's another change. We will also start providing the financials of the parent company that is the Rapid TopCo GmbH. As can imagine, Senvion GmbH drives the financials for Rapid TopCo, but there are a few specific items, like high-yield bond, the interim acquisition loan, the transaction expenses, etc., that also affect the full consolidation financials for this quarter, as well as going forward. We have tried to cover all the major areas in the presentation, and we hope that it is helpful. But as usual, if you have any questions on that, please reach out to our IR team later on and I'm more than sure they'll be glad to assist you.

Coming back to the quarter, we have achieved 473 million euros in revenue, with an EBITDA of 28 million euros, at a margin of 5.8% at Senvion-GmbH level. The EBITDA drops slightly to 23 million euros at the TopCo level, due to one-off costs in relation to the Senvion acquisition by the parent.

Germany and Canada were the biggest revenue drivers, and we do expect our core markets to continue with that trend.

As stated earlier, our efforts on the working capital are showing positive benefits, starting from this quarter. I'd like to differentiate the change in our working capital due to accounting change and the real change, here. As a result of the accounting policy change, our net working capital has come down by about 89 million euros, to a level of 157 million euros at the end of FY'15. This base operation number further went down to a level of 136 million euros at the end of June quarter. So we started quarter one with a true saving of, roughly, around 1%, and we do aspire to improve as our initiatives are rolled out. We expect to continue our good work on reducing our net working capital, which is around 8% as of March end, under the new accounting policy, and do expect that to release further cash over the next 18- to 24-month period, which can then, as has been stated multiple times, be used for our future growth initiatives and CAPEX.

At the end of the quarter, we had a total available liquidity of around 440 million euros, including cash and unused cash facilities with our funding banks, compared to around 330 million euros, similar period last year. I'd like to point out that this amount is before up-streaming of cash and before clearing of the cash-liquidity facility, which was cleared in the month of July.

With this, I will hand the call back to the moderator to introduce the Q&A session and open the line to your questions, which we will be happy to address.

Operator: Ladies and gentlemen, we will now start the question and answer session. If you'd like to ask a question, press star followed by one. If you wish to remove yourself from the question queue, you may press star followed by two. If you're using speaking equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one, at this time.

The first question comes from the line of Felix Fischer of Lucror. Please, go ahead.

Felix Fischer: Yes, hello. Thank you for hosting the call. My first question relates to working capital changes due to the account policy change. With the revenues it's fairly clear, can you just walk us through, a little bit, in how this 87 million adjustment works?

The second question relates to the broken blade that you had in one of the offshore wind parks. In the last call, you said you were enquiring the cause and expected that it was a one-off problem. Have you found anything? Could you update us on this enquiry?

And lastly, you've not provided Q1 2015 numbers, possibly also due to the change in accounting policy. Could you just walk us through the changes that you've seen, versus the last first quarter? Thank you.

Andreas Nauen	Yes, thanks for the questions. Andreas Nauen speaking, maybe I'll start with the operational question, and then Manav can explain the question with regards to the networking capital change, and the second question in one go.

The turbine was damaged at Nordsee One, the project that we are currently executing. The rotor star has been taken down a few weeks ago. All the root-cause analysis is going on pretty well in our factories, and what we have planned for, is that we get this turbine up and running again in week 37. Then we'll have the whole wind farm, more or less, up and running again. And we are working on that solution very cooperatively with the customer, and I can share with you that this incident has been managed extremely well, together with us and the customer, and therefore we are really glad that we can also re-bring that turbine into operation that quickly.

With regards to the root cause analysis, it will still take a little bit more time, because we really want to identify the fundament root cause, but that doesn't withhold that we can bring back the machine into work, and many of the other machines – I don't have the exact number, today I think it's all but five-seven turbines – are already up and running again.

Felix Fischer	Okay, thank you for that one.

Manav Sharma

Felix, this is Manav. So a bit of balance sheet. I think I'd point out the key changes, and if you have any absolutely more specific questions, I'm sure you can reach out to Dhaval and I'm more than happy to get you further details on that.

On the balance sheet, fundamentally, there have been three changes, in terms of the block of assets and liabilities. There are changes in the current assets and there are changes in the current liabilities and non-current liabilities on the liabilities side.

What are those changes? On the current FX side, first of all, as we change the accounting system, the revenue that was basically at multiple stages of progress, which, as per the new milestone system had not reached that level of maturity. For example, a turbine would not have reached the site or a turbine would not have been installed, but 80% of the cost would have been incurred, the difference between the cost that has been incurred and the value that we have allocated to that milestone got de-recognised from the revenue.

What does that mean? That the accounts receivable of the company goes down.

Where does it go to? It goes to, basically, four-line items.

The first line item it goes to is the underlying assets that were under that contract went into inventories as either finished goods or work in progress.

The netted amount of money that was getting squared off against those receivables moved into the current liabilities side as either advances from customers or, in some cases, if the customers have paid more than the revenue that we have recognised, that got classified as a gross asset from customers as a liability.

The third change was as a result of this de-recognition of revenue, there was a margin that was deconsolidated, out of the balance sheet, which basically came out from the long-term liabilities side, in two-line items in there from the deferred taxes as well as from the retained earnings.

And if you then put all of that together, in the working capital, unfortunately the retained earnings and the deferred taxes do not classify as a working capital line, and therefore the decline in the asset side is not compensated fully by the short-term liabilities side, and the working capital shrinks. That's the net effect.

Felix Fischer

Thank you, that's very helpful on this, here.

Manav Sharma

You had a third question, Felix. I was not able to understand it.

Felix Fischer

Yes, basically that was answered. That was year-on-year comparison which, possibly due to the new accounting framework, you've not provided. It just would be interesting to get some colour in regards to revenues profitability versus last year's Q1, on a like-for-like basis.

Manav Sharma

Sure, I think that's a very fair question, Felix.

Like I said, the concern from our side was that we go out to you, to our bond holders, to our stakeholders, with the view that we are, today, confident about.

We are confident about quarter one numbers, we are confident about last year's financials, that's why we shared that with you. What the whole team right now, at the back end is now focusing towards, is to go back in the historical periods and slice the data by quarters to create that level of comparative analysis. That's the first part of my answer.

The second part of my answer is what we want to do. For your comparison we gave the last year, because it is important that formed the basis of the investment case. It is important for you guys as well as our shareholders. The net EBITDA for the year fundamentally changed by about 2 million euros, which basically meant that the business had a volume of installations and commissioning which fitted with the revenue that was shown in the last year. And to us, that was the biggest element that we wanted to be sure of, that the underlying business case should not change, materially. And that's what we established.

Felix Fischer — All right. Thank you very much.

Operator — Next question comes from the line of Ben Byrne of Citigroup. Please, go ahead.

Ben Byrne — Good afternoon. I guess just following on from that, I guess in the four-year result, you weren't giving forecasts but you said that you're expecting, a stable to a mild-up EBITDA for the year. I guess even after reflecting the changed accounting standards, is that still the case?

Manav Sharma — Ben, this is Manav again. This is a very important and very good question actually. The idea of this accounting change was to make the accounting change link closely to the business, which basically means that while we were planning our business, there were certain elements that we were planning with the old accounting system that will not be recognised in this accounting system as a revenue. However, we have re-forecasted our business internally. What I can confirm to you is that we stay very focused to that statement that we expect our business of stable to reasonable growth within this year, supported by an adequate number of increase in our installation numbers.

Ben Byrne — Okay, that's helpful. That's encouraging.

Also, I just wanted to drill into the first quarter numbers. I mean, the EBITDA margin has fallen to 6% at the Senvion level, from 8% of the full year last year. I can see the gross margins are basically, flat or even slightly up, but the other operating expenses look like they're quite elevated in this first quarter. Is that a timing thing or have they increased for some reason, or under this accounting change. What's happening there to push the EBITDA margin so much lower in the first quarter?

Manav Sharma

I think I speak purely from my memory now, and the difference would come at roughly about 12 million euros. And the main difference in there is actually good news, that we have started handing over the turbines in our offshore business to our customers. What that does it we start taking warranties for those projects which will then be consumed over the next two years. That warranty line flows through the OPEX line of the company. That has created an impact of roughly about 8 million euros between quarter one this year, for a like-for-like comparison of quarter one last year. And that actually is a comparable item, because OPEX within the year should not change.

The second element that comes in is about a 4-million-euro variance that comes from the consulting spends or temporary cost spends. If you remember the roadshows and we said in the last call also: We want to invest more on R&D. What has happened is as we have had plans – and quite exciting plans – about developing newer solutions for our customers. We could not get people on a very short-term basis to work on our some of our technical products. So what we ended up doing was we hired some interim support and consulting advisory support to ramp up the support in doing some of the R&D projects. We expect within this year, to convert into HR costs and the OPEX will go down. If you look at it purely, it is within an intra-year effect, and I do expect this to have a bit of a war short effect during the year, and then conversion of some of these operating costs into HR costs, as we engage more engineers that are our engineers, rather than hired engineers, and we do expect, also, some economies and benefits of scale to come through from that perspective.

One last point that I'd like to highlight on top of the margins point, I think as you have seen the last year, the quarter one of the financial year is quite light in terms of installation, but as we go towards more intensive quarters, in terms of installations. You will see that a higher amount of project margins will start flowing through the EBITDA, and the fixed costs do not increase dramatically.

Ben Byrne: Okay, so two questions. Remind me which are the more intensive quarters. You expect the increased costs, that 4 million, to convert into R&D CAPEX or what was it?

Manav Sharma: We expect the cost to go into people costs at a lower amount, because you always pay to temps and consultants higher money that you will pay to your own employees, because of the nature of the expense.

Ben Byrne: Okay, all right. I understand.

Manav Sharma: And why while are not giving a guidance for the year, we do expect our next two quarters to be installation-intensive quarters, for the simple reason that as we come closer to a calendar year, a lot of customers want to take the benefits schemes expiring, plus a lot of customers want to install their turbines in Canada in the summer months, before the winter hits in. So we do expect our Q2 and Q3 to be reasonably stronger that Q1 and Q4.

Ben Byrne: Okay, thanks very much.

Operator: Next question comes from the line of Haiyan Ding of Meriten Investment Management. Please, go ahead.

Haiyan Ding: Hello. Thank you. My question is: I found in your annual income statement that you have shown the EBITDA of Q1 in the financial year '14 and '15, which was, as you said, quite weak. Is this Q1 EBITDA somehow comparable with what would have been under the new accounting methodology?

Manav Sharma: Haiyan, I would actually recommend and advise not comparing the quarter-on-quarter EBITDA before we have done the change for the quarters of last year. So I would personally advise against that. And I fully understand the stress that it puts on you, and therefore me and my team are committed to getting the result out to you at the fastest possible level. I would not advise to use the quarter one numbers of last year, purely from an EBITDA perspective, to compare them to the

EBITDA of this year, and we will come back when we have the results ready.

Haiyan Ding	Okay. But the seasonality, as you've mentioned, it applies also for the general cycle of your business?
Manav Sharma	Absolutely. I expect the seasonality to apply because generally if you see from installation numbers of last year, you will see a similar trend- That it's generally that late summers, early winters are the highest installation months, at least have been so far. I cannot predict the future, but I do expect, as I see the same trend this year also, it could follow the same trend.
Haiyan Ding	Okay. And regarding your new order intakes, could you maybe say a few words about the expected EBITDA margin, because in offshore would be higher in margin?
Manav Sharma	We will not be commenting on the individual profitability of the orders, and as you can imaging, we had only about two orders, so that would be, sort of, giving away a lot. However, what we do expect is that risk-reward, generally, in offshore tends to be, historically, higher than that of onshore.
Haiyan Ding	Okay. And maybe last two small questions. First, do you intend to pay any interest on shareholder loans?
Manav Sharma	As you know that we have restrictions on paying interest on the shareholders' loan. It is a deeply subordinated loan. It is a structural part of the acquisition, and therefore as per the bond document itself, and as per the intention so far, we do not have a stated intention of paying interest costs to the shareholder. Neither has the shareholder come back and requested us for one. So we plan to capitalise it.
Haiyan Ding	Okay. And maybe a last question regarding the bond buy-back that you've communicated. From time to time we seek to buy some bonds. Have you done anything, or under which circumstances would you say we would buy back some bonds?

Manav Sharma	I speak as a finance professional, from a capital allocation model perspective, we would like to keep the flexibility, to use an opportunity, if there's an opportunity to buy back the bonds. However, we have not bought any bonds back so far, and I would still say that we would like to keep the flexibility to buy back the bonds when there is an opportunity that we feel right. But we would like to keep just that flexibility. At this stage, nothing to report.
Haiyan Ding	Okay, thank you.
Operator	As a reminder, ladies and gentlemen, if you'd like to ask a question, please press star followed by one. The next question comes from the line of Michael Boam of Highbridge Capital. Please, go ahead.
Michael Boam	Hi. I know that you're not really into giving guidance, but at the time of the last quarter's release, you inadvertently put an estimate for EBITDA for this year at around the 170 to 175 million euro level. And you've talked to things being stable-to-reasonable growth. Is 170 a realistic number for this year?
Manav Sharma	Michael, I'd like to answer it in a different way. I think 170, for the installation plans that we have of this year, sounds realistic. However, I'd like to point out that we'd not like to give that as a guidance number for the year. We still believe we can be stable and grow, but yes, that number could be a stable number, it could be a deliverable number.
Michael Boam	Okay, great. Thank you.
Operator	Next question comes from the line of Tom Hemmant of Invesco. Please, go ahead.
Tom Hemmant	Hi. I need to run through the changes to the balance sheet to understand them properly. Simplistically, the fact that you're working capital balance has fallen, does that mean that the

amount of cash flow that's available to de-leverage or to spend on R&D. Is the amount of cash flow to play for now lower because the working capital balance has come down?

Manav Sharma

Thank you for the question, Tom. That's why I said at the beginning of the small note, that I said we do not want to construe this accounting change of working capital as a change in our intentions to optimise our working capital.

If you remember, in the note, we had highlighted that the competition average is roughly around minus 4.5%. If you draw a parallel to that, I would still say that the size of the journey is still quite sizeable. However, what has changed between last time and this time is that you, at least, can see transparency how big that gap is, because we are trying to be as close to business as possible. So no, our short answer would be our targets, neither internally or externally set targets, have not changed. We will aspire to reach very close to the competition levels over the next 18 to 24 months.

Tom Hemmant

Okay, so the target, in the end, has not changed- But the starting point is 89 million lower now. I just want to understand. The amount you could release is now 89 million lower. Is that fair?

Manav Sharma

I'd like to say that again. The target of the percentage will still be the same, that we would like to be industry standard, and if in that process we have lost about three or four percentage points off the calculation. Sure, that reflects, but that is a truer picture of that.

Tom Hemmant

Okay, sure. Okay, thank you.

Operator

Next question comes from line Nishant Nand of Mizuho. Please, go ahead.

Nishant Nand

Hi there. Just one quick question. Do you have any medium-term concerns in relation to demand- Given the regulatory changes in Germany in the UK, i.e. in Germany a move to a more auction-based pricing for renewable, and the UK, they're talking about trying a lot of subsidies that were given to solar and wind. Thanks.

Andreas Nauen	If you allow me to address that. Especially the German market we have an update. If we go through it: Yes, it's true that Germany is going to an auction-based market, but the rules that have come out – the preliminary rules I would call them; they have been issued mid-July. They allow us a very good transition into this new auction rule. So that means, for the short-term, we do not expect to have much negative effect, and also there's a transition period, during which our customers can still install under the old rules. And then, we are currently developing, also jointly with our customers, product and also solutions for this auction. In the end, the German government have still set out a corridor for installing 3 gigawatts every year- There will be a small change in Germany, but generally it will come smoothly and we can prepare for that. With regards to the UK, yes, there have been changes, but in the short term – and I mentioned to you where the onshore orders came from – we had an interesting demand increase, also from the UK- And we are preparing, as we just mentioned for Germany, also for the new phase in the UK. Again, there's a transition period and we already are working with our customers, successfully, to be prepared for the next phase.
Nishant Nand	All right. Thank you.
Operator	Next question comes from the line of Ben Byrne of Citigroup.
Ben Byrne	Hi, guys. Just one follow-up, just on the working capital. You said the percentage change hasn't really changed, that you're targeting, but it's come down 3% or 4%. I guess, putting that in numbers, are you still expecting to release around 100 million, 150 million in Working Capital?

Manav Sharma

Ben, I don't remember giving a number out, but it is a nice try. But a serious note, if I just do the mathematics for you, right – and I'm not saying I'm committing to those numbers – our working capital improved by about one percentage point in quarter one. We said that over March to June, we did 1% improvement, you see that in the numbers. With that, we come to 8%, or I think quarter one will be around 7.5%, 8%. If you still compare that to the gap that we have with the competition, and you take a 10% discount of the competition, let's say -2%, -3%, you're still talking about north of 11%, 12% working capital. If you compare that to the turnover plan that we have – I'm sure you can assume that, based on the track record that the company has had – and the number would come to a number which is 200 million plus that is a potential opportunity.

If you really look at that opportunity, compare that, add to that the profitability per year, I personally believe that you will find absolutely no change to the base case that we presented when we put this bond to the market. And this remains an upside of that bond. We highlighted it at that time, but we still feel very comfortable that we have adequate liquidity to our business, and when the right time comes, to service the bond.

Ben Byrne

Okay, excellent, thanks. And just finally, so when you're saying you're working with new solutions, etc., in Germany and the UK, that's just around creating a cheaper, more-efficient-running, higher-output wind turbine, right?

Manav Sharma

Sorry? The question was not clear.

Ben Byrne

Sorry. When you were just saying, in response to the previous question, around working to develop new products and solutions to work better in the new regimes, the subsidies in Germany and the UK, is that basically just creating cheaper and more efficient wind turbines?

Andreas Nauen

Yes, if you really want to cut it short. Yes, that's of course the solution, because you can see already, which regions will be successful under the new regime. Therefore we are developing technical solutions and already working with the customers to be prepared for that auction, so that we don't have too much of a break between the two systems. It involves two things: technical solutions and getting ready with the customers for the right sites.

Ben Byrne	Okay, thanks very much.
Operator	A reminder, if you'd like to ask a question, please press star followed by one. We have another follow-up question. Felix Fischer of Lucror. Please, go ahead.
Felix Fischer	Sorry to come back on this accounting change again. So, basically, you change the revenue recognition for onshore contracts. What about offshore contracts? With the new policy, will onshore and offshore contracts be recognised the same way, or are they different? How should we think of that?
Manav Sharma	Okay, Felix, let me take some time to elaborate on this, because I think it's important to look at this discussion with an absolute level of transparency. We are, broadly, dividing our contracts into three categories. There are supply and installation contracts only, there are offshore contracts and EPC contracts, and then there are ex-works contracts; these three large pockets. For actual supply and installation contracts, which is our normal bread-and-butter business, we will move into a system that basically divides the revenue recognition into five steps. We will recognise, roughly, around 15% of our revenue when we dispatch the turbines, we will recognise another 5% of our revenue when the turbines are delivered to the site. We will recognise another 55% of the revenue when our turbines are installed. We will recognise another 20% to 25% of our revenue when turbines are commissioned, and if the commissioning milestone is different from the handover milestone, we will recognise the last 5%

when the turbines are handed over to the customer.

If you look at this full milestone planning, you will see that as the risk gets more towards the construction side, we recognise revenues, and if you remember, the payment milestones, they will be far more closer to this kind of revenue recognition system, as compared to the older system. That's the first part.

The second part is ex-works projects. Now, what are ex-works projects? The customer picks up the equipment from us and or from our supplier's factories. For those, we will take around 20% of revenue when we will dispatch the nacelle and hub. We will still not recognise the full revenue. We will only recognise around 95% of revenue only when the customers pick up the towers and blades from the suppliers, because it is at that point in time, in spirit, the contract is delivered. And then we will keep 5% on a site for commissioning/takeover, depending on the additional facility that we have sold to our customers.

The last part, which is a very unique part of our business, is the EPC part as well as the offshore part. You need to know two more important part about this business.

Number one: the EPC part and the offshore part of the business has long gestation times. That means you have to start building the turbines earlier, because the foundation is in our scope or because the length of the project is so long. For example, in offshore, you have to start manufacturing the blades way before in time.

The second part which is important to note is as we always aspire to be cash-positive on our projects, we generally plot our milestones, when we incur the costs, because the costs are large in nature. For the EPC and offshore contracts, what we will aspire to do in future is to continue with a system of accruing revenues at cost, which is continuing with the old system. We came to this conclusion

	after a lot of benchmarking, internally as well as externally.
Felix Fischer	Okay. So in other words, for onshore, the new recognition will differ slightly from offshore. For onshore, it is, basically, according to milestones; for offshore, due to the much longer contract times, it's on the cost-plus method, so to speak.
Manav Sharma	Absolutely.
Felix Fischer	Okay, thank you.
Operator	We have another follow-up question. Haiyan Ding of Meriten Investment Management. Please, go ahead.
Haiyan Ding	Hi. Maybe, could you remind me of your financial policy? For example, do you intend to pay dividends to your shareholders, and what's the target leverage ratio of Senvion?
Manav Sharma	Sure, Haiyan. First, we never gave a target leverage ratio, but what we stated in our financial policy, during the bond roadshows, was that we and shareholders have agreed that they do not have any known plans to upstream any cash or take any major dividends, except for the stated amounts that were there in the bond document, and that we will use our funds, primarily, to grow our business, primarily, organically.
Manav Sharma	Okay, thank you.
Moderator	Next question comes from the line of Orlando Finzi of M&G Investments. Please, go ahead.
Orlando Finzi	Yes, good afternoon. I just wanted to confirm, on the accounting changes, that there isn't any change to the cash flow. I'm just clarifying what you're saying, I just want to double-check I'm right. It is just revenue recognition, it's not actually when you receive the monies for contracts, there's no change, here, to the underlying movement of cash flows. Or is that wrong?

Manav Sharma	Orlando, I'm glad you asked that question. I wanted somebody to ask that question. There is absolutely no change in our cash flows.
Orlando Finzi	Okay, that's very helpful. And then, can I just ask, as a second question. You mentioned the Bangalore R&D centre, so I wanted to check what your spend is on R&D now, and where you're expecting it to be, maybe as a percentage of revenues, or however you express it, just so I have a grasp on that in mind?
Andreas Nauen	Maybe you'll allow me a short look back, and I'll make a comparison. We've spend, generally, around roughly around 2.5% to 3%. And with our ambition and also the support, I think we said that already during the roadshow, that we now receive via Centerbridge. We plan to grow that. Also, this year, Manav mentioned, why the numbers for Q1 are not as good as they were last year, because we have extra effort now put into R&D, and so our R&D spend will slightly increase. This is also driven by the new product that I mentioned at the beginning, and also the introduction of the next electrical system will be part of that. So from 2.5% to 3% we'll go up.
Orlando Finzi	Oh, I see. I mean, is it going up to 4% or 6%?
Andreas Nauen	We also have the intention to go up to 5%, but clearly more than we've spent in the past.
Orlando Finzi	Okay, thank you.
Operator	Gentlemen, there are no further questions on the phone line.
Andreas Nauen	Okay. Good. many thanks again to everyone for joining. Also many of the questions that you asked were clearly addressed. I hope that we could explain what has changed, why it has changed, and I think it will provide much better transparency, also, in the future. You will get additional numbers in the coming months because, as Manav has said, we are still working on completing all the numbers. If you have

any question in the meantime, you know where to go. Dhaval is always at your disposal. And therefore I thank you for today and wish you a nice evening.