



THOMSON BUSINESS INTELLIGENCE

Q2 2006 Leoni AG Earnings Conference Call - Final FD (FAIR DISCLOSURE) WIRE (03-08-2006)

OPERATOR: Welcome to today's Half Year Results of the LEONI AG Conference Call. For your information today's conference is being recorded. At this time I would like to hand the call over to your host today Dr. Klaus Probst. Please go ahead.

Klaus Probst. Good morning ladies and gentlemen. We would like to welcome you to our today's conference call in which we are going to present LEONI's results of the first half of 2006. As usual I will comment first on the general business course and business situation.

After that my colleague Dieter Belle will explain the major key figures. The headlines of our reports are: LEONI increases consolidated sales by 33% in the first half of 2006, consolidated net income more than doubled year on year, sales and earnings targets for the year as a whole raised, 200 million EUR [inaudible] and the only share free float rises to 100%.

In the second quarter of 2006 the macro economics [environment] remained favorable. The upturn also continued in the sectors of key significance to LEONI. According to ACEA, the European Manufacturers Association for instance, the automotive industry recorded slight increases in new vehicle registrations between January and June 2006 both in Germany and throughout Europe. Demand for commercial vehicles even posted a strong increase in the same period.

By contrast the US car markets displayed weakness with sales of passenger cars and light trucks declining slightly. Both the German mechanical engineering and rolling stock engineering sectors picked up significant momentum in the first half of 2006. The situation in the electrical goods industry which received major impetus not only from the capital goods industry but also the household appliance industry was similarly good. **Integer Research's** sectors experts say that the wire and cable and industry benefited world wide from this favorable environment.

Underpinned by the persistently strong demand in China the sectors expect to record a strong sale increase for 2006. So far the underlying conditions for our business.

The LEONI Group maintained its course of expansion in the second quarter of 2006 compared with the same period of the previous year consolidated external sales were up slightly over 29% to 512 million EUR. Overall sales for the first six months of 2006 grew to 988.9 million equating to a gain of nearly 33% over the same period in 2005.

Organic growth accounted for the largest portion of the increase with about 13 percentage points. New subsidiaries Kerpen and pneumatic acquired in the second half of 2005 accounted for about another 9 percentage points. The remainder of the increase was due to the sharp rise of the copper price. This can largely be passed onto the customers via corresponding agreement. Risks to earnings caused by severe fluctuations in the copper price can be minimized by using an optimized procurement strategy and hedging transactions.

LEONI Group's earnings improved further thanks to the sole -- sales growth and increases in efficiency. Earnings before interest and taxes were up by 26% to 31.9 million in the second quarter of 2006. This adds up to a year on year EBIT increase in the first half of 2006 of nearly 56% to 66.1 million EUR and works out at an EBIT margin of 6.7% compared to 5.7% in the previous year.

Adjusted for the impact on the sales of the increased copper price the margin for the first half of 2006 comes to one of 7.3%. Group wide net income from April to June 2006 was up about 74% on the second quarter of 2005 to 18.8 million EUR. In total consolidated net income for the first six months, even slightly more than doubles compared with the same period one year earlier to 38.5 million EUR.

The LEONI Group employees 33,174 people world wide on 3 June 2006. Compared with the same date one year earlier, this is an increase by 2,025 people or 6.5%. The subsidiaries acquired in the second half of 2005 were one of the factors to which this is attributable.

Including the workforces of Kerpen and pneumatic, most of whom are employed in Germany the number of employees in Germany grew from 3,008 to 3,731. Outside Germany the workforce had grown from 28,141 to 29,443 at the end of June. All this reflected the setting up and expansion of wiring system facilities in North Africa, Asia, and Latin America.

LEONI AG placed a fixed income bond in a total amount of 200 million EUR in July 2006. The bond has a seven year term and pays interest at a rate of 5%. In so LEONI has placed an existing bond in the amount of 75 million EUR that matures in November 2006 and has bolstered its financial basis for further growth. The bond met with strong interest in the financial market and was about 30% over subscribed. German investors subscribed 2/3 of the total amount. With one third subscribed in foreign markets.

Now I'm going to report about the LEONI's divisions starting with the wiring systems division. In its wiring systems division LEONI increased external sales from April to June 2006 about another 5% compared to the same quarter one year earlier, to 243.6 million EUR. The ongoing major project for the car makers BMW, DaimlerChrysler, General Motors and Land Rover accounted for the largest portion proportion of sales.

There was a particularly strong up trend in business with the Land Rover and [inaudible] brand. As well as with the main customers in the commercial vehicles sectors, Caterpillar and Cummins. All together the wiring systems division generated a year on year increase in the first half of 2006 of 12% or so to 485.6 million EUR.

The good utilization of all plants capacity and further improvement in efficiency had official effect on earnings. In the second quarter 2006 EBIT reached 17.2 million EUR compared to 13.1 million in same period of previous year. In the first half of 2006 EBIT came to 35.1 million EUR from 23.9 million in 2005. This works out to an EBIT margin of 7.1% in the second quarter of 2006 compared to 5.7% in the previous year.

The margin for the first half of 2006 comes to one of 7.2% compared to 5.5% in 2005. LEONI recruited more employees in the first half of 2006 to cover additional capacity. On the other hand the company trimmed its work force on some plan -- at some plants in Eastern Europe based on productivity gain.

In total, wiring systems division employed 26,181 people at the halfway mark in the current year up from 25,370 in the previous year. As scheduled LEONI moved into it's new facility in Shanghai in the second quarter of 2006 after only seven months of construction time the state of art plant is already supplying various vehicle manufacturers in China. And will also from 2007 be making wiring systems for the car maker SAIC.

In addition to production the facility also comprised a new Competence Center to look after customers in China. LEONI already completed realigning its facility in Arad Romania to wiring systems for commercial and special vehicles in the period under report. Just as expansion of the facility in Hermosillo Mexico which apart from the American commercial vehicle manufacturer supplies now also BMW.

The wiring systems division will continue to enjoy very good capacity utilization with it's ongoing major orders of the second half of 2006. Based on the sustained growth, strong demand of the vehicle models for which LEONI supplies product. And given the rising demand in the commercial vehicles sectors this division may be expected to generate total fiscal 2006 sales of at least 900 million EURs compared with 879.4 million in the previous year. Moreover the chances of taking new orders from the international motor vehicle industry have increased further.

Now I would like to give some more details on the wire and cable division. The wire and cable division recorded a sales increase of about 63% to 268.4 million EUR in the second quarter of 2006 versus the same quarter in 2005. In addition to the strong internal growth accounted for about 17% of the increase this reflected the widen scope of consolidation involving Kerpen and pneumatic accounting for about 19% as well as the increased price of copper accounting for about 25%. Compared with previous years figures sales in the first six months of 2006 were up nearly 61% to 503.3 million EUR.

The EBIT of the wire and cable division was up by nearly 69% to 31 million EUR. This corresponds to an improvement in the EBIT margin from 5.9% to 6.2%. Adjusted for the impact of the copper price, the margin for the first half of 2006 comes to one of 7.2%.

Including the new subsidiaries the division employed 6,841 people compared to 5,636 people in the previous year of June 30 2006. The largest business unit of the wire and cable division, the automotive and standard cable, sales continue to grow thanks to the strong demand from the motor vehicle industry meaning that we - plants run at full capacity.

The wire segment also [persisted in] strong demand in all regions. In the cable assembly business unit which makes power cables and cables for household appliances restructuring of the facility in Belgium was completed. And production has in the meantime been relocated entirely to China and to Slovakia.

LEONI fiber optics benefited from the high demand for glass fiber cable, which is used in laser and medical equipment among other applications. The order situation of LEONI's special cables also remained good. LEONI's took its first order for development work for the aviation and aerospace industry in the period under report.

It involves all the wiring for the new business jet of Grob the southern German aircraft manufacturer. In order to extend its footprint in the Asia Pacific region LEONI special cables opened a sales office in Mumbai India in May 2006. The business involving data and special cables for communications equipment of the new subsidiary Kerpen also performed encouragingly well. Integration of the company acquired at the turn of the year 2005 has meanwhile been successfully completed.

LEONI took a major step forward in the second quarter of 2006 with its planned acquisitions in the wire and cable division. Subject to approval by the cartel authorities it was agreed at the end of May that LEONI would at the end of July 2006 acquire all of shares in Studer Draht und Kabelwerk AG of Daniken, Switzerland at the price of \$105 million. Based on the cartel authority approval that has in the meantime been granted, Studer has been included in the consolidated financial statement from 31 of July 2006. By integrating this business, LEONI has further extended its position in the market for high end special cable and strengthened its presence in the Swiss market.

From today's perspective the wire and cable division will grow considerably more strongly in the current financial year than [inaudible] anticipated. With sales likely to climb to about 1 billion EUR compared to 668.6 million in the previous year. This is based on the good order situation in all business units that take over Studer as well as the significant increase in the price of copper.

I would like to assign the word now to Mr. Belle who will inform you on the major items of the profit and loss statement, the balance sheet, and the cash flow statement.

DIETER BELLE, CFO, HEAD OF FINANCE AND LABOR AFFAIRS, INFORMATION MANAGEMENT, RISK MANAGEMENT, LEONI AG: Good morning ladies and gentlemen. I would like to start as usual with some consequent [P&L]. The first six months of 2006 sales were up 33% year on year. Eleven percent thereof came from the increase copper price, 9% regarded from acquired companies. The remaining 13% was due to organic growth.

Gross profit on sales went down from 19.7% in quarter one to 18.4% in quarter two 2006 compared to 22.1% in quarter two 2005. This resulted mainly from the strong copper price increase. The proportion of material costs including materials driven by the increase of the oil price. Were at the level of approximately 60% in the first half year of 2006 in comparison to 55% in the previous year.

Other cost of sales at these personnel costs depreciation and other costs did rise less than proportionately in relation to the sales growth. Other operating income and expenses in quarter two 2006 were charged by restructuring costs of 0.4 million which means 3.9 million EURs of accumulated restructuring costs in the first six months of 2006. With regards to EBIT, the margins came to 6.2% in quarter two as already mentioned.

Adjusted for the impact of the copper price increase on sales the comparable EBIT margin would be at 6.9% versus the same period of 2005 which was at 6.3%. From January to June 2006 the EBIT margin would come to 7.3% instead of 6.7%. The income tax ratio decreased from 37.5% in quarter one 2006 to 33.5% in quarter two 2006 due to an improved business situation in UK. With regards to profit after tax, consolidated net income for the first six months of 2006 slightly more than doubled compared with the same period one year earlier to 38.5 million.

In the following I'm going to make some brief comments on special items off the consolidated balance sheet. The working capital, comprising accounts receivable, inventories, and trade accounts payable did rise from 343 million at the end of 2005 by 91 million to 434 million at the end of June 2006. On one hand this results from the growing business and increased copper price and on the other hand from the fact that the instrument of factoring was less used which corresponds to approximately 20 million EURs.

Total net debt increased by 34 million in quarter two 2006 to 221 million at end of June 2006. The reasons for this are reduced factoring, the payment of the dividend, and the [disposal] of [pension] obligations in connection with Kerpen. The total equity decreased from 445 million EURs in quarter one 2006 to 439 million EURs in quarter two 2006 due to paying out the dividend and to the accumulated translation adjustment in the other comprehensive income. However the equity ratio is still about 40% of total liabilities and equity.

Looking at the cash flow statement it turns out that the cash used for operating activities was dominated by the change in operating assets and liabilities. As already mentioned before the rise in sales volume increasing copper prices and less factoring in quarter two are the main reasons for this development. So far my comments to the key figures in quarter two respectively the first half of 2006. Now I would like to pass on the word again to Mr. Probst.

KLAUS PROBST, CHAIRMAN OF THE MANAGEMENT BOARD, CEO, LEONI AG: Before I am going to finish our report I will give a short outlook for 2006 as a whole. In line with the macroeconomic [computations] LEONI expects the favorable trend of its businesses to continue. The factors as mentioned before with regard to the outlook of the wiring systems division and the wire and cable division also called for an increase in the [pro] costs for LEONI Group. In total LEONI is now aiming for sales growth to between 1.9 to 2 billion EUR in 2006 compared to 1.55 billion in the previous year.

Consolidated earnings before interest and taxes should also grow more strongly than previously planned. And are likely to amount to between 125 and 130 million EURs compared with 102.8 million in the previous year. Consolidated net income for this year, will probably rise to between 72 and 75 million EUR compared to 56.1 million the previous year. So far our presentation of the Q2 and first half 2006 figures [inaudible] relevant business highlight and the outlook for the fiscal year 2006.

Thank you for your attention. Now we would like to ask you for you questions and comments.

OPERATOR: Thank you. [OPERATOR INSTRUCTIONS]. We will take our first question from Tim Schuldt] with DZ AG Bank.

TIM SCHULDT, ANALYST, DZ AG BANK: Thank you. Good morning gentlemen. I have two questions if I may. First one on the new orders. You're saying that chances have risen for you to get new orders, can you give us some more details in which countries you are pitching in the moment? Which size this is and what is the expected time schedules? Is this something for the nearer future or something for the long term? That's my first question.

And the second question - adjusted for restructuring costs. It looks like - that your margin is down relatively strongly compared to the second quarter 2005 in the wiring systems division. Is this mainly due to the Easter effect or is there anything else which we should look at?

KLAUS PROBST: Thank you for your questions. I will take care of the first question. Concerning the new orders on our wiring systems division, we are not allowed from our customers to get really specific details or customers or brands. But we can give the following information. There are two bigger new orders to be expected which will contribute about 50 million EUR each to our sales beginning with 2008 and arriving at this 50 million EUR level at - in 2009, 2010. That's about our expectation is to new orders should be given my two major wins in the German car industry.

DIETER BELLE: Morning Mr. Schuldt. Your question regarding the margin difference between second quarter 2006 in comparison to second quarter 2005. You're right. This quarter we did realize 7.1 by eliminating the copper price import effect at 7.2. It's not a big difference. But at the end you have to see we do have some business units with different customers.

The profitability between the special profit center is customer-wise quite different. That means with some customers we are realizing interesting margins due to normal prices and a very good cost performance. Regarding some other customers and profit centers we do have to improve our cost performance to improve our margins. And at the end it's a question of the special customer needs in that special quarter or in that total year.

And, you know, at the end for the whole year 2006 we are calculating roughly 10 million restructuring costs to have. There are four million roughly we did realize in the first six months, that means another 5, 6 million will come in the second half of 2006. This is in relation to profit centers where we are earning at the present very low margins. And that's the reason.

TIM SCHULDT: Okay. And maybe a follow up on the new orders. So this is the new orders. You're talking about the new orders which you already mentioned after the first quarter. And so there is no - nothing else in the pipeline what you are talking about so really - the chances that these new orders which you talked already about after the first quarter. That these really will come has increased or did you - are you pitching on any other new orders as well.

DIETER BELLE: Okay. Thank you. We have to get you on additional information that is on the first order to be

expected. It's very likely that we will gain this business. Also in the European car industry in this -- from a today's perspective it will be a very big order which will cover not only European market but also US and Korean market. The size of this business could come to that higher than 100 million EUR sales a year.

TIM SCHULDT: Thank you.

KLAUS PROBST: [Inaudible] times impact on our sales - the end of 2009 beginning 2010 in this case.

TIM SCHULDT: Thank you very much.

KLAUS PROBST: Yes.

OPERATOR: Our next question today comes from Michael Schaefer with Equinet.

MICHAEL SCHAEFER, ANALYST, EQUINET: Yes. Good morning gentlemen. I have three questions if I may. First on the wiring systems, you have changed your wording a bit on the outlook. Now you're talking about at least 900 million from about 900 million you stated after the Q1 reporting. Is this just related to the impact from copper prices or is there something underlying improving basically in the second half?

And just in this regard could you just remind us on the reason for the drop basically in the second half you're expecting in sales. Now you're forecasting roughly 450 million in sales compared to the 485 just reported. And maybe also on the margins in wiring systems you are expecting in the second half you already pointed on the restructuring so is it fair to assume that margins are going down slightly in the second half in wiring systems?

And the second question is on copper in general What - on your projections for the full year, what kind of underlying assumptions did you take basically for the rest of the year in your calculation? And in this respect also are there any negative profit impacts basically from copper prices in the second quarter?

And last but not lest, on your net written capital what - if I remember this correctly you're operating free cash flow projected for the full year '06 was at around 50 million. So do you still stick to this? I.e., do you expect a major recovery in the second half or should we expect anything worse here?

KLAUS PROBST: Okay. Thank you for your questions. First come to the same prediction of the wiring systems division, you're right. We had said about 900 now we are saying about 900 million EUR.

That - one factor or one impact is of course the copper price which is also influencing having impact on our wiring systems business. And in addition we can say that the numbers of cars which are produced - are being produced by our customers are let's say, a bit higher - slightly higher than we have expected originally in the end of the third quarter - as such first quarter I guess.

Also our business in China is improving significantly so in total we have increased our outlook for the wiring systems as far as sales is concerned. Profitability?

DIETER BELLE: Yes. Regarding your question regarding the margins of the wiring system division the second quarter. As mentioned 7.1 in the first half. And our estimation furthermore is to get for the whole year around that means at least 7% in the wiring system division.

That mean at the end also 7% we should achieve in the second half of 2006. And these 7% are negatively influenced that's the reason why we are coming only up to 7% by restructuring costs which will come up in the dimension of 6 million in the second quarter - in the second half year. And also regarding some from other actions. But in the end at least 7% for the wiring system division for the whole year.

KLAUS PROBST: Based on a slightly higher turn over [inaudible] previously indicated.

Your question on the copper price or the base - based our projections we based our forecast on an average copper price for the second half year of 6 EUR per kilograms. That's the current copper price in the last four weeks. Of course it's a guess. We can't look to the future. And market - from our perspective the market is - the copper price will be stable more or less about 6 EUR per kilogram. And that's the base for our projection of [safe]. Especially in the wire and cable business.

Your question concerning the profit impact. We can't continue to say that there will be no serious or significant

impact of the copper price on our profitability. Of course we have let's say optimized our hedging strategy and our forward buying strategy in the last two or three years. Under this we are able to limit the impact in both cases. If copper price will rise or copper price will drop. In both cases we can limit the impact of the fluctuating copper price on our results.

DIETER BELLE: So regarding our free cash flow projection our first estimation was to get around free cash flow of approximately 50 million EURs before paying dividends. At present we have to see due to the strong growth in turnover we are improving and increasing our turnover from 1.7 to at least 1.9 up to 2 billion. That means you have to calculate another 200 million or up to 300 million with working capital issue and at the end we have to calculate working capital lines, receivables, inventories, minus liabilities up around 20%.

So another let's say 50 million will come up a negative free cash flow from the growing working capital on the one hand. And on the other hand you have to see the negative impact additionally coming from the strong copper price. That means also our receivables will be especially higher than normally. At the end, at present, due to some other positive issues we are seeing, we are seeing at present 25 to 30 million free cash flow before paying dividends at the end.

MICHAEL SCHAEFER: Yes. Okay. Thank you.

OPERATOR: We will take our next question from Michael Raab with Sal Oppenheim. Mr. Raab your line is open for questions.

MICHAEL RAAB, ANALYST, SAL OPPENHEIM: Hello can you hear me?

DIETER BELLE: Yes.

KLAUS PROBST: Yes we can hear you Raab.

MICHAEL RAAB: Good morning gentlemen. Basically all of my questions have already been answered. So thank you.

KLAUS PROBST: Thank you.

OPERATOR: We will now move to Daniel Schwarz with Commerzbank.

DANIEL SCHWARZ, ANALYST, COMMERZBANK: Hello [inaudible]. Just one question could you give the amount of restructuring costs in the second quarter? Have there been restructuring costs? And the other question what do we expect will be the number of increase in the wiring systems division at the end of the year?

DIETER BELLE: Good morning Mr. Schwarz. Restructuring costs is 0.4 million in the second quarter 2006 only covering the issues in the wire and cable division, especially in the cable division. Regarding the employees, our estimate is more or less a stable situation as we do have at present on the wiring system division. No change.

DANIEL SCHWARZ: Okay. Thank you.

OPERATOR: We now have a question from Tom Aney with Dresdner Kleinwort.

TOM ANEY, ANALYST, DRESDNER KLEINWORT: Good morning gentlemen.

KLAUS PROBST: Morning.

TOM ANEY: Maybe I missed this here [inaudible]. But in the P&L in the second quarter your other operating income and expenses you had a swing of minus 2.9 million to a positive of 813,000. I was wondering did you - if you could explain that swing?

DIETER BELLE: Good morning Mr. Aney. I think the main issue is last year we had to cope with more restructuring costs than in the year - in the second quarter 2006. I think the second quarter 2005 was in this line also driven by negative impacts coming from the Rover insolvency and some other restructuring costs. The only - an issue of special costs we had to cope with in the second quarter 2005.

TOM ANEY: Okay. Thank you. And I was quite interested in hearing what you were saying about the margin development in wiring systems understanding that that was kind of a customer mix effect. Is it correct to say - what you're saying is that customer mix effects will improve in the second half? And in China as you increase your sales in China faster than you are in Europe will that margin - will the margins out of China be diluted or are they roughly in the same with the group level or that wiring systems level?

KLAUS PROBST: Thank you for this question Mr. Aney. Maybe I should give a more detailed explanation on the profitability in our wiring systems division based on the factor that there are entirely - we are running different projects of different platforms [as in old years] A class, DaimlerChrysler, they are supplying the Astra and Zafira, BMW, and all the other Range Rover and other projects. All those projects are lifetime contracts. And over the lifetime, these projects show a very - yes - different profitability.

Beginning before just in the development phase we have costs. We have a negative EBIT margin. At the beginning we have ramp up costs, we have the low margin and come some years where we have a very high margin in those projects. And then it goes down at the end of the lifetime.

I think all the current situation of those individual platforms and projects. Of course there will be fluctuating profitability from one quarter to the other quarter depending on the size of the individual platforms of their contribution in terms of profit and of the status of their life cycle where they are.

So this does mean we've never had a very constant profitability. But in general we can say for the whole year 2006 we expect at least 7% EBIT profitability for the wiring systems business. In addition you have to see that I mentioned two new orders which we are not allowed yet to communicate in detail.

But we are already working on those platforms. We are in the development phase. And we have put our engineers to those customers. They are - and we have those up front costs. And this also in our profit and loss account that we see now. We put those costs variably through the P&L. And this all as a mixture gets at the end of this 7.1 or 7.2 profitability, it very hard to explain. It's project by project.

TOM ANEY: Yes.

KLAUS PROBST: Yes? That's the reason why we have the situation. But we are sure and convinced that we will achieve our target [inaudible] on average more than 7% EBIT on the increased sales of the wiring systems division.

TOM ANEY: And the - could you tell us how much sales you did in China? And how the margins of that are compared to the European business?

DIETER BELLE: Yes. Business in China - you are talking about the wiring systems business?

TOM ANEY: Yes.

DIETER BELLE: Okay. The wiring system division is turning a very small business now of sales in total for the first half year we have about 6, 7 million EUR.

TOM ANEY: Yes.

DIETER BELLE: Yes? This will slightly grow now with the new plant. The bigger portion of our Chinese business is dedicated to wire and cable division. So in total we expect for the year end - we'll have to see about 120, 130 million Euro sales in China for the LEONI Group in total. Yes?

TOM ANEY: Yes.

DIETER BELLE: Yes? But the smaller portions so far is the wiring systems business because we have to just start the projects. We are supplying different platforms now. We have new - gained new businesses. And the EBIT will - ratio will be about 6% in China in total on our total Chinese business.

TOM ANEY: Yes. Okay. And then one last question. Is it correct that there's just no raw material impact to the second quarter to mention?

KLAUS PROBST: For both divisions [inaudible].

TOM ANEY: I'd love to hear the split by division if you could.

KLAUS PROBST: Yes. We have now - let's say it like this we - as you know we have to give every price reduction to our customers. We of course ambitious to put this price reduction also to our suppliers and therefore so far we have been successful to pass at least the price reduction we have given to our customers pass on this to our suppliers of connectors and [inaudible].

Other than raw materials, the only [inaudible] material we are not in this good position is copper as you know. But we can pass on the copper price [based on the non-] metal exchange notification onto our customers. No - this is a neutral - yes - impact. There's no real impact on the profitability. So in both divisions -- both in the wiring systems division and the wire and cable division -- we don't see any significant negative or positive impact from the raw material side.

TOM ANEY: Okay. Thank you very much.

OPERATOR: Our next question is from [Alex A Wanro] with BHF Bank.

ALEX A. WANRO, ANALYST, BHF BANK: Good morning. My question regarding to Kerpen and can you update us on the margin of this subsidiary. And the second one regards to the platform - GM Delta platform. Can you update us on the negotiations there? Thank you.

KLAUS PROBST: Okay concerning Kerpen, as you know, since January for us to [reconfildate] this new subsidiary. We expect sales of about 120 million EUR for 2006 and the profitability is between 5 and 6%. And we expect [inaudible] we will have in the subsidiary about the 6% profitability for the new subsidiary.

So the - your question on the GM Delta platform, you mean the new Delta platform? The follow up - no - the successor of the platform what we are supplying to now. As already mentioned we are not really allowed to communicate very clearly what will happen. But we are very convinced - very yes, convinced that we will have a good chance to gain success as we build that platform.

The current platform is about 150 million sales on the yearly base. Just the European business so far. Successor is - would be an international platform. And would be about 200 million, say if GM would give this old platform - this entire platform to one supplier which has been communicated so far. So our chances are really good to get this business.

ALEX A. WANRO: So the new contract you mentioned does not relate to the Delta platform?

KLAUS PROBST: Maybe.

ALEX A. WANRO: Okay. Thank you.

OPERATOR: Our next question is from Jose Asumendi with WestLB.

JOSE ASUMENDI, ANALYST, WESTLB: Yes hello good morning. This is Jose Asumendi from WestLB. I have one question please on the acquisition of Studer. Do you plan any restructuring in the company in terms of for example combining purchasing or back office functions? And if so, should we expect any one offs due to these actions in 2006?

KLAUS PROBST: As you can see from our purchase price for Studer it's a very successful company and with a very high profitability. Our strategy is not to make - to cause big changes there. We will of course do as we have done this [inaudible] and other projects - very ambitious integration process but more or less focused on the matter of sales.

That means that we will have to see who has been competitive so far in some [fields] of the business. We have to make sure that this competitive situation will not cause any negative impact on our margins and existing business and in the Studer business. That's a major job we have to do in the integration. There is not a significant restructuring process necessary. This company is very profitable. It has very good projections for the future perspective. So there will be no cost for the integration if this is your question.

DIETER BELLE: I would like to give some additional information. The company did realize a very interesting profitability within the first seven months double digit EBIT in any case. But at present we are working on the purchase price allocation process and the IFRS 3 we have to do. There - we have to evaluate the acquired assets and liabilities.

And so at present we are not knowing directly how the fair values are. And the total impact for the whole group will be - there's no chance to escape. We have to do this. This means positive our EBIT which should come from the company, double digit will be reduced by some percentage point. This process is at present in investigation and lasts let's say some weeks to get to a final information. But in any case we are expecting a positive impact coming from Studer despite these purchase price allocation issues.

JOSE ASUMENDI: Okay. Thanks very much.

OPERATOR: Our next question is from Jurgen Pieper with Metzler Bank.

JURGEN PIEPER, ANALYST, METZLER BANK: Yes. Good morning gentlemen. I was just taken [big for] question. But anyway I've just a brief clarification maybe your EBIT and net outlook. Is it correct that this includes the 10 million restructuring before taxes?

DIETER BELLE: Mr. Pieper you're right. Yes this includes - our projection includes the 10 million restructuring of course.

JURGEN PIEPER: Yes. Okay.

DIETER BELLE: Thank you.

JURGEN PIEPER: Thanks.

OPERATOR: Our next question today is from Tim Schuldt with DZ AG Bank.

TIM SCHULDT: Yes thank you. Just a follow-up. And could you give us an outlook for your financial results after the Studer acquisition is made. And also for the tax rate.

DIETER BELLE: Yes. Tax rate I would like to start with. We are expecting to come in the average for the whole year of a percentage of around 33%. That means we will realize a small improvement within the next six months.

Regarding the financial situation, our net debt at the end of 2005 has been at a dimension of 167 million. And as mentioned of our new free cash flow will be before dividends at a dimension of 25 to 30 million EURs by covering 85 million normal investments. So 85 - additional we have to see money we have to spend for acquisitions on the one hand.

Studer we have to pay in - we did pay first of August 105 million. And at present we are analyzing and investigating further acquisition projects. So at the end we are expecting to spend money for acquisitions between 105 and 140 million including net debts which we would have to cover and to take over so by seeing the normal investment of 85 million and additional 105 to 140 million acquisitions. At the end we are expecting to get a gearing of 0.5 to 0.6. So this is our intention to get this year. But it's not clear at present that the two three acquisition projects will be realized but we have quite good chances.

TIM SCHULDT: So that would basically mean that your financial result in the second half of the year would be more negative than in the first half?

KLAUS PROBST: It's from the operation of business - the positive free cash flow will grow very significantly. We are expecting to improve our receivable situation - our total working capital by double digit millions in total as you - if you see the history within the last two, three years you can recognize in the second half the operation of free cash flow is improving year on year.

And so we are expecting to get in the special line, let's say cash used for and provided by operating activities. We are expecting to get let's say for the whole year 105 110 million at least. And these 85 - these 105 or 110 million have to cover the normal investment on the one hand. And then additional the money we are willing to spend for acquisitions additional.

TIM SCHULDT: Okay. But technically just I mean, just the Studer acquisition is a big cash out.

DIETER BELLE: That is the case, yes.

TIM SCHULDT: Yes. So basically it is fair to assume that the financial result in the second half will probably

be somewhat more negative than in the first half.

DIETER BELLE: Yes by including the acquisitions - the money we will spend for acquisitions then you are right yes.

TIM SCHULDT: Yes.

DIETER BELLE: The operation of business will improve very strong also the situation in the working capital. We are expecting to get 60, 70 million improvement in working capital in total. Yes. And you have to see in total our total CapEx will be in [a demanded] by including all the opportunities which we do have up to 220 million.

TIM SCHULDT: Okay. Thank you very much.

OPERATOR: We now have a question from Karan Khemani with Casenove.

KARAN KHEMANI, ANALYST, CAZENOVE: Good morning Herr Belle and Herr Probst. While on topic of acquisitions, you have mentioned recently that apart from Studer you were planning further acquisitions specifically in wiring systems. And if yes, what type of target are you looking for? And what would it add to your business specifically in that division?

KLAUS PROBST: well thank you for the question. I have to correct you. The further acquisitions we are working on are not dedicated as a wiring systems business. It's in the wire and cable division as we have done in the past.

KARAN KHEMANI: Yes.

KLAUS PROBST: Yes. We have been planning an acquisition project in the wiring systems division what we have been communicating in the last conference call. This has been dropped. This company has been acquired by a competitor of us.

So wiring systems division is not really close to further acquisitions, but the wire and cable division -- the cable division is further engaged - furthermore engaged in further acquisitions which are significantly smaller than the Studer acquisition. But would give us additional let's say a presence in interesting niches of special markets. We are not ready to communicate more details on those acquisitions.

KARAN KHEMANI: Okay.

KLAUS PROBST: Yes.

KARAN KHEMANI: Thank you. Thanks.

OPERATOR: We now have a question from Tobias Fahrenholz with Berenberg Bank.

TOBIAS FAHRENHOLZ, ANALYST, BERENBERG BURBACK: Yes, hi. Hello gentlemen.

KLAUS PROBST: Hello.

TOBIAS FAHRENHOLZ: I've got a question on the input prices with regard to the cables. Of course we also have kind of isolation there. And we've learned that roughly 80% of this is chalk. Could you give us a feeling for the development of the chalk prices and if you have hedged or whatever? And which - of course which negative effects you would see then for the whole year.

KLAUS PROBST: Okay. Our main [insulation] material which we use in our cable [wrapping] is PVC. And you mentioned a big component of the PVC beside - well, the [inaudible] of course is chalk. But chalk is - it doesn't cause any strong impact on our cost situation as far as raw material is concerned.

It's more the oil price which is influencing the costs of the price - the market price of the integration material. Chalk is - I couldn't give you any numbers or no percentage. And from this you can see that it's not very important.

TOBIAS FAHRENHOLZ: Okay.

KLAUS PROBST: Yes.

OPERATOR: Our next question is from Georg Sturzer with HVB.

GEORG STURZER, ANALYST, HVB: Yes hello. Good morning. Just two questions. The first one is if I calculated it correctly, you have released approximately 5 million provisions in the second quarter in the cash flow statement. Can you give us some informations about this?

And the second one is, your increased guidance up to between 125 and 130 million for the current fiscal year. Is it purely related to the acquisition of Studer or is it also related to a better performance in other divisions?

DIETER BELLE: So your first question regarding the provisions. I think with the exception of the restructuring costs which we did accrual of 0.4. All the other provisions or accruals are related to normal cost accruals we have to build quarter on quarter and monthly on monthly. So it's not in result impact coming from this issue.

GEORG STURZER: Yes.

KLAUS PROBST: Concerning our forecast or outlook in terms of profits or EBIT 125 to 130. It's both. Part of this increase is [inaudible] compared with our previous communications 5 to 10 million. Part of this is caused by Studer. And part of this is due to a better performance in our basic operation of business. And again both in the wiring systems business and in the wire and cable business.

GEORG STURZER: Okay. Thank you.

OPERATOR: Our next question is from Marc Tonn with MM Warburg.

MARC TONN, ANALYST, MM WARBURG: Yes good morning. Just a question on CapEx or investment spending of the future. As you mentioned you will have 85 million in underlying CapEx spending this year. What can we expect for the years ahead at this item? And perhaps another item on what you had mentioned with regard to Studer and has a negative impact on the margin in the second half. Can you say how much this might be in absolute terms?

DIETER BELLE: Sorry. Both -- we didn't get you question, sorry. There 85 - you wanted to know what we expect for 2007 or what's your question?

MARC TONN: Yes exactly. For 2007 going onward.

DIETER BELLE: Well, I would say maybe 5 to 10 million less than 85 so about 75. But it's a rough guess. We don't have detail planning for the next few years. Concerning the Studer issue. Your question what it will be like--

MARC TONN: What is the purchase price on allocation for--

DIETER BELLE: This is an investigation at present. We have to wait regarding - we are getting the results. The normal operational business as mentioned will be at a [dimension] of 13 to 15% EBIT but we have to [track] some percent point coming from this negative issue. And no chance to get the final figures at present.

KLAUS PROBST: We can say [inaudible]. If you take Studer as a stand alone like it was so far we would have for the months August to December which is comes from the dating phase, we would have about 5 - 4 to 5 million EUR EBIT from this operation. But as Mr. Belle already explained this purchase price allocation calculation is very complex. And it's of course new to us. It be also new to our, you know --

DIETER BELLE: Auditors.

KLAUS PROBST: -- Auditors. So it takes another days couple days to get really a clear picture of what will be the impact on our group's profit and loss statement. It's - we can't say - we are also curious on this.

MARC TONN: Thank you very much.

KLAUS PROBST: Yes.

OPERATOR: [OPERATOR INSTRUCTIONS]. We'll take a question now from Michael Schaefer with Equinet.

MICHAEL SCHAEFER: Yes. Just a final question here. One of your competitors Draexlmaier was mentioned in the press over the last couple of days basically in regard to the bribery issue and related to BMW. Have you been approached by the legal authorities in Germany on this one or on the other one. If not basically do you expect any kind of positive impact from this on - in regard to your BMW business?

KLAUS PROBST: We have not been approached so far. From our internal [inaudible] we don't see any reasons why we should be approached by legal authorities because we have of course conducted some internal audits caused by those [inaudible] outside of our company. And we have not found any indications that we should have some worries about this.

MICHAEL SCHAEFER: Okay. Thank you very much.

OPERATOR: We now have a question from Bjorn Kirchner with MainFirst Bank.

BJORN KIRCHNER, ANALYST, MAINFIRST BANK: Good morning gentlemen. This question on 2007. I see a lot of triggers for 2008 and 2009 coming up particularly having to do with the orders you currently get in or you are talking about at least briefly. What is the major trigger for 2007 to expect here additional growth besides maybe the Studer acquisitions which will obviously have an effect on your 2007 P&L and cash flow statements.

KLAUS PROBST: Okay. Let's talk about this matter [inaudible] for the divisions starting with the wiring systems division. As we have now forecasted we will end up about 900 million EURs sales in the wiring systems division. You know, for next year to come we just see a slight increase of the business in the wiring systems division. There's no real big project which is already giving some serious impact or significant [inaudible] on sales. It will start in 2008 as already mentioned. So this will just be a slight increase.

In the wire and cable division it's a bit difficult to forecast because we have to do some assumption on the copper price. But if we base our forecast on the current copper price like we have done for the second half year 2006 that have been 6 EUR per kilogram then we would see further I will say significant increase of our sales. First due to the full year consolidation of Studer, Studer in total will have let's say 100 million EURs sales or even more.

And this year we were just 40 or 45. So this will give further growth. And our other individual businesses we expect further more to grow. Of course not double digit but we will grow. So we will from what today's point of view - assuming 6 EUR per kilogram copper price - surely surpass the 2 billion EUR next year in sales. That's our projection.

DIETER BELLE: And with that light we should also be able to surpass the year 2005. [2006, pardon].

BJORN KIRCHNER: Okay thank you.

KLAUS PROBST: Okay. Yes.

OPERATOR: [OPERATOR INSTRUCTIONS]. We have a question from [Michael Fredrich] with DPA AFX.

MICHAEL FREDRICH, DPA AFX: Good morning gentlemen. Did I understand you right? You expect a sales of 2 billion EURs in next year?

DIETER BELLE: More than 2 billion.

MICHAEL FREDRICH: More than 2 billion.

DIETER BELLE: But, yes, yes, yes.

MICHAEL FREDRICH: But no specific number right?

DIETER BELLE: No. Two billion plus x and x is not specified yet.

MICHAEL FREDRICH: Okay. Thanks a lot.

DIETER BELLE: Yes.

OPERATOR: As there are no further questions at this time, I would now like to turn the call back over to you gentlemen for any additional or closing remarks.

KLAUS PROBST: Thank you. [Inaudible] we would like to close today's conference call. Thank you very much for your questions, for your comments of course, and for you time. Thank you.

OPERATOR: Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.

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