

# Interim Report

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1<sup>st</sup> Quarter 2005

THE QUALITY CONNECTION

**LEONI**

Wire • Cable • Wiring Systems



- Consolidated sales up 23 % year on year
- Consolidated net income up substantially on the previous year
- LEONI share reaches a new high
- Transition from US GAAP to IFRS

€ million	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2004	Change 01/01–03/31 2005/2004
Group sales	350.0	284.8	22.9 %
Earnings before interest, taxes and depreciation/ amortisation (EBITDA)	31.1	22.1	40.7 %
Earnings before interest and taxes (EBIT)	17.2	9.5	81.1 %
Earnings before taxes (EBT)	13.5	7.5	80.0 %
Net income	7.9	5.5	43.6 %
Capital expenditure	16.3	22.3	(26.9) %
Equity ratio in %	41.6	29.2	42.5 %
Earnings per share (€)	0.80	0.83	(3.6) %
Employees as at 03/31	32,992	22,665	45.6 %

## Group key figures

	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2004
Number of shares outstanding on 03/31	9,900,000	6,600,000
Share price (Xetra closing prices of the day in €)		
High	63.51	55.40
Low	51.10	46.74
Price at end of period	62.90	47.50
Average trading volume (no. of shares)	42,848	31,095

## LEONI Share

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## Underlying conditions

### Economic growth continues to slow down

Macroeconomic conditions increasingly deteriorated in the course of the 1<sup>st</sup> quarter of 2005, especially so in Germany. This prompted the federal government to lower its forecast of the 2005 growth rate from 1.6 percent to one percent. The six leading economic institutes even expect only 0.7 percent growth.

The automotive industry – by far the most important market for LEONI – lost further momentum. According to the German Association of the Automotive Industry, the number of passenger cars manufactured in Germany in March 2005 was down nine percent on the same month of the previous year, while the number of vehicles exported was down as much as eleven percent. Overall, passenger car output in the 1<sup>st</sup> quarter of 2005 was down one percent on the pre-year quarter, and exports dipped by four percent. The number of commercial vehicles manufactured, which is also a good market for LEONI, did at least rise by a strong 16 percent.

LEONI's other markets present quite a mixed picture. The capital goods market depends mainly on export orders, while domestic demand is virtually flat. Even though order receipts are still relatively stable, the business climate has become perceptibly gloomier. The situation in the electrical equipment industry, especially for household appliances, is unsatisfactory, whereas there are still signs of business growth in the telecommunications, medical equipment and traffic engineering sectors.

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## Sales

### LEONI is growing against the cycle

Regardless of the rather gloomy economic prospects, LEONI has – as planned and forecast on various occasions – generated significant sales growth. **Consolidated external sales** were up by almost 23 percent. Overall in the first three months of 2005 LEONI generated sales of € 350 million (previous year: € 284.8 million). The Wiring Systems Division accounted for the largest proportion of this sales growth.

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## Earnings, asset and financial situation

### Earnings substantially improved

The Company achieved a significant earnings improvement thanks to the increased sales from the large-scale projects successfully launched in the previous year. At € 17.2 million for the 1<sup>st</sup> quarter of 2005, consolidated earnings before interest and taxes (**EBIT**) were up significantly on the previous year as expected, namely by 81 percent (from € 9.5 million in previous year) with non-recurring restructuring charges of € 2.5 million already having been absorbed. In line with EBIT, earnings before taxes (**EBT**) were, at € 13.5 million for the 1<sup>st</sup> quarter of 2005, up 80 percent year-on-year (€ 7.5 million).

Exceptional charges incurred by foreign subsidiaries, which were not offset by any tax relief, resulted in a relatively high tax rate in the 1<sup>st</sup> quarter of 2005. **Consolidated net income** consequently did not grow to the same extent as EBIT and EBT. The figure generated was € 7.9 million, which does correspond to an increase no less 44 percent versus the previous year's € 5.5 million.

**Shareholders' equity** was up € 12.5 million on the level as at 31 December 2004. Along with the consolidated net income, the changes in currency parities versus the euro since the beginning of the year had a key impact in this regard. The value of the euro relative to the US dollar fell from 1.364 on 31 December 2004 to 1.296 on 31 March 2005. The equity ratio stood at 41.6 percent on 31 March 2005.

### A significant increase in working capital

Trade receivables were up by about € 28 million due to the strong sales increase in the 1<sup>st</sup> quarter and substantial sales recorded in March. An increasing volume of output in the Wiring Systems Division, which will lead to further sales growth in the months ahead, was a principal reason for an increase in inventories by about € 25 million. The simultaneous reduction in trade liabilities by about € 5 million compared with the end of 2004 resulted in a considerable increase in working capital despite the increased provisions (by about € 20 million) as at 31 March 2005.

### Capex down on the previous year in line with planning

As budgeted, capital expenditure in the 1<sup>st</sup> quarter of 2005 was, at € 16.3 million, about € 6 million less than in same quarter of the previous year (€ 22.3 million). This is attributable mainly to the fact that the necessary pre-production expenditure on the Wiring Systems Division's major projects was already committed in fiscal 2003 and 2004.

The capital expenditure for the 1<sup>st</sup> quarter of 2005 includes, for instance, the price paid to acquire the light guiding fibers business of PRINZ Optics GmbH (Wire & Cable Division).

### Flat conductors as circuit boards

LEONI AG's Corporate Research & Development department is working on three main projects: a special process (Flamecon<sup>®</sup>) for applying conductive surfaces, a pressure sensor based on fiber optic conductors with no moving parts as well as fully automated wiring of a car door.

At present, the Würzburg-based joint venture company Intedis, formed with the aim of developing intelligent wiring systems, is developing, among other things, ways of fitting electronic components directly onto extruded flat conductor cable (LEONI exFC<sup>®</sup>), which therefore serves not only as simple wiring but also as a circuit and components board. Solutions of this kind were unveiled at the SAE Motor Show in Detroit together with the optical sensors developed by the Corporate R&D department.

### The number of employees in eastern Europe continues to rise

The number of the Group's employees was up to 32,992 on 31 March 2005. This equates to an increase by more than 10,000 employees compared with the number (of 22,665) at the end of the same quarter in the previous year. There was even an increase by about ten percent on 31 December 2004 (29,957). This tremendous growth is due primarily to the ongoing process of setting up LEONI's eastern European facilities in the Ukraine, Romania and in Slovakia. The Company employed about 16,900 people in eastern Europe, i.e. more than half its total workforce, at the end of March 2005. This growth further increased the proportion of staff employed outside Germany, which stood at 90.9 percent at the end of the quarter (87.2 percent in the previous year).

The Corporate Research Foundation again puts LEONI among Germany's best employers in 2005.

## Cash flow statement

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## Capital expenditure

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## Research and Development

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## Employees

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## Segment reporting

### Wiring Systems

	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2004	Change 01/01–03/31 2005/2004
Sales	€ 201.2 million	€ 148.4 million	35.6 %
./. Intersegment sales	€ 0.1 million	€ 0.6 million	(83.3) %
External sales	€ 201.1 million	€ 147.8 million	36.1 %
EBIT	€ 10.8 million	€ 1.1 million	881.8 %
EBIT as a percentage of external sales	5.4 %	0.7 %	—
Employees (as at 03/31)	27,289	17,561	55.4 %

### Wire & Cable

Sales	€ 165.8 million	€ 145.6 million	13.9 %
./. Intersegment sales	€ 16.9 million	€ 8.6 million	96.5 %
External sales	€ 148.9 million	€ 137.0 million	8.7 %
EBIT	€ 6.4 million	€ 8.7 million	(26.4) %
EBIT as a percentage of external sales	4.3 %	6.4 %	—
Employees (as at 03/31)	5,565	4,965	12.1 %

### Group

Sales	€ 367.0 million	€ 294.0 million	24.8 %
./. Intersegment sales	€ 17.0 million	€ 9.2 million	84.8 %
External sales	€ 350.0 million	€ 284.8 million	22.9 %
EBIT	€ 17.2 million	€ 9.5 million	81.1 %
EBIT as a percentage of external sales	4.9 %	3.3 %	—
Employees (as at 03/31)	32,992	22,665	45.6 %

The Wiring Systems Division increased its external sales from € 147.8 million in the 1<sup>st</sup> quarter of 2004 to € 201.1 million in the 1<sup>st</sup> quarter of 2005, which corresponds to a rise of about 36 percent. In particular, the major Opel Astra/Zafira, Mercedes A-Class, BMW 1 and 3 Series as well as Land Rover Discovery projects launched in 2004 contributed to this sales growth.

The large increase in sales had a positive effect on earnings, with earnings before interest and taxes (EBIT) coming to € 10.8 million at the end of the 1<sup>st</sup> quarter of 2005 (from the previous year's € 1.1 million). Measures to optimise the areas of production and logistics also contributed to this improvement.

Other business also, apart from a few exceptions, performed well. Sports-car maker Porsche, having also launched new models, declared LEONI its "Supplier of the Year" for the third time in succession. The "Commercial Vehicles" and "Suppliers" Business Units also made significant gains.

Business with MG Rover proved to be one of the few downsides in the 1<sup>st</sup> quarter of 2005. The United Kingdom's last volume carmaker, a LEONI customer, was compelled to declare itself insolvent in April. Although this will not have any major impact on LEONI's consolidated sales, the targeted (EBIT) margin of seven percent might be affected. Based on the data currently available, a reduction in earnings by between five and seven million euros is conceivable. It will not be possible to say anything more specific until the details of the administration proceedings and possible continuation of Rover production in China are known.

Expansion of facilities in eastern Europe increased the number of employees on 31 March by 55 percent, from 17,561 in 2004 to 27,289 in 2004. Yet more people were recruited not only in eastern Europe; the number of employees also rose significantly at the facilities in Egypt and China.

Growth in the Wire & Cable Division was slower in the 1<sup>st</sup> quarter of 2005 because of the difficult underlying conditions, but the figure was certainly still satisfactory with an increase of 8.7 percent. External sales amounted to € 148.9 million on 31 March 2005 (up from € 137 million in the previous year).

The Automotive Cables, Special Cables and Cable Systems Business Units in particular generated gains. LEONI Special Cables GmbH, based in Friesoythe, also succeeded in March in taking an order from Siemens worth an overall figure of € 100 million, which stretches over a period of five years and covers supply of assembled special cables for motion control equipment. Business in the field of fiber optics remained unsatisfactory for demand-related reasons. The wire business is virtually at the previous year's level.

In order to serve the promising and lucrative niche market encompassing rolling stock engineering even better in the future with an almost complete range of special cables, LEONI intends – subject to approval by the Cartel Office – to set up a joint venture with the cable manufacturer Studer Draht- und Kabelwerke AG based in Däniken, Switzerland.

Earnings before interest and taxes (EBIT) came to about € 6.4 million at the end of the 1<sup>st</sup> quarter of 2005, i.e. about 26 percent down on the previous year's € 8.7 million. In addition to the heavy pressure on prices especially of standard products, this reflects above all the restructuring of LEONI Cable Assemblies N.V. in Belgium started at the end of 2004. The facility is involved mainly in the manufacture of power cords for the electrical appliances industry. As makers of electrical household appliances are increasingly relocating their production to Asia and are buying the required cordsets direct locally, the business basis for the facility in Belgium is disappearing in ever-larger measure. The cutbacks in production and personnel that had become necessary incurred restructuring expenses of more than € 2.5 million in the 1<sup>st</sup> quarter of 2005.

The workforce had grown to 5,565 by 31 March 2005, as compared with 4,965 in the previous year. This is attributable mainly to expansion of the cable facilities in China and acquisition of Klink+Oechsle GmbH in August 2004.

## Wiring Systems Division

## Wire & Cable Division

## Outlook

### Economic outlook holding little promise

Demand in Germany remains weak. The global economy is also growing at a more modest pace than last year. The high price of oil in particular is sapping valuable purchasing power. Economists therefore expect a slight recovery, if any at all, in the 2<sup>nd</sup> half of 2005 at the earliest. The German automotive industry did at least report rising new registration figures again in April 2005.

Regardless of the macroeconomic situation, LEONI is able to take a relatively upbeat view of the near-term future. The new Opel Astra, the wiring system for which LEONI makes in the Ukraine, is selling well and the new Zafira will generate additional sales. The updated versions of Porsche's two sports-car models, the 911 and the Boxster, are also doing very well. LEONI also supplies the engine cable harnesses for the successful Cayenne model. DaimlerChrysler's new A-Class range has been extended with the B-Class model, for which LEONI also supplies the wiring system. Prospects are also good for business with customer BMW, whose new models – for which LEONI is a supplier – are enjoying very strong demand.

Opportunities for the Wire & Cable Division to generate further sales growth lie particularly in niche markets like rolling stock engineering, medical equipment, automation and robotics. The "Automotive & Standard Cables" Business Unit, by far the Wire & Cable Division's largest in terms of sales, enjoys, as world's biggest supplier of automotive wires, good prospects for generating more sales with new projects despite the weak automotive business.

### Unchanged sales forecast for 2005 as a whole

As the sales of the Wiring Systems Division did not grow strongly until the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2004, year-on-year growth in the 1<sup>st</sup> quarter of 2005 still works out to an exceptionally strong rate of about 36 percent. This consequently cannot be extrapolated over 2005 as a whole. The Company forecasts – as planned – a sales increase of about 22 percent for the end of 2005. This would mean matching the sales guidance of about € 830 million already issued at the beginning of the year despite the loss of sales due to Rover's administration.

The Wire & Cable Division is also very likely to match the sales projection for 2005 of about € 600 million.

For 2005 as a whole, LEONI still forecasts an increase in consolidated sales of about 15 percent on the fiscal 2004 figure and thus a total in excess of € 1.43 billion.

The targeted increase in operating earnings before interest and taxes (EBIT) of about seven percent should still be achievable. However, the administration of LEONI's customer MG Rover must be expected to incur exceptional charges of between five and seven million euros. It is not possible at this time to state the extent to which it might be possible to offset these charges during the current financial year.

Nuremberg, 11 May 2005



Dr. Klaus Probst



Dieter Bellé



Uwe H. Lamann

**LEONI share takes off**

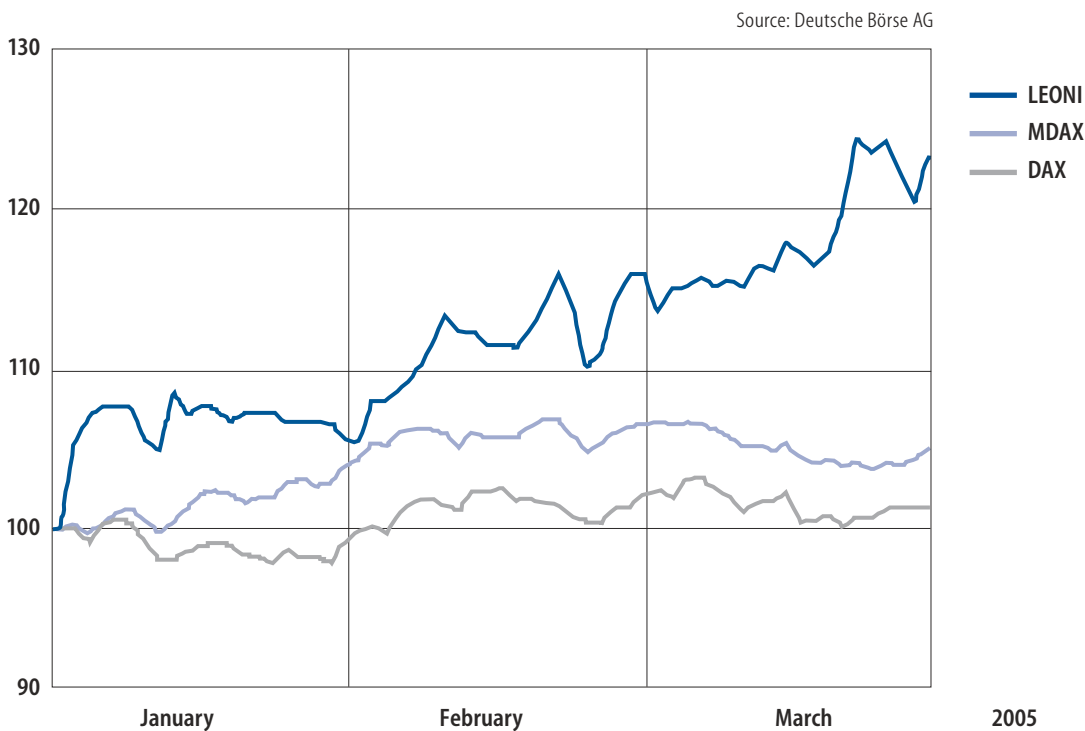
With prices above € 51 and a high volume of trading, LEONI made a dynamic start to this year’s stock market trading. LEONI benefited from greater investor interest in automotive shares and the particularly upbeat mood on capital markets at the beginning of the year. In the first few days of trading, the share made day-on-day gains of up to five percent and was therefore among the winners in the MDAX.

As early as the beginning of February the LEONI share reached its twelve-month high from April 2004 (of € 55.95) and headed towards the 60 euro threshold, which it cleared for the first time in mid March. Following release of the fiscal 2004 figures and a positive outlook, the LEONI share closed with a high for the quarter of € 63.51 on 22 March 2005, thus again putting itself into the leading position in the mid-cap index. Demand remained strong thereafter too: as much as € 64.15 was paid for the LEONI share in intraday trading.

With a gain of 23 percent, the LEONI share has significantly outperformed the benchmark indices since the beginning of the year.

The growing interest among investors also further increased the volume of trading in LEONI shares. On average, 42,848 LEONI shares a day were traded in the first three months of 2005 – almost 40 percent more than in the same quarter of the previous year.

The ownership structure of LEONI AG remained unchanged from the previous quarter. Gropa Beteiligungs-GmbH still holds 20 percent of the shares in LEONI AG. The free float of about 80 percent is spread among 17,000 or so shareholders (11,500 at the same time in 2004).



**Quarterly Statement**  
**January – March 2005**



€ '000	01/01–03/31 2005	01/01–03/31 2004
Sales	349,955	284,775
Cost of sales	(276,188)	(226,015)
<b>Gross profit on sales</b>	<b>73,767</b>	<b>58,760</b>
Selling expenses	(19,640)	(17,063)
General and administration expenses	(22,780)	(23,675)
Research and development expenses	(10,678)	(9,489)
Other operating income and expenses	(3,675)	889
<b>Operating income</b>	<b>16,994</b>	<b>9,422</b>
Interest income / expenses	(3,563)	(3,692)
Income / expenses from associated companies	172	36
Foreign currency exchange gains and losses	(90)	1,742
<b>Income before taxes</b>	<b>13,513</b>	<b>7,508</b>
Income taxes	(5,594)	(2,044)
<b>Net income</b>	<b>7,919</b>	<b>5,464</b>
Attributable to: Equity holders of the parent	8,019	5,371
Minority interest	(100)	93
Earnings per share (basic)	€ 0.80	€ 0.83
Earnings per share (diluted)	€ 0.80	€ 0.83
Weighted average shares outstanding (basic)	9,900,000	6,600,000
Weighted average shares outstanding (diluted)	9,900,000	6,600,000

**Consolidated  
statements of income  
(IFRS)**

**Consolidated  
statements of cash flows  
(IFRS)**

	01/01–03/31 2005	01/01–03/31 2004
€ '000		
Income before taxes	13,513	7,508
Net income	7,919	5,464
Adjustments to reconcile outflow of funds from operating activities:		
Depreciation and amortization	13,949	12,588
Deferred taxes	2,557	553
Other non-cash expenses and income	(407)	(36)
(Gain) / loss on disposal of assets	(463)	(513)
Change in operating assets and liabilities:		
Change in receivables	(26,808)	(27,746)
Change in inventories	(24,260)	(29,260)
Change in other assets	(13,841)	(8,205)
Change in provisions and accruals	19,895	12,279
Change in liabilities	(843)	18,984
<b>Cash used for operating activities</b>	<b>(22,302)</b>	<b>(15,892)</b>
Capital expenditure	(16,819)	(22,269)
Proceeds from disposal of property, plant and equipment	105	0
<b>Cash used for capital spending activities</b>	<b>(16,714)</b>	<b>(22,269)</b>
Change in financial liabilities	(4,299)	38,118
<b>Cash used for / provided by financing activities</b>	<b>(4,299)</b>	<b>38,118</b>
Decrease in cash and cash equivalents	(43,315)	(43)
Change in cash and cash equivalents due to acquisitions/dispositions of subsidiaries	110	0
Currency adjustment	(208)	143
Cash and cash equivalents at beginning of period	91,228	7,248
Cash and cash equivalents at end of period	47,815	7,348

€ '000	03/31/2005	12/31/2004
<b>Current assets</b>		
Cash and cash equivalents	47,815	91,228
Trade accounts receivable	203,744	175,145
Accounts receivable from affiliated companies	116	430
Inventories	206,296	181,425
Prepaid expenses and other current assets	43,263	30,249
<b>Total current assets</b>	<b>501,234</b>	<b>478,477</b>
Property, plant and equipment	310,867	307,685
Intangible assets	17,750	17,418
Financial assets	5,648	5,700
Goodwill	37,372	36,765
Deferred taxes	16,542	17,707
Other assets	17,504	16,598
<b>Total assets</b>	<b>906,917</b>	<b>880,350</b>

### Consolidated balance sheets (IFRS)

#### Assets

€ '000	03/31/2005	12/31/2004
<b>Current liabilities</b>		
Current financial liabilities and current proportion of long-term financial liabilities	43,729	42,292
Trade accounts payable	80,721	86,147
Advance payments received	18	141
Provisions and accruals	65,565	46,249
Income taxes payable	4,961	5,307
Other current liabilities	59,824	57,381
<b>Total current liabilities</b>	<b>254,818</b>	<b>237,517</b>
Long-term loans	203,836	209,502
Deferred taxes	17,929	16,464
Pension provisions	29,874	29,153
Other provisions and accruals	23,031	22,811
<b>Equity</b>		
Share capital	29,700	29,700
Additional paid-in capital	170,381	170,381
Retained earnings	176,754	168,735
Accumulated other comprehensive income	(485)	(4,002)
Minority interest	1,079	89
<b>Total equity</b>	<b>377,429</b>	<b>364,903</b>
<b>Total liabilities and equity</b>	<b>906,917</b>	<b>880,350</b>

#### Liabilities and equity

**Consolidated statements  
of changes in equity**

(IFRS)

€ '000	Share capital	Add. paid-in capital	Retained earnings	Accumulated other comprehensive income			Group interest	Minority interest	Total equity
				Cumulative translation adjustments	Available-for-sale-investments	Cash Flow Hedges			
<b>January 1, 2004</b>	<b>19,800</b>	<b>58,146</b>	<b>148,795</b>	<b>0</b>	<b>0</b>	<b>(1,642)</b>	<b>225,099</b>	<b>559</b>	<b>225,658</b>
Net income			5,371				5,371	93	5,464
Other comprehensive income				5,861	0	(1,674)	4,187	0	4,187
<i>Total comprehensive income</i>							9,558	93	9,651
<b>March 31, 2004</b>	<b>19,800</b>	<b>58,146</b>	<b>154,166</b>	<b>5,861</b>	<b>0</b>	<b>(3,316)</b>	<b>234,657</b>	<b>652</b>	<b>235,309</b>
<b>January 1, 2005</b>	<b>29,700</b>	<b>170,381</b>	<b>168,735</b>	<b>288</b>	<b>(123)</b>	<b>(4,167)</b>	<b>364,814</b>	<b>89</b>	<b>364,903</b>
Net income			8,019				8,019	(100)	7,919
Other comprehensive income				4,121	(28)	(576)	3,517	10	3,527
<i>Total comprehensive income</i>							11,536	(90)	11,446
Capital contribution of minorities							0	1,080	1,080
<b>March 31, 2005</b>	<b>29,700</b>	<b>170,381</b>	<b>176,754</b>	<b>4,409</b>	<b>(151)</b>	<b>(4,743)</b>	<b>376,350</b>	<b>1,079</b>	<b>377,429</b>

**Notes on  
the Quarterly Statement  
January – March 2005**

**(1) General principles**

LEONI AG ("LEONI," the "Group" or the "Company") is, pursuant to Article 4 of Directive (EU) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002 concerning the adoption of international accounting standards, obliged to prepare its consolidated financial statements on 31 December 2005 as well as for all interim periods in 2005 in accordance with International Financial Reporting Standards (IFRS) and the associated interpretations (SIC/IFRIC Interpretations). The term IFRS also covers the still valid International Accounting Standards (IAS). The consolidated financial statements were therefore for the first time prepared in accordance with these accounting standards.

Up to and including the 2004 financial year, LEONI prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP"). The transition from US GAAP to IFRS was made based on observing the requirements of IFRS 1, which governs first-time adoption of IFRS. As a matter of principle the procedure was to apply all standards valid on the reporting date retrospectively, i.e. all standards were adopted in such a way assuming that IFRS had always already been applied in the past. IFRS 1, Paragraph 13 provides exemptions from this principle for particular circumstances, two of which LEONI only used. First, business combinations recorded prior to the date of transition to IFRS, i.e. before 1 January 2004, were not retrospectively adapted to IFRS 3. Second, cumulative translation differences existing at the date of transition on 1 January 2004, and that were to be shown as a separate component of "accumulated other comprehensive income," were set to zero. These were included in retained earnings at the date of transition and will be excluded from the gain or loss on a subsequent disposal at the related foreign operation.

IFRS 1 requires that all standards be applied to the consolidated financial statements on 31 December 2005 that are valid at that time. The passing of new standards or amendments to existing standards could therefore make it necessary to adjust the figures shown.

**(2) Consolidation, valuation and accounting methods****Principles of consolidation**

The consolidated financial statements include the accounts of LEONI AG and, as a matter of principle, of all controlled subsidiaries in which LEONI directly or indirectly holds the majority of voting rights. Equity investments are accounted for using the equity method wherever significant influence over the operating and financial policies can be exerted; this is principally in instances where LEONI holds between 20 and 50 percent of the voting rights (associated companies). The equity method is also applied for joint venture companies and companies in which LEONI is entitled to a majority of voting rights, but has no possibility of exerting control.

All business combinations are accounted for under the purchase method. According to this method, the purchase price has been allocated to the fair value of the interest held in the net assets of the consolidated subsidiaries at the time of acquisition. In doing so, all identifiable assets, liabilities and contingent liabilities are adopted at fair value and recognised accordingly in the consolidated balance sheet. After adjustments to the fair values of assets acquired and liabilities assumed are made, any resulting positive difference is capitalised in the balance sheet as goodwill. Situations in which the fair value of the acquired net assets is greater than the purchase price paid result in a negative difference. In the event that such a difference remains after a reassessment of the identification and measurement of the acquired identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination, this must be

recognised in profit or loss immediately. The proportion of assets, liabilities and contingent liabilities of the subsidiary applicable to minority interest are also adopted at fair value. Yet goodwill is reported only to the extent that it applies to the Group and is not extrapolated to minority interest.

According to IFRS 3 "Business Combinations," goodwill is no longer amortised over its useful life, but is according to IAS 36 subjected to an impairment test at least once a year, which may lead to an impairment loss (impairment-only approach).

Receivables and liabilities between the consolidated companies as well as intercompany results, expenses and income have been eliminated.

Intercompany gains on assets and inventories have likewise been eliminated.

The companies accounted for under the equity method are valued with their purchase price on the acquisition date, which is increased or reduced respectively in the subsequent periods by the Group's proportionate share of net income or loss and by received dividends. For subsequent valuation the same accounting principles are applied as for fully consolidated companies. Goodwill and negative differences resulting from capital consolidation are determined using the same methods as for fully consolidated companies. In line with the treatment of fully consolidated subsidiaries, the goodwill of companies accounted for under the equity method has no longer been amortised either. Instead of an impairment test of the equity method goodwill, the whole investment has to be reviewed for impairment according to IAS 36.

#### **Foreign currency translation**

The financial statements of the foreign subsidiaries included in the consolidated financial statements with a functional currency other than the euro, are translated into the Group currency, the euro, according to the functional currency concept. The assets and liabilities of the Company's foreign subsidiaries with a functional currency other than the euro are translated using exchange rates at the balance sheet date, while the statements of income are translated using annual average exchange rates. Any differences arising from the translation of assets and liabilities compared to the previous year's translation as well as translation differences between the income statement and the balance sheet are recorded under the item "accumulated other comprehensive income" within equity and accordingly have no effect on net income.

Transactions denominated in currencies other than the euro in the individual financial statements are translated at the current exchange rate at the time of the transaction and adjusted to the current exchange rate at each balance sheet date. Any resulting currency fluctuation is recognised in the income statement.

#### **Revenue recognition**

Revenues are generated mainly from the sale of products. Pursuant to IAS 18, sales revenues are generally recognised net of sales tax (VAT) upon delivery of products to the customer or upon fulfilment of service contracts. Delivery has occurred when the risks and rewards associated with ownership have been transferred to the buyer. Provisions for customer rebates and discounts as well as for returns and other adjustments are generally provided for in the same period the related sales are recorded. Fulfilment of service contracts occurs when substantially all performance obligations have been met.

**Research and development costs**

Research and development costs are expensed as incurred unless they relate to customer-specific development contracts accounted pursuant to IAS 11 or they meet the criteria of IAS 38 for capitalisation. Pursuant to IAS 11 for customer-specific development contracts that meet the corresponding conditions the percentage-of-completion method is applied. The capitalised amount is disclosed under accounts receivable. The percentage of completion is determined according to the ratio of total costs to costs incurred (cost-to-cost method). The income from development contracts is reported under sales in the income statement.

**Earnings per share**

Earnings per share are computed in accordance with IAS 33 "Earnings per Share". The basic earnings per share are computed by dividing consolidated net income by the weighted average of the number of ordinary shares outstanding during the relevant period. The diluted earnings per share are computed by dividing consolidated net income by the total of the weighted average number of ordinary shares outstanding, plus the weighted average number of securities that can be converted into ordinary shares. There was no dilution in the reporting periods presented.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, cheques and immediately disposable bank deposits with an original maturity of three months or less.

**Receivables**

Receivables are recorded at their amortised cost. Valuation allowances are made when receivables are uncollectible or probably uncollectible and a reliable estimate of the valuation allowance can be made. Receivables that do not bear interest or bear below market interest rates and have an expected term of more than one year are discounted with the discount subsequently amortised to interest income over the term of the receivable. The Group sells trade accounts receivable within a factoring agreement. Financial assets sold under this agreement (true sale) are excluded from accounts receivable in the consolidated balance sheet at the time of sale.

**Inventories**

Inventories are stated at the lower of acquisition or production cost and net realisable value. Raw materials and manufacturing supplies, as well as goods purchased, are valued using the average cost method. Production costs of unfinished and finished products comprise, alongside the direct costs of production material and production wages, proportionate material and production overhead costs based on standard capacity. Appropriate valuation allowances were made for inventory risks resulting from the duration of storage and diminished usability.

**Non-current assets held for sale**

If non-current assets are classified as held for sale, depreciation is ceased and the Company determines the fair value of such assets. If the fair value of the assets held for sale, less the selling costs, is less than the net book value of the assets, a writedown is made on the fair value, less the selling costs.

**Property, plant and equipment**

Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation. Attributable borrowing costs are capitalised as part of the cost of a qualifying asset pursuant to IAS 23. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Immovable assets are for the most part depreciated on a straight-line basis and movable property, plant and equipment, depending on their type of use, are depreciated using either the straight-line method or the declining-balance method by a maximum of 20 percent until the straight-line method yields larger expenses than the declining-balance method.

The following useful lives are assumed for depreciation:

Buildings and facilities	max. 40 years
Machinery and equipment	max. 12 years
Factory and office equipment	2 – 10 years
Computer hardware	3 – 5 years

**Leases**

Leases are classified as either finance or operating. Leasing transactions whereby LEONI is the lessee and bears all substantial risks and rewards from use of the leased asset are accounted for as finance leases. Accordingly, the Group capitalises the leased asset and records the corresponding lease obligation on the balance sheet. All other leasing agreements entered into by LEONI, as a lessee, are accounted for as operating leases whereby the lease payments are expensed as incurred.

**Intangible assets (including goodwill)**

Intangible assets consist of goodwill, patents, software, licenses and similar rights, as well as internally generated intangible assets arising from development. Development costs are capitalised if a newly developed product or process can be clearly defined, is technically feasible and is intended for either own use or for sale. Capitalisation also assumes that the development spending can with a sufficient degree of likelihood be covered with future inflow of cash and cash equivalents.

According to IAS 38, intangible assets with a finite useful life must be amortised on a systematic basis over their useful lives. The Company therefore, in accordance with these requirements, amortises delivery rights and development costs in line with expected sales and other intangible assets with a finite useful life have been amortised on a straight-line basis to their estimated residual values. Other intangible assets with a finite useful life are mainly software licenses with an estimated useful life of three years. According to IAS 38, intangible assets with an indefinite useful life should not be amortised; instead such intangible assets have to be reviewed for impairment at least annually and written down to their lower recoverable amount. On the balance sheet date at all periods presented LEONI did not record any intangible assets other than goodwill with an indefinite useful life.

Goodwill is not amortised on a systematic basis; instead it is in line with the requirements of IAS 36 reviewed for impairment at least annually under a one-step test approach. This involves testing the goodwill at the level of the cash-generating units to which it is allocated by comparing the carrying amount of the cash-generating unit with the recoverable amount. If the carrying amount exceeds the recoverable amount, a write-down to the recoverable amount is required. The recoverable amount corresponds to the higher of the two amounts from the fair value less cost to sell and value in use. The value in use of a cash-generating unit is defined as the present value of projected cash flows to the Company from the cash-generating unit. Later reversal based on disappearance of the reason for amortising goodwill due to impairment is not permitted.

#### **Long-lived asset impairment (including finite-lived intangible assets)**

An assessment is made at each balance sheet date whether there are any indications that an impairment loss may have occurred. If there are such indications, the recoverable amount of the asset is determined and compared with its carrying amount. If the recoverable amount is lower than the carrying amount, an impairment loss is recognised on the lower recoverable amount. The recoverable amount is the higher of the two amounts from the fair value less cost to sell and value in use. The latter is the present value of future cash flows that can probably be derived from the asset. If the reasons for applying the impairment charge have disappeared, the write-down on the asset is reversed.

#### **Financial assets**

Shares in associated companies and in joint venture companies are accounted for under the equity method. All other reported financial assets are subject to the requirements of IAS 39 and are classified as available for sale. They must therefore be reported at their fair value. Provided that there is no quoted market price in an active market for investments in equity instruments and that their fair value cannot be reliably measured, they are carried at acquisition cost. A write-down to present value is made in the case of a decline in value other than temporary. Consequently, all other recorded investments are valued at their acquisition cost and securities at their fair value. The gains or losses resulting from fair valuation are recorded separately as accumulated other comprehensive income within shareholders' equity. If there is impairment other than temporary, this will result in a write-down recognised in profit and loss. Later reversal cannot be included in earnings, but is recorded as accumulated other comprehensive income.

#### **Pension provisions and similar obligations**

The valuation of pension obligations is based upon actuarial computations using the projected-unit-credit method in accordance with IAS 19. Changes in the actuarial assumptions or differences between the actual development and the original assumptions as well as gains or losses on plan assets as a difference between the actual and expected return on plan assets are amortized over the average remaining service period of active employees expected to receive benefits under the plan, if a corridor of ten percent of the present value of defined benefit obligation (DBO) or the fair value of plan assets is exceeded.

**Other provisions and accruals**

Other provisions are recorded when a legal or constructive obligation to a third party results from past events, the payment is probable and the amount can be reasonably estimated. The provisions are valued according to IAS 37 with the best estimate of the amount of the obligation. Where provisions do not become due until after one year and a reliable estimate of the payment amounts and dates is possible, the present value for the non-current proportion is determined on a discounted basis.

Obligations to dispose of an asset and to recultivate its site or similar obligations must first be recognised as a component of acquisition and production costs and simultaneously recognised as a provision. In the subsequent periods this amount added to the asset is to be depreciated on a systematic basis over its residual useful life. The payment obligation or provision is accreted to its present value at the end of each period.

**Liabilities**

Current liabilities are recorded at either their repayment or settlement value. Non-current liabilities are recorded at their amortised cost.

**Deferred taxes**

The Company applies IAS 12 "Income Taxes". According to the balance sheet liability method of IAS 12, deferred tax assets and liabilities are recognised for all temporary differences between the financial statement's carrying amounts of existing assets and liabilities and their respective tax bases as well as for loss carryforwards ("temporary concept"). Deferred taxes are measured using the currently enacted tax rates in effect during the periods in which the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax law is recognised in the period that the law is enacted. Deferred tax assets are recognised only to the extent that it is more likely than not that the tax benefit will be realised.

**Derivative financial instruments**

According to IAS 39, all derivative financial instruments entered into by the LEONI Group are recorded at fair value as either assets or liabilities on the balance sheet date. In general, the Group recognises the changes in fair value of derivative financial instruments as earnings. However, the Group records changes in fair value of foreign currency derivatives used to hedge anticipated foreign currency denominated cash flows on firm commitments and forecast transactions in accumulated other comprehensive income on the balance sheet without impact on net income until the hedged item is recognized in earnings when the requirements of the standard to apply cash flow hedge accounting are met. The reclassification from accumulated other comprehensive income into earnings occurs in the same period as the underlying transaction takes place and has effect on net income. The ineffective portions of the fair value changes of those derivatives are recognised in earnings immediately. The fair value changes of interest rate derivatives designated to hedge long-term liabilities subject to interest rate fluctuation are also recognised in accumulated other comprehensive income without affecting earnings if they meet the requirements to apply cash flow hedge accounting. The amounts recorded in this account subsequently lead to the interest expenditure from the relevant underlying transaction recorded in the income statement being balanced.

**Cash flow statements**

The cash flow statement is classified by operating, investing and financing activities in accordance with IAS 7. The line item "other non-cash expenses and income" comprises undistributed income from companies valued under the equity method. Effects of changes in the scope of consolidation have been eliminated from the items in the three classification areas. This also applies to valuation changes due to exchange rate fluctuation, whose impact on cash and cash equivalents is separately disclosed.

**Segment reporting**

The Company's segment reporting is prepared in accordance with International Accounting Standard 14. Within LEONI Group, output determines the primary basis of segment reporting. Segmentation by business and region is based on internal financial reporting. The segment result is earnings before interest and taxes (EBIT) and is based on operating earnings plus income from associated companies less expenses from associated companies.

**Use of estimates**

Estimates and assumptions must be made in some cases in order to prepare the consolidated financial statements in accordance with IAS/IFRS. These have an influence on the amounts of assets, debts and financial obligations stated on the balance sheet date as well as when reporting expenses and income. Actual results could differ from such estimates.

The accounting, valuation and consolidation principles applied in accordance with IFRS differ from US GAAP mainly in the following points:

**a) Excess of acquired net asset over the cost of the investment and measurement of property, plant and equipment**

Under US GAAP, an excess of acquired net asset measured at fair value over the cost of the investment in purchase accounting is allocated as a pro rata reduction to zero to certain acquired assets. Any remaining excess must immediately be recognised as an extra-ordinary gain.

Under IFRS 3, there is no allocation of the excess to the acquired assets, but immediate recording as operating income. Due to use of the option not to adjust business combinations retrospectively, this difference itself did not, upon the purchase price allocation, result in any adjustment during transition to IFRS. In the case of one company however, assets that were, under US GAAP, reduced to zero, had to be measured at their amortised cost because of the required retrospective application of the requirements under IAS 16 for measuring of property, plant and equipment.

**b) Goodwill impairment test**

According to both US GAAP and IFRS goodwill is no longer amortised; but is subject to an impairment test at least once a year. Whereas US GAAP requires goodwill to be tested at the segment level or, under certain conditions, at one level below, IFRS 3 requires testing at the level of cash-generating units to which the goodwill was allocated. Moreover, US GAAP requires a two-stage impairment test, while a one-stage method is applied in accordance with IFRS 3.

**c) Capitalisation of development costs as internally generated intangible assets**

In general, US GAAP prohibits capitalisation of development costs. However, there are exceptions for specified cases, such as for software developed for internal use (SOP 98-1). According to IAS 38, development costs are recognised as intangible assets when the intention, ability and technical feasibility exist to complete the intangible asset as well as to use or sell it. Furthermore, it must be possible to reliably measure and allocate the development costs incurred, and they must with a sufficient degree of likelihood be covered by future cash inflow.

**d) Impairment test for intangible assets (other than goodwill) and tangible assets**

The testing for impairment also differs for both intangible assets with a finite useful life and property, plant and equipment. Under both US GAAP and IFRS, an asset must be tested for impairment when there are indications that impairment may have occurred. Under US GAAP, however, the carrying amount of the asset concerned is, in a first step, compared with the sum of undiscounted cash flows that the asset is expected to generate. Only if the carrying amount exceeds the undiscounted future cash flows, is an impairment loss recognised to the extent that the carrying amount exceeds the asset's fair value. The estimated fair value is generally based on either appraised value or measured by discounted estimated future cash flows. This first step of testing for impairment based on undiscounted future cash flows does not apply under IAS 36. If there are indications of impairment, the recoverable amount is computed and compared with the asset's carrying amount and, if the carrying amount is greater, an impairment loss is recognised to the recoverable amount. The recoverable amount is the higher of the two amounts from the fair value less cost to sell and value in use. The latter is the present value of future cash flows that can probably be derived from the asset.

**(3) Explanation of significant consolidation, valuation and accounting principles differing from US GAAP**

**e) Reversal of impairment losses**

In principle, a requirement to reverse impairment losses applies under IFRS. When impairment charges have been recorded to reflect a lower recoverable amount, this lower value must be reversed if the reason for which the impairment charge was recorded no longer exists at a later balance sheet date. Under US GAAP, SFAS 142 and SFAS 144 prohibit such reversals of impairment losses.

**f) Inventories**

With respect to measuring inventories, there was an initial difference between US GAAP and IFRS due to use of the LIFO method for inventories of copper and precious metals under US GAAP, whereas IAS/IFRS prohibit use of this method. Even under US GAAP, however, the Group had replaced this method with the weighted average cost method in the fourth quarter of 2004 and applied this change retrospectively. In this respect there is no difference in the measurement of inventories between the retrospectively changed US GAAP-based figures and the figures under IFRS.

**g) Retirement benefit obligations**

IFRS-based financial statements differ from US GAAP with respect to retirement benefit obligations because the mandatory date for measuring plan assets is the balance sheet date, whereas US GAAP permitted measurement on an earlier date.

Moreover, IFRS does not require recognition without effect on profit or loss of an additional minimum liability. If an excess of the accumulated benefit obligation (ABO) over the fair value of plan assets (unfunded accumulated benefit obligation) exceeded the accrued pension provision, US GAAP required an additional minimum liability to be recognised as an increase of the pension provision without effecting profit or loss. The counter item in the balance sheet to this additional minimum liability was either an intangible asset or other comprehensive income.

Contrary to the regulations of US GAAP, the assets of the German pension trust meet the definition of plan assets under IFRS and are therefore set off the pension liability, which is why the pension provision was reduced by this amount. In return, a liability from the loan granted by the pension trust is recorded.

**h) Other provisions**

IAS 37 requires provisions to be discounted, with the effect of the time value of money thus being material. US GAAP in general do not require discounting, instead prescribing discounting of provisions in individual cases, such as under SFAS 143 for asset retirement obligations.

Furthermore, provisions for partial retirement agreements are recognised in a different manner under IFRS and US GAAP. Whereas, according to IFRS, the provision for partial retirement obligations for amounts above the current salary (increases) is already recognised in the full amount at present value when the obligation arises, the method under US GAAP was, from the time the obligation arose, pro-rata accumulation of these increases over the remaining service period.

Differences between US GAAP and IFRS also exist when accounting for restructuring provisions. Whereas under US GAAP the explicit requirement for measuring a provision among other things for personnel-related restructuring is that the affected employees be informed in such a way that every individual is able to determine a settlement claim, IFRS with respect to this criterion requires only that the amount of the

costs arising on the reporting date can be reliably measured by the reporting enterprise. Although IFRS also require that employees affected by restructuring are advised of key elements of the plan, enabling them to raise a valid expectation with respect to exercise of the plan, the ability to measure the settlement claim by every affected employee is not an explicit condition.

#### **i) Customer-specific development contracts**

In general, US GAAP prohibit capitalisation of development costs. However, there are exceptions for specified cases. For instance, based on the requirements of EITF 99-5 "Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements" of the Emergency Issues Task Force (EITF), certain development costs were capitalised as pre-production costs. The capitalised amount was disclosed under accounts receivable.

Under IFRS, customer-specific development contracts are, in accordance with IAS 11, accounted for using the percentage-of-completion method, meaning that sales and trade receivables are accounted for according to the progress of the development work carried out.

The criteria to be met under the special US GAAP provisions, especially the requirement of legally enforceable, contractually guaranteed compensation or reimbursement for the reliably measurable development costs, meant that the amount of development costs to be capitalised under US GAAP was less than according to the principles of the percentage-of-completion method applied under IFRS.

#### **j) Deferred taxes**

IFRS and US GAAP differ with respect to accounting for the deferred taxes of subsidiaries that are based in countries with hyperinflation. Whereas, under US GAAP, the currency of the parent company should be assumed to be the functional currency of such a subsidiary, IAS 29 requires price-adjusted financial statements in local currency. Taxes on the price adjustments should be deferred, whereas this does not apply under US GAAP with financial statements in the functional currency of the parent company. Furthermore, IFRS require that the deferred taxes are always presented as non-current items.

#### **k) Minority interest**

IFRS follow the entity theory, which requires that minority interests be classified as a part of equity.

Under US GAAP, in accordance with the parent company theory, minority interest is not considered part of equity but is classified separately between equity and liabilities. The income or loss attributable to minority interest is recorded as income or expenses and is therefore excluded from the consolidated entity's net income or loss.

The following table summarises differences between US-GAAP and IFRS in the opening balance as of 1 January 2004. It had an effect on the equity of € (250,000). The letters quoted in this table refer to the explanation of differences stated in Note (3).

€ '000	US-GAAP 12/31/2003	IFRS Adjustments	IFRS 01/01/2004
<b>Current assets</b>			
Cash and cash equivalents / Receivables / Inventories	305,493	0	305,493
Deferred taxes	12,749	(12,749) j)	0
Prepaid expenses and other current assets	44,365	(130)	44,235
<b>Total current assets</b>	<b>362,607</b>	<b>(12,879)</b>	<b>349,728</b>
Property, plant and equipment	287,283	3,390 a)	290,673
Intangible assets	12,775	137 c), g)	12,912
Financial assets	4,503	0	4,503
Goodwill	36,488	(2,370) b)	34,118
Deferred taxes	6,674	12,383 j)	19,057
Other assets	16,180	(243)	15,937
<b>Total assets</b>	<b>726,510</b>	<b>418</b>	<b>726,928</b>
<b>Current liabilities</b>			
Current liabilities	173,234	1,398 g)	174,632
Provisions and accruals	46,909	622 h)	47,531
Deferred taxes	2,166	(2,166) j)	0
<b>Total current liabilities</b>	<b>222,309</b>	<b>(146)</b>	<b>222,163</b>
Long-term loans	215,105	(509)	214,596
Deferred taxes	11,303	2,910 j)	14,213
Pension provisions	30,056	(3,109) g)	26,947
Other provisions and accruals	21,259	2,092 h)	23,351
Minority interests	570	(570) k)	0
<b>Equity</b>			
Share capital / Additional paid-in capital	77,946	0	77,946
Retained earnings	188,960	(40,165) *)	148,795
Accumulated other comprehensive income	(40,998)	39,356 *)	(1,642)
	225,908	(809)	225,099
Minority interests		559 k)	559
<b>Total equity</b>	<b>225,908</b>	<b>(250)</b>	<b>225,658</b>
<b>Total liabilities and equity</b>	<b>726,510</b>	<b>418</b>	<b>726,928</b>

\*) Reclassification of cumulative translation differences between accumulated other comprehensive income and retained earnings of € 38,384,000 pursuant to regulations for first-time adopter; see Note (1).

Differences between US-GAAP and IFRS in the balance sheet as of 31 December 2004 had an effect on the equity of € (6,437,000) and are shown in the table below. The letters quoted in this table refer to the explanation of differences stated in Note (3).

€ '000	US-GAAP 12/31/2004	IFRS Adjustments	IFRS 12/31/2004
<b>Current assets</b>			
Cash and cash equivalents / Accounts receivable from affiliated companies / Inventories	273,083	0	273,083
Trade accounts receivable	172,201	2,944 i)	175,145
Deferred taxes	10,911	(10,911) j)	0
Prepaid expenses and other current assets	30,379	(130)	30,249
<b>Total current assets</b>	<b>486,574</b>	<b>(8,097)</b>	<b>478,477</b>
Property, plant and equipment	307,792	(107) a), d)	307,685
Intangible assets	17,232	186 c), g)	17,418
Financial assets	5,700	0	5,700
Goodwill	44,277	(7,512) b)	36,765
Deferred taxes	7,318	10,389 j)	17,707
Other assets	17,150	(552)	16,598
<b>Total assets</b>	<b>886,043</b>	<b>(5,693)</b>	<b>880,350</b>
<b>Current liabilities</b>			
Current liabilities	189,939	1,329 g)	191,268
Provisions and accruals	46,335	(86)	46,249
Deferred taxes	3,594	(3,594) j)	0
<b>Total current liabilities</b>	<b>239,868</b>	<b>(2,351)</b>	<b>237,517</b>
Long-term loans	209,882	(380)	209,502
Deferred taxes	11,989	4,475 j)	16,464
Pension provisions	32,022	(2,869) g)	29,153
Other provisions and accruals	20,839	1,972 h)	22,811
Minority interests	103	(103) k)	0
<b>Equity</b>			
Share capital / Additional paid-in capital	200,081	0	200,081
Retained earnings	214,595	(45,860) *)	168,735
Accumulated other comprehensive income	(43,336)	39,334 *)	(4,002)
	371,340	(6,526)	364,814
Minority interests	0	89 k)	89
<b>Total equity</b>	<b>371,340</b>	<b>(6,437)</b>	<b>364,903</b>
<b>Total liabilities and equity</b>	<b>886,043</b>	<b>(5,693)</b>	<b>880,350</b>

\*) Reclassification of cumulative translation differences between accumulated other comprehensive income and retained earnings of € 38,384,000 pursuant to regulations for first-time adopter; see Note (1).

The effects on the net income after the transition from US-GAAP to IFRS for the year ended 31 December 2004 are as follows:

€ '000	12/31/2004
<b>Net income according to US-GAAP</b>	<b>33,223</b>
k) Minority interests	147
i) Sales from development contracts	2,944
a) Depreciation	(1,039)
d) Impairment loss of property, plant and equipment	(2,495)
b) Impairment loss of goodwill	(5,142)
g) Pension cost	(456)
h) Usage of restructuring provision	800
h) Adjustment of provisions for partial retirement agreements	563
h) Interest expenses due to measurement of provisions	(483)
Others	(11)
j) Deferred taxes	(378)
<b>Net income according to IFRS</b>	<b>27,673</b>

On 31 March 2004 there was a difference in equity between the US GAAP-based financial statements after retrospective adjustment of the measurement of inventories as changed in the 4th quarter of 2004 {see Note (3) f)} and the IFRS-based financial statements of € 443,000, which resulted from the differences in balance sheet items shown in the table on the following page. The letters quoted in this table in turn refer to the differences described in Note (3).

€ '000	US-GAAP	f)	US-GAAP	IFRS-	IFRS
	03/31/2004	Revaluation of inventories	(restated) 03/31/2004	Adjustments	
<b>Current assets</b>					
Cash and cash equivalents /					
Accounts receivable from affiliated companies	8,725	0	8,725	0	8,725
Trade accounts receivable	165,111	0	165,111	876 i)	165,987
Inventories	181,996	5,891	187,887	0	187,887
Deferred taxes	13,776	0	13,776	(13,776) j)	0
Prepaid expenses and other current assets	51,785	0	51,785	(130)	51,655
<b>Total current assets</b>	<b>421,393</b>	<b>5,891</b>	<b>427,284</b>	<b>(13,030)</b>	<b>414,254</b>
Property, plant and equipment	298,778	0	298,778	3,331 a)	302,109
Intangible assets	13,925	0	13,925	160 c), g)	14,085
Financial assets	4,505	0	4,505	0	4,505
Goodwill	36,488	0	36,488	(2,370) b)	34,118
Deferred taxes	6,340	(916)	5,424	14,060 j)	19,484
Other assets	16,921	0	16,921	(199)	16,722
<b>Total assets</b>	<b>798,350</b>	<b>4,975</b>	<b>803,325</b>	<b>1,952</b>	<b>805,277</b>
<b>Current liabilities</b>					
Current liabilities	231,716	0	231,716	1,380 g)	233,096
Provisions and accruals	59,530	0	59,530	625 h)	60,155
Deferred taxes	1,523	0	1,523	(1,523) j)	0
<b>Total current liabilities</b>	<b>292,769</b>	<b>0</b>	<b>292,769</b>	<b>482</b>	<b>293,251</b>
Long-term loans	212,737	0	212,737	(477)	212,260
Deferred taxes	10,516	833	11,349	3,154 j)	14,503
Pension provisions	30,604	0	30,604	(3,091) g)	27,513
Other provisions and accruals	20,337	0	20,337	2,103 h)	22,440
Minority interests	662	0	662	(662) k)	0
<b>Equity</b>					
Share capital / Additional paid-in capital	77,946	0	77,946	0	77,946
Retained earnings	189,884	4,082	193,966	(39,800) *)	154,166
Accumulated other comprehensive income	(37,105)	60	(37,045)	39,590 *)	2,545
	230,725	4,142	234,867	(210)	234,657
Minority interests	0	0	0	653 k)	653
<b>Total equity</b>	<b>230,725</b>	<b>4,142</b>	<b>234,867</b>	<b>443</b>	<b>235,310</b>
<b>Total liabilities and equity</b>	<b>798,350</b>	<b>4,975</b>	<b>803,325</b>	<b>1,952</b>	<b>805,277</b>

\*) Reclassification of cumulative translation differences between accumulated other comprehensive income and retained earnings of € 38,384,000 pursuant to regulations for first-time adopter; see Note (1).

The effects on the net income after the transition from US-GAAP to IFRS for the 1<sup>st</sup> quarter 2004 are as follows:

€ '000	03/31/2004
Net income according to US-GAAP	3,523
f) Revaluation of inventories	1,945
Deferred taxes	(462)
<b>Net income according to US-GAAP (restated)</b>	<b>5,006</b>
k) Minority interests	92
i) Sales from development contracts	955
a) Depreciation	(259)
h) Interest expenses due to measurement of provisions	(79)
j) Deferred taxes	(251)
<b>Net income according to IFRS</b>	<b>5,464</b>

#### (4) Scope of consolidation

Two acquisitions were made in the Wire & Cable Division in the first quarter of 2005. Firstly, LEONI Prinz Fiber Optics GmbH based in Nuremberg (formerly LEONI Draht Verwaltungs-GmbH) acquired the light guiding fibers business from PRINZ Optics GmbH/Stromberg at a price of € 1.6 million on 2 February 2005. LEONI Prinz Fiber Optics GmbH was consolidated for the first time at the acquisition date. The purchase price allocation results in goodwill of € 168,000.

Secondly, 100 percent of the shares of the Spanish company Representaciones Europeas Manich S.L. were acquired at a price of € 220,000 on 10 January 2005. Goodwill amounting to € 99,000 resulted from the purchase price allocation at the acquisition date.

Furthermore, LEONI Tailor-Made Cable UK Limited based in Chesterfield, United Kingdom, and LEONI Spezialkabelvertrieb Süd GmbH based in Georgensgmünd, Germany, are consolidated for the first time. Both companies belong to the Wire & Cable Division and were not consolidated in the past because of minor significance.

#### (5) Events after the balance sheet date

The British carmaker MG Rover went into administration on 8 April 2005. MG Rover would have contributed about one percent to the Group's sales in fiscal 2005 as a customer of the Wiring Systems Division. Based on the currently available information valuation allowances on receivables and inventories amounted to about € 4 million were recognised in April. This is a first estimate; the exact amount of the valuation allowances required cannot be determined until the modalities of the insolvency proceedings and a possible continuation of Rover production in China are known. It is also assumed that, as a result of the insolvency, restructuring measures will have to be carried out primarily at the facility in England. The costs for restructuring are estimated at about € 3 million based on presently available data.

At the end of April, LEONI and the Swiss cable manufacturer Studer Draht- und Kabelwerk AG signed a contract establishing a sales and project management company. LEONI will hold 70 percent of the shares in the company and has committed itself to a cash contribution amounting to € 1.4 million. Subject to approval by the Cartel Office, the company is to begin operating before the end of this year and will offer all-in solutions for wiring rolling stock.

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