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COMPANY EDITED TRANSCRIPT

Operator: This is conference # 960549.

Good morning, ladies and gentlemen, and thank you for standing by.  
Welcome to today's Hella Investor Call conference call.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session, at which time, if you wish to ask a question, you will need to press star one on your telephone and wait for your name to be announced.

Questions will only be taken from the phone lines today and will be limited to three per participant. I must advise you that this conference is being recorded today, Thursday, the 12th of January 2017.

I would now like to hand the conference over to your speaker today. Dr. Breidenbach. Please go ahead.

Rolf Breidenbach Yes. Thank you very much. And a very warm welcome to all the participants to our investor call with regard to our first-half results of our fiscal year 2016/2017. Also on behalf of my colleague, Mr. Schäferbarthold, our new CFO. It's the first time that Mr. Schäferbarthold will participate in such a call. And he will not only, of course, answer your questions but also give you some insights about the HELLA financial results of the first half. I will start, as always, with the financial highlights and then, at the end, give you an outlook before we start with the Q&A session.

As regards the financial highlights, first of all, we could show in the first half of our fiscal year an adjusted growth rate of 2.4%. There is included a negative foreign-exchange rate effect of 1% and an adjustment of 0.2% with regard to the sale of our industry business.

Before these effects we have a net growth rate of 1.2%. I will come to that later.

But, overall, automotive has grown by around 0.6%. We are very satisfied with the growth rate of aftermarket of 5.4%. There are some special effects in our special application segment. The segment, of course, suffered due to the disposal of our industry business. And also the agriculture market development was not so favourable.

So, overall, I would say an ok start with regards to our growth performance, when you look at the profitability, we are very satisfied with the first half. We again could increase the gross margin now to 27.7% especially driven by the automotive segment. At an adjusted basis we're here now at 25.6%.

Especially the operational improvements in the lighting area with regard to our East European plant, which had some negative effects we discussed in the last call, here we can now really see an improvement. And, therefore, we are satisfied with the current operational performance of automotive.

The aftermarket is currently running at a gross profit of 33.8%. Here also a good development.

With regard to the EBIT, we are currently at an -- on the adjusted basis level of EUR268 million; significant or a good increase compared to the last fiscal year. Also percentage-wise we are now running the business at an adjusted EBIT margin base of 8.4%; a good improvement of 0.3 percent points on a year on the year basis.

As I already said, especially the good operational performance in automotive contributed to this figures; also a good development of our joint ventures.

With regard to the operative cash flow, on an adjusted basis, we could reach EUR63 million. Compared to the last year the cash flow is a little bit lower. This is especially due to our high investments we now have to do, on the one hand in new projects.

And we discussed that the order book is quite strong, or was quite strong in the last two fiscal years. Now, of course, the project investments have to be carried out. Therefore, high investments in the first half of this fiscal year compared to the first half of the last fiscal year. And this has, or had, an impact on the cash flow.

With regards to our future-growth perspectives we see us very well prepared with regard to the cash side and also the short-term financial assets. So, in our opinion, our financial situation is very stable, and will remain very stable also in the months and, I think, also in the years to come.

Allow me a short, little bit deeper, look into the adjustments with regards to our top line. As I said, on adjusted basis we have grown by 2.4%. The adjustments were made in two areas.

On the one hand, the portfolio adjustments, due to the disposal of our industry and airport-lighting activities. The FX-rate effect is 1% and I think the disposal of the industry and airport business is around 0.2%. So, overall, 1.2%. And when you deduct this from 2.4% you come to the 1.2% net growth rate in the first half of the fiscal year.

Of course, we are not so satisfied with the growth rate in automotive, 0.6%. We think that we will see, in the second half of our fiscal year, a clear acceleration. This has to do with a lot of new ramp-ups which will take place in our East European plant, not only, but with a focus on lighting products.

As I already said, the growth rate in aftermarket is fine. Special application; there the market conditions are currently not so favorable.

When you look at our growth performance compared to the general-market development you can see in the next slide that, unfortunately, compared to the auto market, of course, our growth rate of 0.6% is significantly below the market development.

This is especially due to the development in Europe. Here we could see a reduction of our sales on the year-on-year basis of around 3.7%. As I said,

we think that this picture will totally turn in the second half of this fiscal year, due to the new launches we are currently preparing in our East European plant.

So, we are satisfied with the growth performance in the other two important markets of HELLA. In North and South America we could show a growth rate of around 8%, in Asia of more than 11%. And here, let's say, the traditional growth performance of HELLA to over-perform the market was shown.

And we are quite optimistic that the positive development in these markets will continue. And that we will, with regard to Europe, come back to the growth path in the second half of this fiscal year.

Having said that, allow me to hand over to my new colleague in the HELLA Board, Mr. Schäferbarthold, our new CFO.

Bernard Schäferbarthold^ Thank you. Good morning, ladies and gentlemen, also from my side.

I would like to guide you through more details of our financial results and would like to jump into page 8 of our presentation.

Starting with the gross profit and gross margin, you see here in comparison to the last three years also that we show a continuous positive improvement here in absolute, but also in relative terms. Our gross profit increased in absolute terms by EUR26 million and that is a comparison to the adjusted year-on-year. We had, that's just an additional comment, no adjustment in our gross margin in this half year of that fiscal year.

Last year, just to mention it again, the gross margin was also affected by the Chinese supplier case. And that was a hit of EUR27 million in our gross margin. And remember the overall number was EUR47 million.

In relative terms, with that, we show an improvement in our gross margin of 50 basis points so that we are now at 27.7%. The improvement overall, Mr. Breidenbach mentioned it partially, on one hand side is certainly a little volume-driven. But also driven by operational improvements especially in the Eastern European plants but also a good product mix.

Looking only at Q2, we are quite stable in absolute terms, EUR459 million, but also in relative terms 27.9% gross margin is a good result and absolutely in line with our expectation.

Going to page 9 some more comments to our R&D expenses. These increased by EUR20m on a year-on-year comparison. If you would look at

Q2 only the increase is at a level of 1.9%. So, in absolute terms EUR3 million, and at a level of EUR157 million.

This increase reflects, as have been discussed also in previous calls, the good order-backlog pipeline we have out of the acquisition we have done. And we are actually working continuously and putting our efforts in working on these upcoming projects. And, on top of that, certainly also putting a lot of effort in securing our technology leadership position.

The ratio increased on a year-on-year comparison by 50 basis points to 9.7% in the first six months. Compared now to Q1 it's a slight decrease. Q1 we had a 9.9%. And we show also, in comparison to second half of last fiscal year there we have been at a level above 10%, that we put also a lot of efforts in there to come down a bit.

Going to page 10, on the SG&A, there is not really a lot to comment here. We have only a slight increase, EUR2 million, to a level of EUR341 million. Compared now to adjusted numbers we have some investments we have done in distribution, especially, to strengthen our aftermarket segment. But also some investments we have done in our corporate functions, especially there in systems, like IT systems.

That's certainly something also, looking forward in the next periods, where we have to continue also to invest to realize also more efficiencies also going forward. And this increase has been compensated by lower operating expenses.

But just to mention also this amount within the operational expenses also in comparison to the last year. There we had higher expenses for provisions, especially for a warranty case. Overall, if you look at the SG&A ratio, the ratio is unchanged on a year-on-year comparison.

Looking at the EBIT, and there at the adjusted numbers we are EUR12 million up, EUR268 million. And the improvement is a result of, on one hand side, as mentioned, volume, but also the 50 base point gross-margin improvement I explained. And also a better income out of our JVs of EUR8 million. So, overall, EUR35 million. And deducting then slightly higher SG&A and higher R&D expenses overall of EUR23 million is then the result of EUR12 million improvement.

The disposal of our industries and airport-lighting business, which has been sold end of past fiscal year, is not adjusted here; just to make that clear. And the impact in the first half of the year is overall EUR9 million.

Some more comments to our P&L. Overall, we had adjustments in the first half of this fiscal year, EUR23 million. Compared to the previous year the level was EUR53 million. That is EUR30 million less. If you look at the adjustments and the exceptional expenses we had this year there were basically two issues this year.

On one hand side we had further expenses related to our restructuring plan in Germany, overall EUR7 million, in the first half. And we booked a provision related to the case initiated -- the cartel case initiated by the European Cartel Authority, of overall EUR16 million. Which is an amount which should cover, on one hand side, the probable fine we would have to pay. But also a possible compensation towards our customers and also legal fees we expect.

Compared to last year restructuring in Germany was at EUR6 million. And, as mentioned, the Chinese supplier case EUR47 million, which amounts to EUR53 million.

The net financial result increased by EUR3 million and is at a level of EUR21.6 million mid of the year and the first half. The increases related to higher interest rates in some of our growth regions where, basically, we have higher interest rates. And, technically, we are hedging that. So, that is the financing coming from the Group in Germany. And, basically, the higher interest is the swap rate we have within our hedging.

Net profit is up EUR42.1 million on a year-on-year comparison and is overall at EUR173.5 million. And that translates into an EPS of EUR1.56 per share compared to EUR1.16 on a year-on-year comparison.

Some more comments to our cash flow on page 13. The adjusted operational cash flow decreased in the first half of the year by EUR32 million and is at a level of EUR63 million. Main reason are higher investments related especially also to our development efforts here with EUR90 million. And, respectively, it also relates to projects we have won in the past year, which should also then support the higher growth dynamics, also going forward.

Some insights also to the adjustments we have done here in the first half of that fiscal year. We terminated now our factoring program. So, we repaid overall EUR70 million. And so that this ended now within that first half.

And we had payments out of our restructuring program in Germany, EUR4 million, so that overall EUR74 million. And compared to last year in the first half where we had the restructuring in Germany with EUR6 million and the supplier case in China with EUR27 million and the factoring program EUR10 million, is overall EUR43 million, just for the details for you.

Looking at the segments, the automotive segment is at EUR2.406 billion external sales. And, as mentioned by Mr. Breidenbach earlier, it is only a moderate growth. But we are actually, as mentioned, in preparation for some projects in the electronics but also in the lighting, so that we are pretty confident that we can come back to a higher growth dynamic also, going forward.

The adjusted EBIT margin in the automotive segment, is up 9.4% compared to 8.5%. There had been no adjustments in the first half of this fiscal year in automotive. In the previous year the Chinese supplier case was also shown in the automotive and had an impact of EUR47 million. So, the EBIT margin compared to the reported EBIT margin is 9.4% to 6.5%.

If we look at the reasons for the improvements on adjusted basis, it's 1.1% coming out of gross margin and the JV 30 basis points. And then, as mentioned, we had higher R&D expenses, which are 70 basis points, overall.

Looking at the aftermarket external sales is at EUR629 million. And a good growth rate of 5.4% profit at EUR41.6 million, 11% up. So that is in line with our expectation. That is a margin of 6.4% and an improvement of 40 basis points. A good development in our wholesales business and a very positive demand also in our workshop products, as mentioned also, by Dr. Breidenbach.

Our special application segment is not really showing good numbers in that first half. Sales are down at the level of EUR146 million, partially due to the sale of our industries and airport-lighting business. But we are also certainly impacted by the continuous weak agriculture market.

Some other product groups are going up. But, on the other hand side, if you look at the overall numbers, and even excluding the sale of industries and airport lighting, we show a slight decline of 0.3%.

EBIT is not adjusted in our numbers. The EBIT decreased to a level of EUR0.6 million and that is at 0.4%. But we are showing in these numbers, as mentioned, overall costs of the sale or further costs within the sale of exiting the industries and airports business of EUR9 million.

In addition to that, in that segment, we have one-time expenses due to a product relocation from Northern Europe to Eastern Europe which is an amount of EUR3 million. So, that overall in that segment, we are showing EUR12 million expenses here in that six months.

If you look at Q2 only, sales are at EUR1.645 billion. That is a decline of 0.1% adjusted to FX and portfolio adjustments. The adjusted EBIT is at 9.1% compared, year-on-year, to 9.3%. If you would exclude industries and airport lighting, as mentioned which is not adjusted, then EBIT would be at 9.4%.

Looking only at cash flow, Q2 only, has a positive development with EUR36 million year-on-year. On a year-on-year comparison to EUR29 million. So, here an improvement of EUR7 million.

Looking into the different segments in Q2 on page 17, as mentioned, we had lower external sales in automotive but also in special applications. These numbers are not adjusted to FX and then portfolio improvements. We're growing in aftermarket. What we are very pleased about is -- are the improvements in the EBIT margin in automotive, but, also in aftermarket.

Looking at special applications the margin is negative, but the reasons here are the same as mentioned also for the half year. On one hand side the disposal and the exit costs of industries and airport lighting. And also the relocation of our production plant. And, in total, in Q2 only that was an impact of EUR7 million.

So, that's all from my side. And with that I would like to hand back to Mr. Breidenbach who will continue with our outlook.

Rolf Breidenbach^ Yes, Mr. Schäferbarthold, thank you very much. With regard to the outlook allow me, first of all, to shortly comment on the overall market development. Overall, we see a moderate growth with regard to the automotive market globally, at a level of 1.3%.

With regard to the most important market of HELLA, a similar picture in Europe. We expect a growth of around 1.7%, a more stable development in NSA, and a moderate growth in China of 0.6%. Here we, let's say, are orienting our expectations according to the latest IHS light-vehicle production forecast.

So, to sum it up, we do not expect, let's say, a special push or tailwind with regards to our growth development from the market. But we also see no hurdles, no obstacles, that we cannot further grow also in automotive.

Although, and Mr. Schäferbarthold and myself try to make this clear, we are, of course, not so satisfied with the growth performance in automotive in the first half of our fiscal year. We are quite optimistic that we fulfill our growth

expectations for the whole fiscal year 2016/2017. It means we will not change our guidance with regard to our sales growth.

So, we think that the growth will be in a mid-single digit percentage range; of course, excluding the foreign-exchange effect and the portfolio effect. The same is true for the adjusted EBIT growth. And we also see the adjusted EBIT margin at the same level of our last fiscal year.

Allow me again to point out that we expect an increase in the dynamics of our growth performance in the next fiscal years. And, as I said, also in the second half of this fiscal year 2016/2017 due to the upcoming launches in lighting and in electronics.

Having said this, allow me to finish our presentation. And now Mr. Schäferbarthold and I are looking forward to your questions. Operator, can you take the questions?

## Q&A

Victoria Greer^ Yes. Good morning. Three from me please.

Firstly, on the top line in auto, you've mentioned, of course, that you have been underperforming a lot and you expect that to change. Could you give us some more detail on the project ramp-ups? Exactly, perhaps, which models you're expecting to be on? When do they come in H2? Should we be thinking about an acceleration in both Q3 and Q4?

And then secondly, of course, you're reported a very strong margin in H1. But for the full year you've kept your guidance for flat margins year-on-year. Should we be thinking about some start-up costs may be associated with the project ramp-ups? Or what other costs are there to come in H2 that means you don't see the margin progression that you've seen in H1?

And then the last one really is just to come back to the R&D discussion. And perhaps, Mr. Schäferbarthold, you are somewhat new to this debate, I guess. R&D has still been very high. Of course, you've mentioned the relationship with the order intake.

But, from here, do you think that we should look at the run rate through H2 of last year and H1 of this year as a percentage of sales is about the right level from here? Or do you think it can come down longer term?

Thanks.

Rolf Breidenbach^ Yes. Thank you very much for your questions. First of all with regard to the top line, as I said, we are expecting a lot of new launches in the third and fourth quarter. Please understand that I cannot now talk about specific models.

But the launches are prepared. They have already started. And, as I said, they will, in our opinion, lead to a significant acceleration of our growth which then allows us to really achieve the guidance we have given to our growth rate.

So, allow me not to now tell you special models. But you can imagine the accelerated growth we are talking about high volume models in Europe because this acceleration of growth has a focus, or one focus of growth, is Europe.

With regard to the margin, here were are a little bit careful, with regard to our guidance. We, of course -- and this is -- and you already mentioned that, linked to the many, many launches which are ahead of us. And, therefore, it's our best guess that here and there special efforts could be necessary which, of course, would influence our margin a little bit.

The other topic I think Mr. Schäferbarthold already mentioned. Of course, we also have to continue to invest into our global network with regards to IT investment and other admin investments, which also will influence our margin.

But also allow me to say that when you see the range of our guidance we expect in the end to more end at the upper range of this, let's say, level, than at the lower range, yes? But it's our best guess that the guidance also with regard to our EBT margin is the same we have given after the first quarter and when the business year 2016/2017 started in June.

Concerning the D&D rate, perhaps two answers, one from my colleague Mr. Schäferbarthold and one from my side.

There are, of course, and I'm sure you are aware of that, there are two sides of this margin. On the one hand, of course, we try to reduce it. We came, I think, in the last quarter of the last fiscal year from a level of more than 10%. Then we went down to around 9.9% in the first quarter of this fiscal year, second quarter, around 9.5%.

So, we see a tendency to reduce this rate. And this has to do with a topic we also discussed in the last call; the inefficiency we have in our global R&D network. And step-by-step we are becoming more effective - the people are

working much, much, better together in the global network. So, a good development.

On the other side, we are more than aware that the general automotive trends like digitalization, the electrification of the vehicle power-train and, of course, also autonomous driving needs additional investments. We would also like to continue our clear strategy to be one of the, or the, technology leader in all the areas where we are doing business.

And, therefore, we try, and hopefully we are successful to, of course, reduce the margin, but not at a level of 6% or 7%. We need additional investments into this area year-by-year to keep our technology position at our customers.

And when you look at our margin development, our EBIT margin development, you see that, in our opinions, the strategy pays off because we were, as Mr. Schäferbarthold already explained, able to increase our margin in the last years. This is also true for the first half of this fiscal year.

And, therefore, with this high-tech product we are convinced to achieve a good gross margin in this. Although the R&D margin is higher compared to our competitors it allows us also to run the company at a good EBIT level.

Bernard Schäferbarthold^ More or less you have said everything. If I would look from a focus point I think it's -- as Mr. Breidenbach mentioned I think we need to look at the overall EBIT profitability. So, that is certainly something where, at the end the focus is to improve that number and that level. And that is I think our clear target.

And looking then on R&D, certainly, R&D expenses are a large part of that. But you have to look at it -- from, on one hand side, let's say the HELLA strategy and we have to be really a front-runner if it comes to technical leadership and also to technology. And we had, on top of that, also a lot of good acquisitions also in the past. So, this will help us also, to grow.

And, on top of that, we see also with the mega-trends a lot of opportunities. So, that overall I would say that we will see, in absolute terms, an increase also in R&D. And then in relative terms it will a lot depend also on the overall market and also on the growth we will be able then to show.

Victoria Greer^ That's great. Thank you.

Ashik Kurian^ Good morning. It's Ashik from Jefferies. I've got one question regarding the visibility that you have with regards to your growth.

You've maintained your full-year guidance and I appreciate that you're not guiding on a quarterly basis. But I was wondering if you had expected the slowdown of growth in Q2. Because, if I remember correctly, at the Q1 call you had indicated growth similar to what we saw in Q1 in the coming quarters. So, a bit surprised with the development of growth in Q2.

So, my question is, was the growth that you saw in Q2 in line with what you had expected? And, if not, what drove the weakness?

Rolf Breidenbach^ Of course, the visibility of our growth, there are two aspects. And I know you, of course, are I am also aware of that. On the one hand, we have all the orders on hand. We know our start of production activities. We know when we have the new launches.

Of course, what we do not have in hand and where we have no control, is how all the different car lines are running. But having all this in mind we are, as I said, quite optimistic that, or very optimistic, in the third and fourth quarter the acceleration of growth will come because the launches will take place. And therefore, as I said, there is a number-driven basis for this expectation.

But, as I said, of course, when the market unfortunately slows down then, of course, these expectations also cannot be fulfilled. But you have in mind the market growth we are expecting. And so we are talking about this 1.3% globally. And also with regards to our main markets, Europe, China and also NSA, we haven't considered a huge tailwind from the market.

And, therefore, we think our expectation is quite, quite, robust with regard to the third and fourth quarter.

Ashik Kurian^. Sorry to labor on this point but, I mean, what I was thinking was in Q2 I'm guessing the markets must have performed, if not in line, at least better than what was expected both in Europe and in China. So, hence, the question as to whether there were any things that happened in Q2 that was a bit of a surprise to you. And that's the reason why the growth was slightly negative on the Group level.

Rolf Breidenbach^ Yes. When you look at the different markets I think North America or NSA and Asia, China, were fine. In Europe some of the product lines haven't run as we have expected, yes? And, therefore, the growth was lower than our expectations. But nothing spectacular.

Ashik Kurian^ Just a couple of housekeeping questions. The net CapEx seems to be earning

below your guidance of 7% to 8%. Is it just seasonality and will it come back up in the second half? And also, if you can comment a bit on the impact of raw materials for the current year, what your rough exposure is and what the pass-through would be.

Rolf Breidenbach^ So with regard to CapEx, this was a misunderstanding or we don't expect it in the right way. So we are expecting a CapEx ratio of around 7%, and I think here we are more or less in the range.

And I didn't get your second question. Could you repeat?

Ashik Kurian^ What is the likely impact of raw materials on EBIT for this calendar year and also, roughly, what is your net exposure to key raw materials and how much of it can you pass through to your customers?

Rolf Breidenbach^ I haven't these figures now here on the table, but if you could send this question to Ms. Dodel, our Investor Relation Head, she will give you more details about this exposure.

In general, of course we see a slight increase with regards to our specific raw materials we are sourcing, but no significant impact on the EBIT margin.

Ashik Kurian^ Thanks a lot.

Rolf Breidenbach^ Thanks.

Henning Cosman^ Yes. Good morning. Thank you. In the last conference call the capacity utilization featured quite prominently also as a driver for the strong gross margin, so maybe if we could look at the tradeoff between topline growth and gross margin.

My understanding is that the gross margin strength is still somewhat due to the currently high capacity utilization before the ramp-ups in the second half and next fiscal year. So compared to that low growth, is it at all a bottleneck somehow on your part as well?

Because when the capacity utilization is high, in a sense you couldn't actually have had much more growth, or am I misinterpreting that somehow?

And then also if we could talk about the gross margin sustainability a little bit. Of course, that's a big driver of the half-year performance of the margin. So if we think of a more sustainable gross margin, when you also go back --

you talked about the reversal of the outperformance closer to maybe what it was in the past, 8%/10%, of that order.

What a sustainable gross margin is then when you don't have the boost from a high-capacity utilization.

That's my first question. Thanks.

Rolf Breidenbach^ Allow me to repeat what we also discussed in the last call, so it's our clear target to run the Company at a gross margin level of around 27%. And of course, as you already mentioned, there are a lot of influence factors. Currently, the utilization rate of our plants is quite high.

On the other hand, of course we now have started to build up new plants and increased the capacity within our existing plants. So the utilization, step by step, of course will go down because when we build up a plant then there will be a moment of time where we have a plant and where we have zero utilization and then, step by step, we will launch our product.

So, of course, there is no bottleneck with regards to capacity. We know how much production area we need. We know, of course, the machine capacities. And according to our launch plans, we will build up these capacities.

But currently -- or there was this special situation that all our electronic plants were more or less fully utilized. Now we have started to build up a new plant to increase the capacity in the one or the other existing plants.

The same is true for lighting. We increased significantly, and currently, our capacity in Mexico. We are thinking about to build up perhaps new capacities in East Europe when it's necessary.

So it's an up and down with regards to the capacity utilization. And currently, due to all this activity, the utilization is a little bit going down, but nothing which concerns us. This is the usual auto cycle in a growing business area.

Henning Cosman^ Great. So if you allow me, when we just walk down the P&L, if you like, with 27% gross margin, you have round about 11% general and admin. And if R&D was to come down to 9% that's basically 7%. And then you add back 1% from JVs, it's 8%. So even with R&D at 9%, is there any scope at all then to increase the EBIT margin in the long term beyond 8%?

Rolf Breidenbach^ I think in the last calls we said that it's our clear target to reach this 8% and to run the Company slightly above 8%. This is the next step we would like to achieve.

Henning Cosman^ Okay. But, sorry, just to clarify this, so when you have the 27% in mind for gross margin, it really has to come from R&D reductions closer to the 9% in the short term? Is that right?

Rolf Breidenbach^ Yes, but there are other factors, like of course we are also looking at the development of our admin cost and others. Therefore, we are not concentrating here specifically on the R&D ratio.

Henning Cosman^ Okay. Great. So a final question. Mr. Schäferbarthold mentioned a good mix, so I was just wondering if that means that electronics are at a higher margin than lighting because of course there the growth was stronger this quarter. Or is it more the strong mix just means that the aftermarket was stronger, which has a higher gross margin than the auto business?

Bernard Schäferbarthold^ No, I was not referring now to structural differences of this components in profit. I was more referencing partially also to the discussion we had with capacity utilization also because this has also an impact how efficient you are able to run your facilities. Certainly there are also some deviations if you are looking at different car lines or regions, but this is not a structural difference.

So that, overall, you can say there is a good mix, but coming from the reasoning out of different factors. And on top of that, that there is then, I would say, these operational improvements we have been able to realize.

But looking in comparison now to last year, where especially in some Eastern European plants, we had some very complex launches with some additional cost we discussed in earlier calls.

Henning Cosman^ Okay, thank you. I'll get back in the queue. Thank you.

Bjorn Voss^ Yes. Good morning. It's Bjorn Voss of M.M. Warburg. I have a question regarding the cartel fine. Is the EUR16 million provision really covering everything which is associated with the current scope of the EU cartel investigation or should or may we or, yes, could we expect something more to come in the future?

And also in this regard, the restructuring charges, when should we expect the restructuring program to end or should we expect EUR5 million to EUR6 million to EUR7 million restructuring charges to come in each and every quarter?

Secondly, also with regards to your implied guidance for margins in the second half, the ramp-up charges, which I can fully understand, but will this margin weakness, to put it that way, continue through the next fiscal year or is this really just limited to the second half of this fiscal year?

And maybe a last question, to you, Mr. Schäferbarthold, as the new CFO. I would be really interested in maybe your principles or your focus which you currently have at the new company, something or some measures you are putting in place or some KPIs you are focusing on. Is there anything we should be aware of?

And in this context, can we expect you to resume providing a consensus estimate to have a more reliable and broad picture of forecasts, which would be very helpful? Thank you.

Rolf Breidenbach^ Okay. Mr. Schäferbarthold, if you allow me, I try to answer the first two questions and then perhaps you can comment on the third one. With regard to the special effort of launches, this is something we considered in the second half of this fiscal year, nothing general for the years to come.

With regard to the restructuring activities, very difficult to answer your question. The necessary restructuring program we currently have in mind and discussed with the relevant stakeholders, are now considered in our guidance and also, of course, in the P&L of the first quarter, in the first half year. Difficult to assess whether additional specific efforts are necessary in the years to come.

With regard to the cartel, difficult to comment more on what we have said in our half-year report and in this telcon. We already have reported that the European Commission has commenced this antitrust investigation against Hella and other companies in the lighting sector in 2012. As this is a pending procedure we trust you to understand that we may not comment on the procedure beyond the content of our six-months report.

In connection with the fine proceedings, we have set aside provisions to possible fines, potential followed-on damage claims by third parties and legal expenses. That has been made in strict accordance, of course, with the International Financing Reporting Standards.

We, of course, continuously report on the status of the fine proceedings since the initial investigation. More I cannot say.

So this EUR16 million, overall, is currently our best guess. And you can imagine that such a guess is discussed with a lot of parties. And yes, as I

said, it's our best estimation, based on all information and the assumption of every party you can involve in such a topic.

Bernard Schäferbarthold^ May I jump in too? I think you had two additional questions. One is if you look at the implied H2 margin, what should we expect next year? I think I would like to take again the point Mr. Breidenbach said, that the next step for us is to get to a sustainable margin, which is around 8%.

So that, overall, I think it's quite normal. I would say that there is some volatility between quarters and that we should more really look also and focus on yearly profit margins. And there, certainly we stick to what we have said, that next year the target is really to get more towards that level.

If you look at, I would say, my first days now here at Hella and where my focus would be, I think one thing I discussed with my colleagues is certainly that we have started or Hella has started, before even I joined, a long time before, with a lot of initiatives if it comes also to improvements related to our cash conversion.

And that is certainly something where I will try to contribute also and to support in these efforts that we get some improvements realized there. We see here certainly potential also.

And I take your point also if it comes to the consensus and will discuss that also with my colleagues in IR and we will come back to you to that point.

Bjorn Voss^ Okay. Appreciate it. Thank you.

Nikhil Bhat^ Thank you. This is Nikhil from JPMorgan. I just have one question left. It's regarding second half. And since you mentioned that 27% is the targeted gross margin and the fact that you're going to have unusual launch costs in the second half of the year, will it be reasonable to expect the gross margin to go below 27%, maybe temporarily, in the second half? Thank you.

Rolf Breidenbach^ Of course, when these launch costs will occur this will affect, temporarily, the gross margin. So this is exactly the effect which could take place and which we are considering carefully.

Nikhil Bhat^ I'm sure. Sorry. And then one housekeeping question. I notice in the working capital the receivables outflow and the cash was much lower than what you've seen seasonally in this quarter. Is this something that we expect to spill over into the third quarter or not?

Bernard Schäferbarthold^ I think if you look on the cash side and looking at the receivables, there, I think that is the spillover. So we are continuously working on that. I mentioned the initiatives on the working capital, and certainly it had something also to do that we have a lot of invoices also related to reimbursements which were issued in the last month of the quarter. So there is certainly also some volatility here.

Nikhil Bhat^ Thank you for answering the questions.

Bernard Schäferbarthold^ You're welcome.

Christian Breitsprecher^ Yes. Good morning. I have two follow-up questions remaining, one on the restructuring charges. Do I understand you correctly that for the second half, to your current knowledge, we don't have to pencil in further restructuring expenses?

And the second question with regard to the wind-down cost in the airport industrial lighting. Is that all done now? And is there no further burden from that in the second half of the business year?

Rolf Breidenbach^ Starting with the second question, with regard to the restructuring wind down cost of airport and in general industry lighting, so far we do not expect an additional burden. This is an estimation of the current situation. Hopefully nothing in addition in this field.

With regard to the restructuring charges, as I said, and this is a, let's say, delicate area, currently we see no additional charges in the months to come. But of course this can change.

Christian Breitsprecher^ Thank you.

Jürgen Pieper^ Yes. Hi. Good morning, gentlemen. It's Jürgen Pieper from Metzler, Metzler Capital Markets, sorry. I have two quick questions left from my side. The first one is you often mentioned the strong order intake in the past two business years, and did this continue in the first half? Could you give a figure or at least could you give a quality comment here on the order intake in the first six months?

And secondly, often the December/January period is a critical one as some OEMs tend to slow down production. How would you characterize December/January this time? Thank you.

Rolf Breidenbach^ Yes. With regard to our order book, allow me to comment on the quality

basis. It's comparable to the last two fiscal years, so we are satisfied with the current order intake.

With regard to December and January, let's say it's difficult now for me to say something. Nothing which is influencing our guidance, so nothing which concerns us.

Jürgen Pieper^ Okay.

Florian Treisch^ Hello. Yes, this is Florian Treisch speaking from MainFirst. A follow-up question to the question of Mr. Pieper. If you look at the quarterly development, so Q3/Q4 coming, on the one hand is what do you expect to be the negative impact from these ramp-downs?

And on the other hand, if you're talking from ramp-ups, it probably means that we will see only very low revenues in Q3, higher revenue in Q4. So in the end, to reach the guidance, it's very much depending on the last one/two months of the fiscal year, of the current fiscal year. Am I right here?

Rolf Breidenbach^ I cannot say yes or no because the third quarter is not over, but our expectation is that you are wrong. So of course, our first quarter and our third quarter are traditionally the weaker quarters and the second and the fourth are the stronger quarters.

But when we are talking about growth, we are of course talking about the comparison between the last years. And when we look at the current launches, I think that the growth accelerates, hopefully, also in the third quarter.

Florian Treisch^ Okay. And do you still expect negative impact from these ramp-downs in Q3 and Q4?

Rolf Breidenbach^ What do you mean with ramp-downs? Perhaps we were not precisely.

Florian Treisch^ The reason why you are reporting negative growth rates in lighting.

Rolf Breidenbach^ Yes. Not ramp-downs, but additional efforts to make these ramp-ups happen.

Florian Treisch^ Okay. I'm just talking about the topline. So you're obviously seeing some projects fading out of your topline that you're reporting these negative growth rates in lighting.

As an underlying market trend that seems to be still intact. This is what I mean by you are now ramping up again, that's for sure. But if you look only at the first half, you have seen a negative impact from ramp-downs.

Do you also expect these negative impacts to continue in the third quarter?

Rolf Breidenbach^ No.

Florian Treisch^ What I mean by that is it's now completely over, so now we have a clean desk?

Rolf Breidenbach^ You always have ramp-downs and you have ramp-ups, but, let's say, the balance between both will be much more favorable for us in the third and fourth quarter. If not, we could not show overall an acceleration in growth with regards to our topline.

Florian Treisch^ Okay. Thank you.

Rajeev Gupta^ Hi. It's Rajeev Gupta from Citi. Just one question left from me. In terms of sales development and if I look at the performance versus light-vehicle production, it seems to have slowed down in every region.

Obviously it's negative in Europe, but slowed in the Americas and Asia. Do you expect to get back to double-digit outperformance in the second half or how should we think about sales outperformance by region and for the coming quarters and into next year? Thanks.

Rolf Breidenbach^ Yes. Allow me now to detail our guidance. As I said, we would stay with our guidance with regard to our growth rate. When you look at the different regions, we were, as we already said, quite satisfied with the development in NSA and also in Asia in the first two quarters.

And we hope this will also be the case in the second half of our fiscal year. And of course, we expect a quite better development in Europe compared to the market.

Rajeev Gupta^ But if I look at the development in the Americas, obviously you are obviously outperforming, but it is a slowdown relative to the outperformance that you've seen in previous periods.

So should we be looking at the current level of outperformance in both of those regions as the new base level? You're saying that you'd be happy for that to continue. Is that the new base level of outperformance that the Company is setting?

Rolf Breidenbach^ Yes. Please understand that we will not comment now more in detail with regard to our guidance. We confirmed the guidance of this single mid-digit growth rate. You could see our performance in NSA and Asia.

Of course, we have to improve in Europe. And whether we will stay at the same level in NSA and Asia or a little bit lower or higher, this is very difficult now to assess because, as we already discussed, there are some factors we can influence.

And of course, these are our launches in our business, and we know this quite well. But with regard to the specific market development, how a specific car line is running, this is very difficult to assess. Therefore, please understand that I'm now a little bit careful to more detail our growth guidance.

Rajeev Gupta^ Okay, understood. One last question if I may. You talked about capacity expansion in Mexico. Obviously this is not a political opinion call.

I just wondered what your conversations perhaps with -- whether or not you're having any conversations with OEMs given the change of government that we're seeing in the US and the possibility of tariffs and all of those -- I guess the larger political topics.

How are you thinking about your expansion in Mexico or is that committed and it's certainly going ahead?

Rolf Breidenbach^ Our expansion in Mexico is committed. The business is booked. The orders are made. Therefore, we will follow this decision. On the other hand, of course we are talking to our customers. We are observing the current situation, and when it's necessary, of course, mid and long term, we will also draw our conclusions.

But, for example, when we talk about this Mexican capacity increase, we have to do it now if we would change our decision. We could not develop the product for our customers. Therefore, no change currently.

Rajeev Gupta^ Okay. Thank you very much.

Christian Ludwig^ Yes. Good morning, gentlemen. Christian Ludwig from Bankhaus Lampe. Two quick questions, first of all on the extra cost for the special applications divestment of the industrial automotive lighting. The Q1 call, you told us the costs were EUR4 million and that should be it. Now it's EUR12 million and

you're telling us now it should be it. What happened in Q2 that this rose by EUR8 million and are you really sure that this is going to be it?

And the second question would be you gave us an update on the antitrust issue with Europe. Is there any update on the US issues? Could we expect something similar to Europe in the next quarter to come?

Bernard Schäferbarthold^ Just to your first question because I think there was a misunderstanding. The EUR12 million in the first six months is the overall number of the disposal of industries and airport lighting, which is EUR9 million and EUR3 million on the relocation of one plant. So overall, it's EUR9 million.

And you have to compare that with the Q1 number we reported and only the differences then in Q2.

Christian Ludwig^ But still, you told us at Q1 what we saw in Q1 would be it and now it is more. What happened between that? We had another cost increase there.

Bernard Schaferbarthold^ Now in Q2, as Mr. Breidenbach was stating, we think that we should be through. I think that is basically our expectation. What we see now is that all expenses now have been booked which are related now to that exit of that business.

Rolf Breidenbach^ And there was -- let's say not something special happens, but when you close a business, quality claims come up. Perhaps additional restructuring costs came up. Therefore, unfortunately, these additional efforts were necessary. But as Mr. Schäferbarthold already said, now I think it's really -- we think it's really finished.

But with regards to the cartel topic, nothing to report about the US case, no change since when I got it many years. So we only can again tell you what we have said in the different reports over the last, let's say, two to three years. Nothing has changed.

Christian Ludwig^ Okay. Just coming back to special applications, will it be fair to assume that we've seen EUR12 million of special costs booked in H1 for different reasons, this should not reoccur? So the EUR12 million EBIT contribution from special applications in H2 is a realistic assumption?

Bernard Schäferbarthold^ Yes.

Rolf Breidenbach^ Yes. Absolutely.

Christian Ludwig^ Okay. Thank you very much.

Christoph Laskawi^ Hi. Christoph Laskawi, Deutsche. Thank you for taking my question. Not much left. The first one would be on the fine. Do you already have a plan when the cash-out might happen? And I appreciate if you cannot comment on this.

And the second one would be, last year in Q3 when the R&D inefficiencies came up and the R&D rates rose, you pointed us towards Q1/Q2 this year, that the issues will be resolved and the inefficiencies will not cause extra cost.

Can you give us an update on how far you've come to resolve those issues and how long you expect them to last and keep the margin high? Thank you.

Rolf Breidenbach^ First of all, the cash-out of the fine, I cannot comment on that. In these, let's say, topics, very strict legal processes have to follow and therefore I do not dare now to forecast the exact cash-out. Sorry for that. But you can imagine that we are following the, let's say, defined processes of the different authorities.

With regard to the D&D or R&D inefficiencies, as I said, we think we are on a good way here. In the third quarter of the last fiscal year we were at a rate of 10.5%. Then we reduced it to 10.3% in the fourth quarter. First quarter of this fiscal year, we were at approximately 9.9%. We are, in the second quarter, at 9.5%.

Of course, this also depends on the absolute sales figure, but when you look at the development, it's a development into the right direction and we are very satisfied with the impact of our efficiency improvement activities in the overall network.

So as I said, please do not expect a rate of 8% or 7%. Electrification, autonomous driving, digitalization of our products, needs, combined with our clear expectation to be one of the or the technology leader, a lot of efforts in this area.

And as Mr. Schäferbarthold already said, our philosophy is, in the end, a low or high R&D rate is not a value in itself. In the end, combined with all the other lines in the P&L, a high EBIT margin is our target. And when we can sell or when we can, yes, sell products on a high gross margin with a high R&D rate, in combination with the high profitability, that's also fine for us.

But of course, this has nothing to do with expecting inefficiencies in the network. But as I said, here we are quite successful with the improvements we have made.

Christoph Laskawi^ Understood. Thank you.

Lello Della Regione^ Hi. Lello Della Regione from Intermonte. I have a question. At the start of the Q&A Mr. Breidenbach said you were at the higher end of the range, but I didn't get if you were referring to some other guidance on topline or EBIT-adjusted margin currently.

Second question is again on R&D to sales ratio. I understand your point on the importance of the thing, but you know that these are irrelevant in terms of EBITDA margin valuation.

And the thing is, even in the past you said that we should expect a marginal decline of the ratio. And even taking into account your, let's say, bullish guidance in terms of topline, is it correct to assume that we shall see in the next -- let's say, second half of the year a decline of this ratio?

And combining this with the EBIT-adjusted guidance in terms of margin, it means that all the deterioration, meaning more than 100 basis points, will be -- related to ramp-up will affect the gross margin level in the second half of the year? Thank you.

Rolf Breidenbach^ Yes. Thank you for your question. The first question, my comment was related to the EBIT guidance.

And second -- coming to your second question, of course, when we're talking about these new launches and additional efforts with regard to these new launches, we are of course talking about main effect above the gross margin. So it will affect the gross margin.

The further development of our R&D expenses, this is quite difficult for me to forecast. Of course, we will continue our efforts to improve the efficiencies. On the other hand, when we see the good opportunity to acquire -- not to acquire, but to get new business in, to acquire new projects from our customers, we will do it. And then of course the R&D ratio could again increase because all our development of costs, all our projects are included there.

So I expect that the efficiency in the network will improve. Will this directly lead to continuous reduction of our R&D ratio shown in the last four quarters? I'm not sure. But of course, your calculation is right when of course

we would improve the R&D ratio. And then of course the guidance of our profitability is mostly based on the temporary dilution of the gross margin. And this has to do with the many, many launches we are currently having in front of us.

Lello Della Regione^ That means that if you, in the second half, receive another interesting pipeline of orders, it means that the EBIT margin guidance that you gave will be affected, meaning that you start to invest from already in this short period if you don't have visibility on that figure in, let's say, the next six months? Is that correct to assume?

Rolf Breidenbach^ So only to be very precise. Our guidance with regard to EBIT, EBIT margin, is as it is. It hasn't changed from the starting of this fiscal year, first quarter of this fiscal year, now second quarter. And we will balance that out. We are very optimistic, and of course it's our clear target to reach this guidance. And as I said before, currently we see us more in the upper range of this guidance than at the bottom, but allow me -- more I cannot say.

Lello Della Regione^ Okay. Okay. Thank you.

Victoria Greer^ Hi there. Just one longer-term question. Thinking about all the battery electric model launch announcements that we've seen from the OEMs over the past few months, I guess the discussions about how to source those are now starting.

Could you just talk generally, and really a long-term focus, on what you're seeing in your order book in terms of all kinds of electrification across 48 Volt, hybrid, EVs and for your business specifically in electronics? Which are the products that you're really seeing the interest in right now?

Rolf Breidenbach^ Perhaps, first of all, a general comment. Of course, we currently see a lot of investments at our customer side with regard to the electrification. And here we are not only talking about hybrid vehicles.

Many of our customers now have started to develop pure e-vehicles. And therefore we see, especially in Europe and in China, a very attractive new business field.

And what does it mean for Hella? Especially two products are, here, of high importance. One, our battery management system. We are currently the -- or one of the, let's say, market leader for the intelligence battery sensors for the conventional batteries.

We have now launched, in the last calendar year, our first battery management system for all hybrid and electrical vehicles of one German premium OEM. And we think that these battery management systems are a very attractive new business field for Hella and we are of course spending a lot of money into this field.

But as I said, we see a clear tendency that electrification will go on, especially in China and Europe. And the growth dynamic in this field has significantly accelerated in the last half year.

Another very important product for Hella are the DC/DC converters, you already mentioned the 48 volt for the electrical network. Here also the tendency is clear due to the fact that more and more functionalities are introduced into the cars. Again, the key word, autonomous driving, digitalization and so on. These two power networks are more and more used in the cars and therefore the DC/DC converters will become very important.

And I think we also commented in the last call we are very satisfied, very, very satisfied with the current order book in this field. We acquired a lot of new DC/DC converter business.

And also here we see a very objective growing field for Hella in this area. And both, of course, products, the battery management systems and the DC/DC converters, are needed for the electrification of the power train.

Victoria Greer^ That's great. Thank you.

Operator^ There are no further questions at this time. Please continue.

Rolf Breidenbach^ Okay. I think there are no further questions; therefore I think we can finish the conference call. Allow me again to thank, also on behalf of my colleague, Mr. Schäferbarthold, all the participants.

Thank you very much for listening to our presentation and for all your questions and, overall, of course, for your interest in our Company. Thank you very much.

**END**