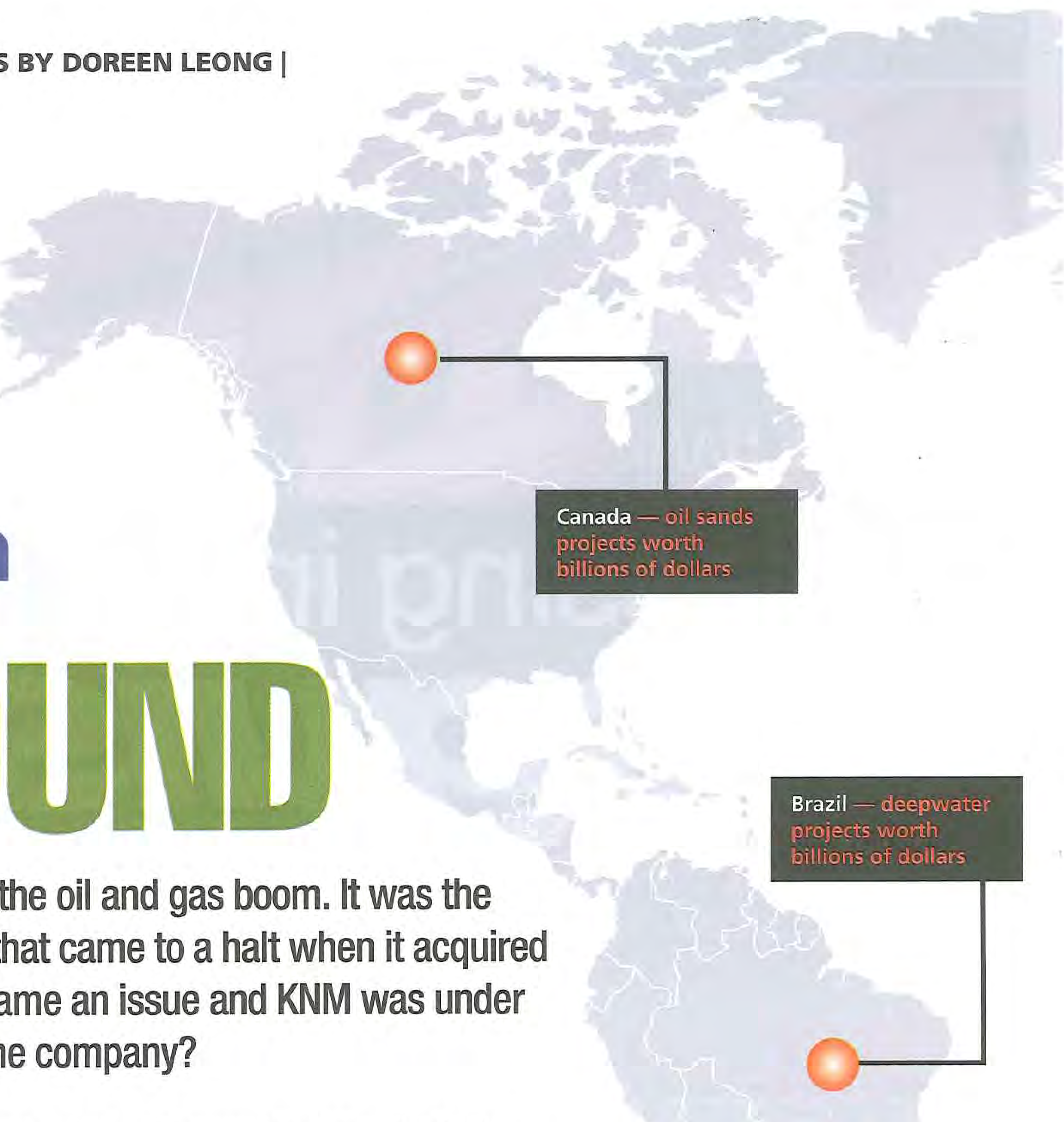
In the past two years, KNM has been the darling of the oil and gas sector. But its fast expansion has invited scrutiny, especially when it acquired a large German company for RM1.7 billion. Group managing director Lee Swee Eng, however, is optimistic the company can take things in its stride. Read our Cover Story on **Pages 62 to 65**.

# KNM: Managing GROWTH

| STORIES BY DOREEN LEONG |

# KNM making up for LOST GROUND




**A year ago, KNM was basking in the euphoria of the oil and gas boom. It was the fastest-growing stock in the sexy sector. But all that came to a halt when it acquired Germany's Borsig for RM1.7 billion. Funding became an issue and KNM was under pressure. But was this just a passing storm for the company?**

The ordinary façade of the 4-storey shoplot in Seri Kembangan, where the KNM Group Bhd's headquarters is located, belies the company's strength.

Inside the office, a team of 20 handles the treasury operations of KNM's orders that are coming from around the globe, from Australia to Brazil. The function of the treasury team is to ensure KNM is well hedged in its procurement of materials in these volatile times.

"Every order we get, we hedge the procurement. This is to protect our bottom line," says group managing director Lee Swee Eng.

KNM has been the darling of the oil and gas sector over the past two years, with its fast expansion. It has been described as one of Malaysia's truly international companies.

But it is this speedy growth that caused it to come under the scrutiny of investors, especially after the disclosure of Transmile Group Bhd's accounting shenanigans in May last year.

The fraud at Transmile revolved around its high receivables versus its revenue. Investors became wary of KNM because it also had high receivables.

But the similarities end there, Lee is quick to point out.

"When the Transmile case came out, people started questioning us. But there is no such thing as Transmile in our business. We are dealing with multinational corporations. These companies do not issue fictitious invoices. We are running a tight ship. I started the company and grew it. I will not let any hanky-panky destroy the company," Lee tells *The Edge* in an interview.

While the issue of high receivables has dimmed over time, concerns over KNM's high receivables resurfaced when it showed a significant jump of 118% to RM657 million in its trade and other receivables in June this year.

However, Lee explains that the surge is natural following the acquisition of Germany's Borsig, whose receivables accounted for more than half of KNM's.

In fact, it is the Borsig acquisition that is weighing KNM down at present. Its shares dropped to a low of RM1.05 as stock markets around the world suffered following the collapse of financial institutions in the US.

For KNM, the timing could not have been worse. The €350 million (RM1.7 billion) acquisition of Borsig is its biggest to date.

To add to its woes, KNM had to abort an exchangeable bond issue that was supposed to raise funds to pay for its Borsig acquisition. KNM had a rights issue that raised the equivalent of €200 million, which was used to partly settle its purchase.

However, it still has another €150 million to settle, something that has taken a toll on KNM and Lee especially. He has until June next year to refinance a short-term bridging loan into a long-term debt.

"Maybank is committed to the conversion (from bridging to long-term loan). It is just a matter of pricing," says Lee.

Raising funds is a costly exercise now, what more for a company like KNM that is viewed as growing too fast. In fact, 95% of its revenue comes from its overseas offices, which has led to close scrutiny of the company.

"KNM has its strengths but there are risks, too. It is competitive in the field and has proved successful in securing contracts globally. But on the other hand, given its aggressive expansion, the company could face financing or integration and control risks," Phillip Capital Management's chief investment officer Ang Kok Heng says.

However, he believes that as long as KNM can tackle the integration and management issues of acquired companies, it can reap huge benefits from expansion via acquisitions.

One of the concerns among fund managers is KNM's overseas operations, which not many are familiar with.

It would perhaps be comforting for some to know that KNM has a policy of appointing the same auditor, KPMG, to audit the group as well as its subsidiaries whenever possible.

This is to help ensure that the auditor has a better audit trail of KNM's subsidiaries, which are scattered all over the world.

"It is also to negate views that the subsidiaries are audited by a non-recognised name. This way, KNM can always go with the strength that its books are always looked at by a known name in the accounting world, which augurs well for the company," says a merchant banker.

But such practices obviously have not placated some of its shareholders. For instance, its long-time and second biggest shareholder, US-based FMR LLC, and Bermuda-registered Fidelity International Ltd, trimmed their stakes to 9.9% on Sept 19. The funds held about 11% in June this year.

However, it should be noted that Fidelity has been "underweight" on Malaysia due to the political uncertainties and lower business confidence.

Lee reckons that active trading in KNM signals keen interest from investors. "Everyone has taken a beating but we are the last to take this beating in share price. Big volumes are good. They show strong buying as well as selling interest."

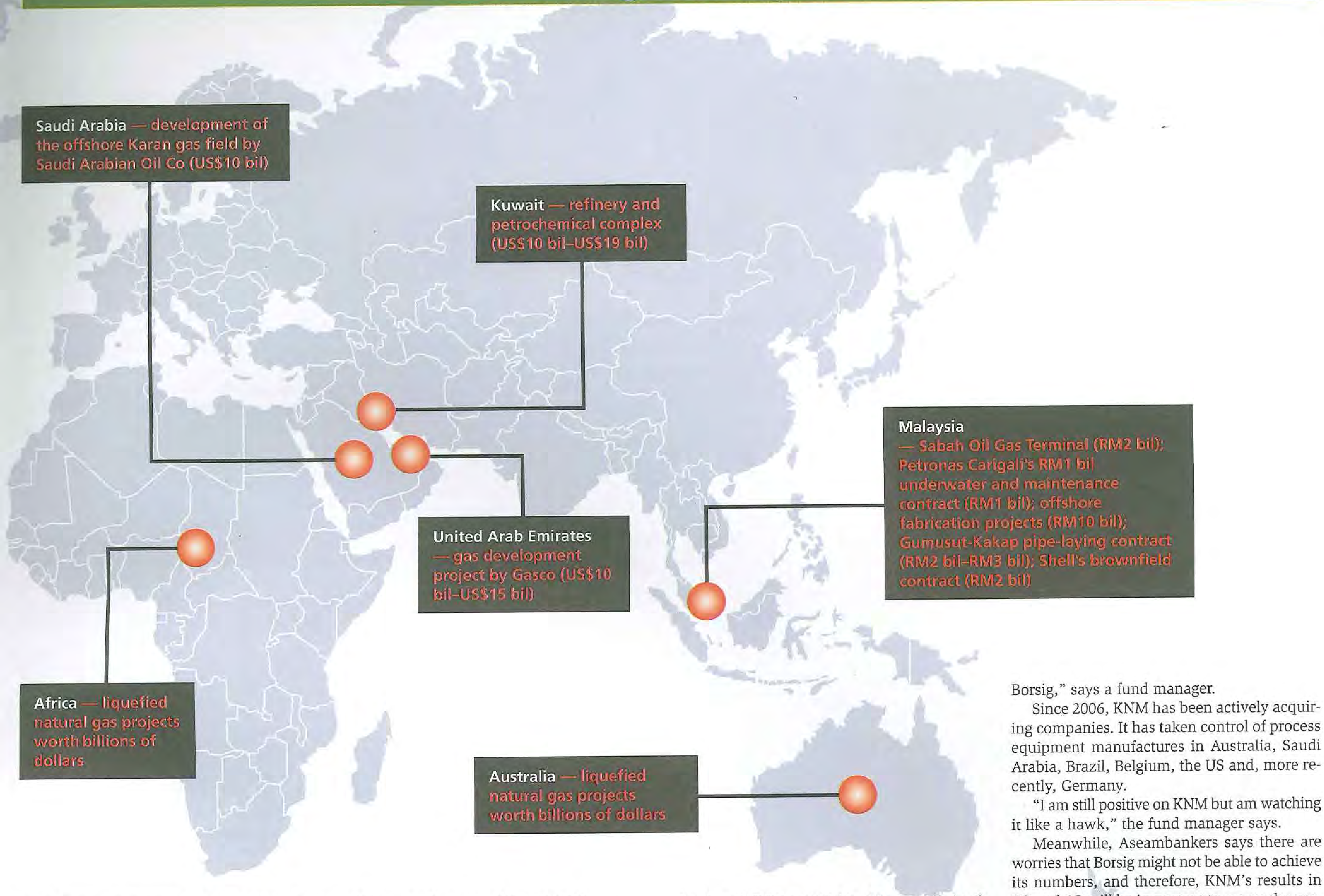
KNM's shares have been on the most active list for the past month. The share price has declined 57.7% from its year high of RM2.48 on Jan 2 this year to hit its year low of RM1.05 on Sept 16.

However, fund managers and analysts alike believe the selling is overdone and that KNM's fundamentals will remain intact in the long run, considering that crude oil prices are expected to be sustainable, albeit at a lower level.

## Funding issue overblown

While political uncertainties have battered the

# Oil and gas hot spots




stock market and caused heavy selling, especially in stocks with high foreign shareholding, KNM is beset by funding and accounting issues.

To recap, KNM, for the first time since its listing in 2003, hinted at a lower net profit for the current financial year and next year due to higher interest costs and delays in capacity ramp-up.

Analysts are forecasting KNM's average cost of borrowing to rise to between 8% and 8.5%. But Lee contends that the average cost of borrowing for KNM is expected to rise from 5% now to between 6% and 6.5%.

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According to Aseambankers, the higher interest cost accounts for some 75% of revised earnings in 2008 and 2009.

"We think the market may have misinterpreted this (the assumption of 8% to 8.5% interest rates). This is based on a worst-case scenario. Instead, KNM should secure a lower, decent 6.5%," says the research house.

Lee explains that the company is being frank in guiding investors on the worst possible outcome from its €150 million bridging loan with Maybank.

"We are keeping the market informed of our progress but because the market is so jittery now, anything that we tell them, such as we may have to pay extra cost, makes them jumpy."

"We are still in negotiations with Maybank. Nothing is finalised yet. Maybank has to take its proposal on the loan to its committee members before reverting to us," says Lee.

He adds that if Maybank's offer is not attractive, KNM has the option to take up a loan with foreign banks, which have offered a lower rate of between 5% and 5.5%.

Another issue nagging investors is possible writedowns of KNM's high intangibles in its balance sheet as a result of the goodwill from the Borsig acquisition.

But Lee quickly reassures that there will be no writedowns as the company is considering revaluing Borsig's assets, which are currently undervalued.

"We are discussing with our auditors KPMG to revalue Borsig's assets such as machinery, factory and intellectual property. A revaluation can bring its net tangible assets to a higher level and the goodwill will be smaller."

JP Morgan estimates that Borsig's assets could only be worth as much as €170 million.

The research house believes that based on its conservative modelling, the goodwill in the books of KNM would be able to sufficiently stand any impairment test based on Borsig's net present value.

"Borsig is debt-free and based on its order book, should sustainably generate RM380 million in operating cash flow per annum without any capex expansion."

But Lee is looking at a bigger earnings contribution from Borsig. He plans to inject US$25 million (RM86 million) in the next one year and expand its facilities.

## Is KNM worth buying?

Despite bearish market sentiment, KNM has been an active stock. It topped the most active list in the last two weeks. A Bloomberg's poll showed analysts are bullish on the counter, recommending a "buy", with target prices ranging from RM1.93 to RM2.70.

Despite the negative news flow on the company, investors who have been holding KNM shares from day one would be very happy. Since its listing in 2003, its share price has appreciated tremendously. From a low of 2.5 sen in 2003 (following two share splits, two bonus issues and a rights issue), the counter surged to close at a high of RM2.44 in January this year.

Most of the fund managers and analysts believe KNM is a good proxy for the robust oil and gas sector, but harbour reservations about the stock.

Apart from the recent funding and accounting issues, one of the main concerns of investors is KNM's aggressive growth strategy. The acquisition of Borsig, especially, has made them cautious.

"The acquisition of Borsig is big but that's KNM's model. I believe, as proved by its previous acquisitions, the company can manage Borsig," says a fund manager.

Since 2006, KNM has been actively acquiring companies. It has taken control of process equipment manufactures in Australia, Saudi Arabia, Brazil, Belgium, the US and, more recently, Germany.

"I am still positive on KNM but am watching it like a hawk," the fund manager says.

Meanwhile, Aseambankers says there are worries that Borsig might not be able to achieve its numbers, and therefore, KNM's results in 3Q and 4Q will be important to gauge the performance of Borsig.

Nevertheless, Phillip Capital Management's Ang reckons that the counter is now more attractive in terms of valuation, following the massive drop in its share price. "There are a lot of jobs out there and prices of commodities will go up again. KNM's business prospects are good, given its success in securing jobs," he says.

KNM now has an order book of about RM4.7 billion, which will keep it busy for the next 18 months.

The question now is, what are the major jobs available in the local and overseas markets on the back of a slower global economy and volatility in crude oil prices?

While Petroliam Nasional Bhd (Petronas) is expected to allocate capex of between RM45 billion and RM50 billion in FY2009, there are concerns about delays in mega projects with a combined value of up to RM13 billion.

These jobs include the RM2 billion Sabah Oil Gas Terminal, Petronas Carigali's RM1 billion underwater and maintenance contract, offshore fabrication projects (RM10 billion), the Gumusut-Kakap pipe-laying contract (RM2 billion to RM3 billion) and Shell's brownfield contract (RM2 billion).

However, KNM's Lee says there are still plenty of oil and gas jobs available — among the hot spots are those in the Middle East, Australia, Africa and Canada.

Judging from the active trading of the counter on the stock exchange, KNM is still very much a stock to watch.

While some investors may shun the stock due to the risks involved, there obviously are those who believe in its ability to generate growth. Hopefully, KNM will repay the faith of its loyal investors.

An excerpt of the interview with Lee follows on the next page. E

## An veteran of oil and gas

KNM's Lee Swee Eng readily admits that he doesn't speak a word of Chinese even though he is Chinese. He comes from a class of Straits-born Chinese known as the Peranakans. But his lack of command of the language did not deter Lee from striking deals in mainland China and other parts of the world

"I don't need to know how to speak Chinese because I've got a translator with me," he quips. It is such determination that has propelled the homegrown KNM to where it is today — an internationally recognised company.

KNM, whose history can be traced back almost two decades, was set up when Lee decided to start his own process equipment company with two other partners.

Lee is definitely an "old hand" at the oil and gas business as he joined Petroliam Nasional Bhd when he graduated from university in 1979 and served for eight years in the company before he left to join an international oil and gas company, John Brown E & C Inc, as project engineer in 1986.

His stint at the US oil and gas was not long. After one year, Lee was invited to join as a local partner in Technip Geoproduction (Malaysia) Sdn Bhd. He was later appointed Technip managing director in 1989.

But he was not contented being just a minority shareholder in the group and he saw great potential in the process equipment business. Hence, in 1990, he cashed out of Technip, with the owners' blessing, to set up KNM. And it was Technip's orders that helped KNM establish itself in the industry.

The company's initials are in Dutch — "Koninklijke Nederlandsche Machinerie Compagnie" — meaning Royal Netherlands Machinery Company, which was also one of KNM's first co-owners.

The other partner was KNM former chairman Datuk Rani Mohd Razalli. The two shareholders have since cashed out from KNM for personal reasons. Rani left his chairmanship at KNM in 2006.

According to Lee, KNM initially occupied a shoplot in Jalan Medan Tuanku but moved to the current location at Seri Kembangan in 1995, as the company grew bigger.

"We were among the first few tenants in Seri Kembangan and our staff had difficulties in finding food outlets. We had to subsidise their food as they had to go far for lunch," Lee recalls.

KNM, which started with two shoplots at Seri Kembangan, now occupies four shoplots and other nearby lots as well.

And its expansion has not stopped there. In 1995, Lee started to export its equipment to the region, starting with Indonesia and the Philippines. Then in 2000, KNM ventured into the European markets with the help of its existing international clients.

While Lee is now reaping the benefits of its expansion, he recalls that the most challenging times were when KNM was still a private firm and needed to raise funds for expansion.

"It is not easy getting funds as banks need collateral against assets before giving out loans. After our listing, funding is no big issue," he adds.

Lee says KNM's toughest acquisition was in its Australian-based KNM Pty Ltd as it initially held a 51% stake in the company. "It wasn't easy to manage because we had joint management at that time. But we bought the remaining shares in the company two years ago."

As for KNM's other acquisitions, he says there was not much resistance from the employees, as he believes in following and respecting the local cultures. Lee also advocates rewarding his employees, regardless of nationality, based on their performances against targets set.

Lee, 52, has single-handedly built KNM from scratch into a global entity. While he is not thinking of retiring anytime soon, he has put in place potential candidates to eventually assume his position. "As it is, we have created the post of senior general manager, who, in the long term, will assume the role of chief operating officer."

# 'We'll be digesting and growing Borsig'

***The Edge*: Uncertainties in KNM's funding exercise have adversely affected sentiment for the company. What is KNM doing about this?**

**Lee Swee Eng:** The only issue is the €150 million bridging loan with Maybank, which is the balance of the loan we took when we acquired Borsig. The bridging loan is for a year, which ends in June 2009. We have already retired €200 million via a rights issue.

We wanted to settle the €150 million loan by issuing an exchangeable bond and we obtained the necessary approvals from authorities and shareholders in April this year. We were on the verge of launching the bonds in end-June or early-July when the bond market fell. So, we held back the bond issue; we are not in a hurry because the bridging loan is due only next year.

Meantime, we are in discussions with Maybank on converting the €150 million loan to a longer-term loan — maybe an Islamic loan or some other conventional loan. We are keeping the market informed about our progress, but because investors are so jittery now, anything we tell them, that we have to pay extra cost, makes them jump.

**What is your average cost of borrowing?**

One year ago, our average bank borrowing cost was about 4%. Today, it is about 5% and rates may go up further. In today's market, paying 6% to 6.5% is normal. But 8% to 8.5% is a bit high, so we have given our feedback to the bank and I think the bank is receptive.

We have a commitment with Maybank. When we went for the Borsig acquisition, Maybank supported us and we took the bridging from it. Under the agreement, Maybank has the first right of refusal on the take-up. Maybank did our rights issue and we were supposed to do the bond with Maybank.

We would like to keep that (commitment) as far as possible. But the banks are facing problems themselves because the bond market is down. If we had done the bond in June, we would have completed it, but we missed the boat. Now, we think the bank will come up with a reasonable alternative for us to convert the loan into longer-term loan. Maybank is committed to the conversion; it's just a matter of pricing.

**Will you be comfortable with financing at rates above 7%?**

We have guided the investing community that the worst-case scenario we are looking at is between 8% and 8.5%. This is versus the issuance of exchangeable bonds (EB), which have a dilutive effect. At the time, based on today's price, dilution is about 13% to 15%. Our earnings per share, by taking up the bridging loan, is higher compared to the EB. With the EB, our EPS will drop. Also with the EB, the price is not any better than if we went for a straight loan. There used to be a 2% differential between EB and conventional loans; now, it's only about 0.25% or no differential at all. That is why we opted to defer the EB.

**When do you expect the refinancing deal to be finalised?**

I expect it sometime at the end of the month. Maybank has taken the matter to its board. Give it another two to three weeks. Meantime, banks are knocking on our door and we are looking at our options.

**What is Borsig's free cash flow like?**

Borsig is easily generating between RM300 million and RM350 million cash or about €60 million.

**Do you agree that the entire Borsig issue has affected sentiment for KNM?**

Not really. When we announced the Borsig acquisition in November last year, it was very positive. Our share price went up to about RM14 to RM15 (before adjustment) or RM2-plus after adjustment in November. Generally, the Borsig acquisition is positive because it is earnings-enhancing. Borsig's revenue is almost equivalent to our revenue last year. It was doing about RM1.2 billion to RM1.3 billion, with net profit at 20% of revenue. For us, it is not enough to just buy a company that is earnings-enhancing. Our idea is to enlarge it. One of our plans is to create a new manufacturing base for Borsig in Malaysia and cross-sell its products to our regional customers. With that, we increase its capacity and create growth for Borsig.

So, we have a German brand to be manufactured here and sold in the region. It also involves the transfer of technology. We are able to bring the expertise back to Malaysia.

**How much will it cost to set up a base for Borsig in Malaysia?**

Not much. About US$25 million (RM85.8 million) will be invested over a year.

HARIS HASSAN/THE EDGE

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It involves investing in upgrading facilities as well as expansion to gear up for added capacity.

**Borsig is KNM's single largest investment to date. That is why the company has attracted a lot of attention.**

Of course. We also made our biggest borrowing so far. In the past, we borrowed RM150 million to RM300 million. This time, we borrowed €350 million or RM1.7 billion. Obviously, investors are watching us closely. But we quickly retired some of the borrowings. What is left is only €150 million (RM755 million). The faster we retire our borrowings, the better. We don't like borrowings because they make no sense. We work so hard and the money goes towards paying interest.

**Do you think the Borsig acquisition is too big for KNM?**

Of course, Borsig is a big acquisition. Investors always ask us how we intend to manage Borsig, and we say we will manage it the same way we manage our other foreign companies. We set targets, support them where we think we can add value and respect the way they do things, as long as they achieve their targets. As you know, it is not easy to manage Italians, but when we took over an Italian company, revenue was only €40 million to €50 million. Today, it is €80 million to €100 million, and we are looking at doubling that in the next three years. Looking at how Lakshmi Mittal has done his acquisitions and integration, I was thinking it is not much different from what we are doing. When he took over the Kazakhstan company, it was losing money and people were not paid for six months. For us, when we took Italy, while the employees were paid, they had not got any increment or bonus for five years. When we came in, we told them we are performance-oriented. If they deliver, we will reward them. In the first year, we gave them bonuses and increments and some of them were even in tears.

**What are your targeted earnings for Borsig in the subsequent years?**

I can't guide you on the net profit. But looking at capacity, for the first year, we see additional capacity of about 4% for Borsig. Second year, 10%, and third year, 20%.

**Will there be writedowns following the Borsig acquisition?**

No, there will be no writedowns. We are thinking about revaluing its assets. We acquired Borsig based on earnings, not book value. We paid eight times PER based on this year's forecast. We didn't ask for a profit guarantee. We don't see any risk as we see visibility in earnings. The difference between what we paid for Borsig and its book value is about €300 million, which is the goodwill value. We don't need to write down the goodwill. Every year, we do an impairment test. This means we have to check Borsig's earnings. If earnings compared to book value are in line, then there is no change. Only if earnings are bad or reduced will there be some adjustments. But currently, based on the forecast earnings of Borsig of about €60 million a year, no impairment is expected at all.

We are discussing with KPMG how to revalue Borsig's assets, such as machinery, factory and intellectual property. A revaluation can bring its net tangible assets to a much higher level. Then, the goodwill will be smaller.

> **Our procurement is very strong here. We buy from the best sources around the world. We add value to our global operations by passing on considerable savings with better sourcing power. — Lee**

**But since Borsig has strong cash flow and a plant running at full capacity, why did the previous owners sell?**

Borsig was held by a private equity firm, which had a time line of three to five years. It was close to its fifth year already.

**How do you rate KNM against its peers?**

We are among the top 10 in the world. Our peers are FMC Technologies, Doosan Heavy Industries and GEA in Germany. There are also Cameron International and Natco Group, both listed on the New York Stock Exchange. Our vision is to be the top five company by 2010.

**Does this mean KNM will have to continue acquiring to achieve its vision?**

We are not in a hurry at the moment. Our model is to grow and go up the value chain in our industry. We have three core strategies — to go up the value chain, meaning we have to add higher end-products to our portfolio. And to do this, we have to do M&A because R&D takes a long time. We started as an oil and gas company and we moved to petrochemicals. Now, we have mineral processing and we are looking at the desalination business by providing the equipment. We want to penetrate the subsea, deepsea and nuclear industries in the future. For the next one year, we will be digesting Borsig and growing the company.

**There were also concerns about KNM's high receivables. Please clarify.**

Our receivables are going up because we are bigger now. And the way Borsig works, it bills quite early and more frequently, whereas our milestone is much longer. We have more work in progress (WIP) and less receivables. In our 2Q results, our WIP came down but receivables went up, largely due to Borsig as it bills faster. We work first, then we bill. Generally, our WIP is about 20% to 25% and Borsig's is about 10%. Borsig gets advance payments from customer but it also pay its suppliers in advance to get better prices.

**With oil prices coming down, will demand be reduced?**

It is a good thing that oil is coming down. Oil at US$150 is affecting the global economy and oil demand will come down. With a reasonable price of about US$80 to US$100 per barrel, there is stability and demand will continue to grow and our projects will continue to grow. What we don't want is for the oil price to crash to US$40 to US$50 per barrel. If oil price goes to US$150, oil companies make immediate profit because they sell oil. But we are selling equipment that takes one to two years to complete. We are depending on the projects of oil companies, which could have a five-year timeframe. If cost increases, we can pass it on to our customers. But we have to control our margin. After customers give us an order, we lock in our cost and margin. But we are responsible for managing our margin.

**How do you manage increases in raw material prices?**

When we get our orders from customers, we pass on the cost of material quickly to the main supplier. But before we get the order, we would have negotiated with our supplier.

**What is your target for European companies on the back of a slowing global economy?**

The oil and gas market is still very strong. There is no slowdown at the moment. For example, in our tender book, there are more projects globally — Australia with LNG projects, African countries such as Algeria and Nigeria, the US and Canada, the oil sand project. In the Middle East, Kuwait has a US$10 bill ion project. The Aramco is building an integrated complex. It is a huge tender, with about six engineering, procurement and construction packages in the bidding process now. We are gradually submitting our tenders for the Aramco project. One or two packages have gone in already.

**What is your current gearing level?**

Including the €150 million loan, our gearing was about 0.48 times as at June 30.

**Do people compare KNM with Transmile?**

That is history. When Transmile happened, people started questioning us. But there is no such thing as Transmile in our business. We are dealing with multinational corporations which are Fortune 500 companies or oil companies. These companies don't issue fictitious invoices. We are running a tight ship. I started the company and grew it. I will not let any hanky-panky destroy the company.

**Does KPMG audit all of KNM's overseas units?**

KPMG audits most of them, except for M&A targets. We use KPMG for those companies that we set up, whereas for companies that we acquire, if existing auditors are acceptable to us, we keep them for one or two years before we convert to KPMG. When we can, for these M&A companies, we switch over to KPMG. Those we cannot switch over, we insist on the top three audit firms or top of the second-tier firms. Italy is done by KPMG while Borsig is done by PwC but within a year, we will convert to KPMG. Meanwhile, Brazil accounts are done by BDO. Our units in Australia, Canada, Indonesia, Dubai and almost everywhere are being audited by KPMG. KPMG is very conservative; if we get another party to audit, it will insist on doing a review. It won't accept third-party audits.

**KNM's operations are worldwide. It is natural to wonder how KNM will enhance earnings from all its operations, especially when it is based here. Do you run all the operations in the different countries?**

Since we went on the acquisition trail about two to three years ago, many initially opposed our move. But we have proved that we are successful in managing the companies around the world. We've got dedicated management teams in those operations and we add a few people from here and synergise some of the common functions that we think we can improve on, such as procurement, treasury management and financial control. For example, our procurement is very strong here. We buy from the best sources around the world. We add value to our global operations by passing on considerable savings with better sourcing power. Generally, European companies do not have a good source. They rely only on European suppliers.

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All our companies have generated strong results. For example, the Italy unit has doubled in terms of growth from a company that was at break-even level before we took it over.

**Would you consider listing KNM overseas, given the poor market sentiment here?**

We started in Malaysia. In the past, we were trading at a very good price — at 20 times, when the industry average was 15 times. Now, it depends on how the Malaysian market recovers. Everyone has taken a beating but we were the last to suffer. Big volumes are good. It shows strong buying as well as selling interest.

**How does KNM manage the currency fluctuations, given that most of its business comes from overseas?**

We hedge all our currency exposure upfront. Our cost in ringgit is the labour portion, which is 15%. When we get orders, we hedge our revenue portion if it is not in US dollars. We adopt US dollars as the functional currency. There is no risk of currency exposure because of our strict policy. If we get an order in US dollars and buy materials in euro, the sales people who secured that contract will inform treasury of the contract. Treasury will then hedge the contract value and the materials. Treasury will call the banks and buy euros upfront. We have a 20-member team in our treasury department.

**What will be the most favourable situation for KNM? Which currency's appreciation will benefit KNM the most?**

We prefer the US dollar to appreciate because we get more profit in terms of value, but the percentage of profit will not change. If we get a US$200 million contract and our gross profit is, say, 20% or US$40 million, when converted to ringgit, the figure is bigger but in terms of percentage, it is still the same.

**If this is the case, why is it that when the US dollar was depreciating, KNM's share price was still doing well?**

Although the US dollar was dropping, maybe the portion of the operations was slightly lower but euro was appreciating and our operations in euro went up. When we converted for consolidation, the adjustments were made. Our revenue is currently 40% in euro and almost 50% in US dollars, while 10% is in other currencies. Our euro portion is growing due to Borsig. E