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00:00:00 Operator

Ladies and gentlemen, welcome to the first half 2019 conference call of Traton SE. At our customer's request, this conference will be recorded. After the presentation, there will be an opportunity to ask questions. May I now hand you over to Rolf Woller, Head of Investor Relations who will lead you through this conference. Please go ahead, sir.

00:00:33 Rolf Woller

Thank you very much. Welcome to everyone from Munich. Welcome to our half-year conference call on the occasion of the half year results. And together with me in the room is our CFO, Christian Schulz. And then we have Annette Danielski, our Head of Finance, our Head of Legal, Klaus Schartel, Julia Kroeber-Riel, our Head of Global Communications, the IR team and Florian Stolte, the assistant of Christian Schulz.

Before I hand over to Christian, I must mention a couple of housekeeping items. The first one is that you should have received the presentation titled H1 2019 Results. You should have also received the press release, as well as the half-year results report. If you have not received it, you can download it from our website, and there under the IR link, which is IR.Traton.com. And further on I should draw your attention to the disclaimer, which is on page 2. You should already be able to view it via the webcast. I will not read through it, but you should definitely carefully read through it before you continue in this call. This is our first analyst and investor conference call as a stock listed company, and you see here very proud people sitting in the room. We hope that the temperature in your locations has moderated down as well as it has cooled off a little bit here in Munich. And with that, I hand over to Christian, who will guide us through the 23 pages, and afterwards we are of course happy to take your questions. Please go ahead.

00:02:01 Christian Schulz

Thank you very much, Rolf, good afternoon ladies and gentlemen. Before we go into the presentation slides, let me **briefly wrap up** our first half of 19. We had a good start into the year on the backing of a healthy market environment. Looking at our Industrial Business, we were able to perform in line or even outperform some of our core markets during the first six months of 2019. Our truck deliveries grew by slightly more than 8%, while our topline in Industrial Business grew by 10% on a like for like basis.

Operating profits of the Industrial Business was up by 28% on better volumes and product mix, as well on declining R&D and the end of the dual production work from new truck generation at Scania. We ended the first half of 19 at 7.6% return on sales in our Industrial Business, this represents an increase of 105 base points to former year's levels. Earnings after tax in Industrial Business was up by 64%, driven by better financial result and a tax rate well below 30%. Net cash flow in the Industrial Business in the first half of 19 came in at -194 million EUR, that was obviously an improvement of 182 million EUR compared to the first quarter, where you might remember we stood at -376 million EUR before the sale of Power Engineering. As you can see, we are moving in the right direction with cash flow as well.

Our net liquidity position after the first six months of 19 improved to 689 million EUR in the Industrial Business. And looking at the Financial services businesses, it saw a growth in the first six months of 19 in the net portfolio of more than 17% year over year, and 9% versus end of the year 18. Return on equity remained at very healthy levels in the first half of the year.

All in all, the TRATON Group came in at 7.9% return on sales and thus well above our targeted range for this year which is, as you may know, 6.5 to 7.5% return on sales. We hereby fully confirm our outlook for 19 and even think that we could end the financial year 19 above the mid-point of our target range.

What are the factors that we have to take into account for the second half of the year? First of all, further softening of the economy indicators and there we are referring to the latest IMF data, shows that global growth outlook is a little bit more conservative for Europe in particular, the softening order intake which we at the moment in time qualify as a moderation from previous strong quarters and thirdly the ramp-up of the new truck and bus generation at MAN in the later half of the second half year. Overall, we remain confident for the financial year 19. To summarize it, flexibility is the name of the game for the second half of the year and the further execution on our synergy plan. With that let's go into the presentation on page 4 and discuss the **group highlights**.

You can see in here, deliveries are up 10% in the first half of the year, split by 7% in Q1 and 12% in Q2. While MAN's dynamic slightly decelerated Scania saw a strong pick-up in sales, VW Caminhões e Ônibus sales revenue activity as well accelerated from Q1 to Q2. TRATON Group revenue increased by more than 10% on a like for like basis and operating profit benefited from a slight improvement in gross margins with 20.5% in the first half of the year, compared to 20.3% in Q1 and 20.7% in Q2. The distribution costs grew slower than the sales after the successful introduction of the new truck generation in Scania and also admin expenses declined year over year. Therefore the RoS improved from 7.6% in Q1 19 to 8.2% in Q2, amounting for the full half year at 7.9%. The net income in the first half of 19 after minorities grew disproportionately to sales revenue and increased more than 60%. The main reason for this is the better financial result, which improved from -284 million EUR to -31 million EUR. Basically two factors, one is the remeasurement of the put option and compensation rights for minorities, which were included and the 190 million EUR positive from a reversal of impairment losses in our investment in Sinotruk. Net cash flow in Industrial Business after the first half totaled 1.784 billion EUR, however, this includes, as you might remember, also from Q1 the 1.978 billion EUR for the sale of Power Engineering. Adjusted for that, as I said before, cash flow in the first half of the year was -194 m EUR and shows a significant improvement between Q1 and Q2.

Other than that, obviously as Rolf pointed out before, since almost four weeks now we are a listed company, our free-float now amounts to 10.3%.

Let's have a look at the **Industrial Business**, which is to a certain extent part of the overall group then. The order intake continued to soften and declined by 5% in Q1 19 and close to 7% in Q2 19, bringing it down now to 6% after the first six months. The order intake for trucks went down as well, the order intake for buses declined by 12%. Mainly driven by the European Union, in particular declines in Germany and substantial reductions in the UK, which were partly offset by other markets. The demand grew in Brazil in the wake of the economic recovery, resulting in a substantial increase in order intake down there. There were also substantial declines in Russia, India, and Turkey. As far as order intake in the bus business is concerned, for the first six months it was 11,283 units. Order intake in the EU region was noticeably higher than in the previous year, as well as in South America especially in Brazil. The overall decline of the orders for buses is mainly driven by Mexico, Iran and Saudi Arabia. The book-to-bill in the Industrial Business after six months remains on healthy levels, and stood at 0.98, if you remember it was 1.13 by 31 March and it declined to 0.85 in Q2.

We are going to have a look at the brand development later, but it is fair to say that Scania in Q2 concentrated on margin-rich business, which was the main driver for the decline in the book-to-bill. And however when it comes to the overall group we think that we are still talking about moderation in demand after some very extraordinary quarters that we have seen in the recent past, and as mentioned being a cyclical company, we are used to the fact that the cycle will come sooner or later anyway, so we focus a lot on the flexibility in our business system and prepare for other things that may come in the future. Looking at Financial services, net portfolio was up 9%, penetration rate still above 40%, revenue outpaced net portfolio growth slightly and was up by 10%.

If you go to page 6, here you can see our revenue development if you take Q2 18 to Q2 19 you can see that we increased 8.7% for the first half of the year. As you can see on the right hand side of the chart, it is 7.4% overall.

If you go further to page 7, which is the group deliveries, one can see that in Q2 18 we were on 58,913 units. That has substantially been increased by 12.3%, on the level of 66,173, all over now at the first half of the year we are trading on 123,336 units, which is 10% increase.

When it comes to the **markets**, we've picked on page 8 the core markets that we do see for TRATON Group, which is obviously Europe, which has seen substantial growth and also we are performing quite strongly in the market. Then also Germany, this is a very solid position, Brazil there is a strong recovery as outlined in the introduction.

On page 9, when we talk a little bit about the **order intake**, as you can see in here, the development compared to previous year is slowing down quarter over quarter, and it is -6.7% compared to Q2 in 18. As you can see here in the grey shadow, on the left hand side, it is the 1.13% that we still had in Q1 when we met you in in this call. Book-to-bill has softened down to 0.85. All overall, we as I said before, think that this is a moderate slowdown. Keep in mind that we have seen quite strong quarters with Scania leading the segment above 16 tons in the European market for the first five months of the year, so that to a certain extent this is also a normalization. But as I said before, economic indicators are slowing down and we also see that the demand is a little bit down there as well.

When it comes to the **deliveries**, though on page 10, you can see that we basically, on the foot of the very strong order book that we saw in the past, that total deliveries increased, and we put it in here for the sake of completeness page 7.

When it comes to revenue on page 11, you can see that **sales revenue** in the Industrial Business increased by more than 10% in the first half of the year, as said before, +9.4% in Q1 and another 11.3%, as you can see in here, in Q2. Operating profit benefited from the improvement in gross margin. Distribution costs grew slower than sales after the successful introduction of the new truck on the Scania side, and therefore the RoS improved from 7.3% in Q1 19 to 7.7% in Q2, amounting to the referred 7.6% after the first six months. When it comes to primary R&D costs in the first half year, it was around 663 million EUR or 5% of sales, about 70 base points below the first half of 18. And basically that was it for this page.

If you go on page 12, a little bit more detail when it comes to the brands. Let's take MAN first. You see in MAN Truck & Bus we saw sales revenues increasing by 6% in Q2, whereas deliveries were up by 8%, basically driven as one of the main effects by the TGE. Bear in mind that the TGE from a mixed perspective is dilutive to sales and also RoS terms. The return on sales for MAN in the second quarter was on the level of 4.5%. Scania, as you can see saw sales revenue increasing by 14% in Q2, whereas deliveries were up 16%, mainly driven by the truck business. The return on sales in the second quarter was on a level of 12.2% and therefore on a like for like basis, meaning industrial truck and bus benchmark in terms of profitability in our industry in the second quarter 19. Caminhões e Ônibus saw sales revenue increasing by 34% in the second quarter, whereas deliveries were up 23%. The RoS in the second quarter was at 2.2%.

If you go to page 13, which is the **net liquidity**, you can see that the net liquidity has improved to 689 million EUR after six months. It stood on 604 million EUR when we discussed on 31 March. Improvement was driven by the net cash flow, which was positive in the second quarter as I said before on 182 million EUR. The driver for the better net cash flow compared to Q1 was better earnings before tax, and some improvement on working capital on a year-over-year basis. The main driver for the improvement in the second half of the year will also be working capital, as we have extensively discussed during Q1.

If we go to page 14, you can see the highlights on the **MAN** side. We can see that vehicle sales have been up 10%. Order intake a little bit softening in the first half of the year and the operating profit declined by 11%. Basically, what we could achieve in higher sales revenue was off-set by higher expenses, mainly depreciation as well as the first things that we have in mind now for the new truck generation in Q3 and Q4. And please keep in mind that if you compare to the quarter in the previous year, there was an effect when the RIO business was acquired by one of the TRATON Group companies from MAN.

If you go to page 15, you can see order intake at MAN was down 15%. However the deliveries up by 8%, and the book-to-bill on the levels of 0.86. Sales revenue up 6% and operating profit, as I said before, declined in the view quarter-over-quarter. Return on sales 4.5%, and by this as we said in London, MAN still focuses on stable levels of its performance, which they also could then somehow prove in the 2nd quarter.

Scania, page 16, unit sales in trucks up 14%, growth mainly driven by strong growth in Europe and Brazil, with some headwinds again in Russia and substantial lower Middle East. Order intake declined. Two effects there: One is the general situation in the markets, the second one is that especially on the Scania side you saw a bit of a peak already in the first four to five months, which is now just normalizing. Operating profit increased by 34% benefiting from higher volumes and also price-mix, and positive effects on the FX side. As you can see here drawn on the chart, there was a positive effect of 57 million EUR. What is also very important for us with the introduction of the new truck generation is Latin America by the end of Q1, we now can say that we have fully introduced the new truck generation. And last but not least Scania, and especially the R450 have received the Green Truck 19 Award.

On the profitability, just to round it up here, order intake 3% down. However, you can see deliveries significantly up 16% and to a certain extent I think it is fair to say that Scania was a victim of its success in the delivery as well when it comes to the book-to-bill ratio here if you keep the delivery numbers in mind. Return on sales 12.2% and there also you can see what we said in the beginning of the year in Q1. You can see that Scania is on the road to recovery and as a matter of fact the second quarter was the benchmark for the truck industry.

Caminhões e Ônibus briefly, situation in Latin America is improving. We could also see that unit sales are up 15% in the first half of the year, and nevertheless export sales have declined. Demand was sluggish in some export markets other than when it comes to Brazil. Operating profit has benefited from the increased revenue, nevertheless we saw that we had a negative FX effect and also have had higher depreciation charges which impacted the second quarter. We also had a positive effect by the release of restructuring accrual that was done in the second quarter and besides those effects we think that Brazil and Caminhões are going to be on the stable track for the second half of the year.

Good. **Financial services**, page 20. If you look there, sales revenue by 30th of June up 10.3%. This reads as a 13% growth in Q1 in 19 and 8% growth in the second quarter. Return on sales very satisfying, levels close to 17% in the first half of the year and 17.1% in the second quarter. Page 21, net portfolio, you can see it grew 17%, penetration rate as you can see remained at a very healthy level, and the equity ratio for the Financial services businesses was at 8%.

On the following pages I would like to draw a couple of words on the **outlook**. See page 22, this is how we see the world on the market and that basically means our picture remains unchanged. If we look for the total perspective for the year we see Europe slightly decreasing in 19. Germany, which represents about a fifth of the European market, is still slightly up. Brazil we do expect substantial growth, especially in the second half of the year 19. And I think if you look at that page, that is not very much different from you heard elsewhere in our industry in other talks.

Page 23 leads us now to the outlook for the TRATON Group and I would like to fully confirm our outlook for the year 2019. We expect a slight increase in the deliveries, our sales units, for 2019. We expect group sales slightly above prior year, and group return on sales in the range of 6.5% to 7.5%. And we see us above the mid-point in 2019. I alluded to the main reasons for our confidence in the introduction. With that, I would like to conclude my presentation. And I hand back to Rolf and we are happy to take your questions.

00:21:02 Rolf Woller
First to the moderator, and then we are happy to take your questions.

Q AND A SESSION

00:21:36 Graham Phillips (Jefferies)
Yes, good afternoon. I have three questions, please. First of all on Scania. Can you talk a little bit about the outlook for the second half and the decline, albeit modest, in orders in the second quarter and were there any costs left in there for the new truck generation as you rolled out across all regions? I'll follow up with the other questions shortly.

00:21:57 Christian Schulz
Okay, so first of all, on Scania, as I said before, you saw Scania very strong, in the first four to five months of the year given that, as we discussed last time, Graham, that we have had the supply chain stability in the fourth quarter of '18. So there was a spill-over effect, and what you see now for the second half of the year, to a big extent, is the normalization of that spill-over effect in the first half of the year. Other than that, it is in line with my comments on the market outlook for Europe. Secondly, as I said, the new truck generation was now also introduced in Latin America. By this, we made huge progress in second quarter with the costs of the dual ramp-up production that faded away and this effect will be completely done by the end of the year.

00:22:40 Graham Phillips (Jefferies)
Okay, so you are not planning lower production in Europe in the second half.

00:22:44 Christian Schulz
We will at the, let's say, in the second part of the second half year, have some reduction in the working days on the Scania side. But as I said before, that is mainly driven by the extraordinary demand that we had before, so we will have some adjustments there, but that is really minor.

00:23:07 Graham Phillips (Jefferies)
Okay, Thank you. On MAN, and apologize if this is actually buried in the releases somewhere, but was the RIO profit sale in the first quarter or the second quarter, and again, ramping in to the end of the year with the introduction of a new truck generation, what is the timing on that?

00:23:22 Christian Schulz
Okay, so first of all, it was the second quarter last year, in ’18, on the MAN side, the RIO effect, the 19 million operating profit. And the introduction of the MAN new truck generation will be started at the end of Q3 in the due course of the fourth quarter with the introduction of the truck into the market in February with an introduction event in Spain.

00:23:52 Graham Phillips (Jefferies)
Okay, thank you. And, just finally, on VWCO, so if we take away that provision release, the business actually was in loss, because we understood that this is very asset light business, very flexible, why has that swung into loss and what is the outlook in the second half?

00:24:10 Christian Schulz
So, first of all, I tried to say it before, we had an negative FX effect there around 10 million-ish. And that was one effect and the second one is higher depreciation of the new truck generation that is in there. We had some extra effects there. But as I said before, for the second half of the year we see that’s gone. And also in the Q2 we had some costs that have been inflated. So over all, a mixed second quarter but when it comes to the remaining half year of Caminhões e Ônibus, we see it progressing.

00:24:42 Graham Phillips (Jefferies)
Okay, thanks very much.

00:24:51 Daniela Costa (Goldman Sachs)
Hi. Good afternoon. Thanks for taking my questions. I have three as well, if possible. The first one, I wanted to understand when we look at the MAN margin change year-on-year, shall we think about that health ball park what we should expect over the coming quarters given the dual production and the introductions? That is my first question.

00:25:16 Christian Schulz
The answer is somewhat yes. As I have given also in the discussion in London and also in the investor talks and outlook, I mean MAN is now in that phase of the introduction of the new truck. So if they are in that corridor between 4%, 4.5%, 5% that is, I think, an achievement. So that is pretty much what you have there.

00:25:38 Daniela Costa (Goldman Sachs)
Okay, thank you. And then I wanted to see if there are any updated thoughts regarding Financial services for MAN and where is your thinking standing at the moment regarding that.

00:25:53 Christian Schulz
Well, we are in constant discussions with Volkswagen on that. The project team is working jointly with VW on that. Keep in mind it is just four weeks that we were listed, so everybody was very much focusing on that. Progress is made already here, but nothing where we now can say that the impact on funding, and this is how we do that, is a little bit too early, so it is work in progress.

00:26:13 Daniela Costa (Goldman Sachs)
Thank you. And then finally also on MAN regarding minorities, if you can give us an update on the intentions there.

00:26:19 Christian Schulz
Of course. Pretty much what we have said in the prospectus, there are basically three options: leave it as it is, second one is the regular squeeze out, the third one is the, let’s say, merger squeeze out option as outlined in the prospectus. There is no updated information or decision on that.

00:26:33 Daniela Costa (Goldman Sachs)
When should … or do you have a time line on when we should expect that? Or completely unpredictable for the time being?

00:26:39 Christian Schulz
Nothing to add on what I said.

00:26:41 Daniela Costa (Goldman Sachs)
Okay. Thank you very much.

00:26:49 Tim Rokossa (Deutsche Bank)
Good afternoon, Christian, Good afternoon, Rolf. Thank you for taking our questions. I would also have three, please. The first one is just to really understand your comments about the economic slowdown that you are seeing, Christian. Is that something that really worries you and in your experience, how long does a cyclical weakness like this persist, and have you taken any measures to prepare for this or is it just something that you are watching and may react to it? That would be the first question.

00:27:18 Christian Schulz
As I said before, we see signs of softening, we basically look a bit closer now into the second half of the year. The question is always how does your order intake develop. I referred to that in my presentation. Second one is what do we see in third and fourth quarter then on used truck development. And the third indicator is what happens to the order intakes in the US which has come down, which is an early indicator also for more substantial decline that may come in future.

In Europe, for the time being I would see a kind of a normalization effect on our end, as I said before, with slight moderate indicators. But we will monitor that closely.

And of course, as I said before, as a cyclical company, we need to be prepared if a cool-off comes in the market, so what we do have is, we have extensive time accounts, for the time being we have flexibility in our plants in Sweden, France, and also here in MAN with temp workers. So basically, we have our flexibility to look at in place and as I said before, we are prepared if things would go worse, but we do not see that yet. As I said before, the order intake shows a little slowdown, but not something very we say there is now big depression.

00:28:31 Tim Rokossa (Deutsche Bank)
Okay. Great. Thank you. You spoke again about the used vehicles, you also said it this morning on the press call and also said it in your highlights. Can you just update us again how that really impacts you from an operating perspective? And what is causing this weakness at the moment?

00:28:46 Christian Schulz
Well, I mean, in our case we have just had the changeover in the new truck generation in Scania. We are at the edge now of changing MAN- So basically we do see that couple of used trucks are coming back. We just watch how long do they stay there, how are prices developing. So far, as I said before, something where we manage. It is not something where we say there is a huge issue coming up, but it is something where we see that the movement has shifted compared to last year, for example.

00:29:18 Tim Rokossa (Deutsche Bank)
Okay. Great. And finally, just coming back on VW Brazil again. Graham already touched on this and you already said in the second half you see some improvements. But given how this business model worked in the past, if you would have seen growth similar to that you have now seen in H1 or even in Q2 when we talk about 34% growth, you would have seen substantially different profit margins. And I know there is a number of factors here. Will all of them disappear over time or do you think just given that the market is still at a relatively low level, despite all this growth, it will just simply take a longer time to come back to higher margin levels, as you frankly also indicated during the IPO process?

00:30:00 Christian Schulz
Let me put it this way: I think first of all it is important to remind ourselves that we have the consortium modular. That means you have a lower vertical integration. So the moderate swing down you have seen in the downturn, if you have an upswing you don't

have this huge impact if you don't have the deep vertical integration. That is one effect. Second one is, we do see, especially in Brazil, that the extra heavy market is going, at the moment, to improve, which is not typically the market of Caminhões e Ônibus, which is more light and medium duty. So as far as the Q2 effects that I described on, will maybe fade away. We need to see what will happen in Brazil now after the first reforms have been approved by the parliament. Will that give an impact on the economy as well that also light and medium duty transportation will see a recovery and by this then you will also have a momentum also for Caminhões e Ônibus.

00:30:46 Tim Rokossa (Deutsche Bank)

Great. Thank you very much, guys.

00:30:59 Michael Raab (Kepler Cheuvreux)

Yeah, hi everyone, Mike Raab, Kepler Cheuvreux. Also guys, three questions. First of all, the last time we spoke with your official reporting, i.e. Q1 2019, you mentioned that the fresh product of Scania started to unfold favorable effects on your pricing. Are you continuing to see this? Secondly, in terms of the cost flexibility you claim to have, how much, by how much, let's say, in percentage terms would you be able to reduce your costs within a three to six-month time frame if required? And then finally, getting back on the signs of a potential economic slowdown, you mentioned seeing, when it comes to the decision-making for re-establishing Financial services for MAN potentially, would any slowdown impact your decision-making, either in terms of timing or perhaps in terms of construct or the type of solution you would go for, please?

00:31:56 Christian Schulz

Okay, Michael, so let me take the first question. The pricing we referred to in Q1 is still valid, so we still see, yes that is the case. Secondly, when it comes to the flexibility, we do not comment in detailed numbers when it comes to flex workers or flex accounts, the only thing I can say is we are prepared, given the good business we had that our time equivalent and our time accounts are filled up and that we do have good flexibility to what see is ahead of us in the next six to nine months.

When it comes to your third question on Financial services, we are in very good discussions there and I think these will not be immediately delayed because volumes would cool off. That is a more substantial long-term decision that successful truck manufacturers should have, in any event, Financial services division.

00:32:45 Michael Raab (Kepler Cheuvreux)

I'm asking because theoretically you could imagine a situation where you are basically, hypothetically assuming again Financial services for MAN and you are doing this right into a downturn which typically has negative ramifications for residual values. So just wondering.

00:33:03 Christian Schulz

Alright. Okay?

00:33:07 Michael Raab (Kepler Cheuvreux)

Thank you.

00:33:14 Dorothee Creswell (Barclays)

Yes. Hi there. Thanks for taking my question. I have two actually, with regards to MAN. The first is, I wondered if you could give us an update in terms of market share development in Europe. If I look at slide eight, it looks like you're still gaining share, but it is not quite at the same pace as it was in Q1, and in particular, it seems like the out-performance in Germany just isn't there anymore. And perhaps you could just give us an update on the other European focus markets. And perhaps you could also give us a feel for new truck pricing for MAN. I know you referred to the used vehicle market already, and that is a little more challenging, but what are the dynamics for MAN in the new truck business? Thank you.

00:33:49 Christian Schulz

Okay Dorothee, I mean, if you go and compare the ACEA >16t official data with our regional deliveries per brand. You can see when it comes to the first half of the year, in Germany MAN's deliveries were on +12%. When it comes to France, MAN below the market, TRATON saw strong gains in France. When it comes to Italy, we are making small progress there. All in all it comes back to what I said in the Q1 discussion: you need to have a new product and this is now at the doorstep in the next three to six months. And then it is important that we come in these markets with the new sales strategy, with the new truck. That is the key for the growth. Keep in mind, the truck we are currently working there in these markets is still the almost 20-year-old product lineup that we do have, and we need to have the new product in order to get the better position in there.

00:34:50 Dorothee Creswell (Barclays)
And with regards to the pricing?

00:34:55 Christian Schulz
Same thing. It is important now, we have had the model year ’19, that was introduced a couple of weeks before with the new engine update and this is performing okay. So product positioning is positive there, which is a good base for the new truck that might then come from Q1, Q2 next year onwards.

00:35:16 Dorothee Creswell (Barclays)
Thank you.

00:35:23 Graham Phillips (Jefferies)
Thank you taking my follow up. I just reflecting back on your confidence now that you think you could be above the mid-point. I know you did sort of indicate a few things, but perhaps you could be just a little bit more specific. What has changed perhaps over the last six to eight weeks that has now given you that confidence on now thinking you can exceed the midpoint.

00:35:45 Christian Schulz
Well, first of all, we now got proof by the second quarter, with our performance there and see that the first half of the year obviously is on the RoS level of the 7.9% for the group. So that is the first thing. And you know, when it comes to the second half of the year, even if we see markets on the Scania side still a little bit, let’s say, normalizing, keep in mind what I said before, the IMF has said you never know what happens in Q4. You see we are at the edge when it comes to the introduction of the new MAN trucks, so you can’t simply say, let’s take first and second quarter and multiply it by two. And you know there is that order intake that I referred to in the beginning. So this is why we say, look, we have actuals on 7.9% for the first half of the year, we are quite confident, but still we cannot give a different guidance in an upper segment because we still need to watch out the softening of the market, and see how we ramp up the new truck generation, Graham.

00:36:47 Graham Phillips (Jefferies)
Thank you and I guess it also does include the provision release for the Brazilian piece in your guidance?

00:36:53 Christian Schulz
Yes.

00:36:55 Graham Phillips (Jefferies)
Okay. And just finally, one housekeeping. The 57 million EUR FX positive, can you give us an idea of the split between first and second quarter? For Scania that was.

00:37:03 Christian Schulz
28 million EUR, 29 million EUR, Philip.

00:37:05 Graham Phillips (Jefferies)
Okay.

00:37:06 Christian Schulz
Graham. Sorry.

00:37:08 Graham Phillips (Jefferies)
Thank you. That’s all right. Thanks very much.

00:37:17 Kai Müller (Bank of America Merrill Lynch)

Hi. Thank you very much for taking my question. The first one is on your deliveries in Europe. We've heard from one of your competitors that there was, before the introduction of the new tachometers, which offers sort of a pre-buy. Can you give us a bit of color on how much that affected you, specifically, in the market, both from MAN and Scania as well? And how you see that coming through in July, August, in Q3, especially in terms of the softness?

The second point in terms of your working capital: you now said, obviously on the Scania side, you're now fully up and running on the new trucks. How much working capital release that you have shown is related to that? And can you give us a bit of color if you still have any working capital issues with regards to the ramp up of the new truck generations within MAN?

And then, as a last comment / question, there were some comments from your team, no intention at the moment to buy Navistar, but at the same time savings are progressing very well. Can you give us a bit of color in term of where we would actually see them coming through or are they more coming on the Navistar side and you then see them through your associate earnings, benefitting through that?

00:38:36 Christian Schulz

Okay, so let's take it this way. The digital tachograph that is somehow baked in, in a, let's say, pre-buy effect in second quarter, it's hard to grasp and say the effect in Scania is x and the one in MAN is y. So that it is simply impossible for us to grasp, so I need to disappoint you on that one.

When it comes to working capital, we have seen improvement in second quarter, but still we have our challenges on both MAN and Scania. Currently in the second half of the year to come back on our cash flow, we need to continue the work that we have done there, but the pipeline, especially on the Scania side, is easing up and also on MAN we are making progress. In the second quarter, as you can see, we have the positive cash flow which is quite some progress to Q1.

And when it comes to Navistar, well, look, I cannot speak for Navistar here, obviously, but if you listen to Troy Clark and Walter Borst, they have indicated that the purchasing joint venture effects have been in their favor and that they were satisfied with that when they had their last capital markets day. So that was pretty much on their end.

When it comes on our end, of course, the nature of the strategic alliance is that you get agreement on components. And there you have shared funding and you have added volume to your platform which is obviously material cost optimization for the leading brands in Traton. So those effects are baked into the components and this is something we do not disclose yet because it is also at the discretion of Navistar to announce at a certain point in time, which components of TRATON they will use and when they would like to release that to the market but there the improvement is on both sides, obviously.

00:40:26 Kai Müller (Bank of America Merrill Lynch)

And have you already seen some of that coming through or is that more a story that is still continuing and helps you more for next year?

00:40:33 Christian Schulz

You know, we do see that also down the road, because so far we are discussing which components might come and obviously working on contracts. So those have not yet been baked in because deliveries are not yet with the new components established. So this is something you will see in future as Navistar takes the decision to take a component or not.

00:40:51 Kai Müller (Bank of America Merrill Lynch)

Perfect. Thank you very much.

00:41:00 Adam Hull (MainFirst)

Hi. Good afternoon. Thanks for taking my question. I just really wanted to dig a bit deeper on free cash flow. As you have turned a bit positive in Q2. But if I remember correctly, I think you were talking about 30 to 40% cash conversion for the full year. Just update us if that is still in place and really help us through in terms of some of the key levers there. Is it working capital inflow in the second half? Is it lower cash CAPEX, R&D etc.? Maybe really help us because, clearly, that is a big, important factor here. And maybe, just in terms of the mid-term, is that a normal 30 to 40% or can you really increase that significantly in the next two to three years, just to get a feel on the cash flow? Thank you.

00:41:43 Christian Schulz

Okay, so first of all, the question you asked is answered with yes. We are still aiming for the 30 to 40%. If you see second quarter, you could mathematically derive that cash conversion was around 50% for the second quarter. One side, as I said before, the earnings improved. Second is working capital, especially there the inventories. And this is where the major lever comes in the second half of the year. We have introduced, both in Scania and MAN, cash flow task forces and you could see already trucks coming down in second quarter. And now we will see that also in Q3 and Q4. And down the road, it is a question, you know, we will work hard on our synergy targets and on our profits and if profits go up and if you manage your working capital you have a good position to also improve your cash conversion - in the mid-term.

00:42:35 Adam Hull (MainFirst)

Would you say at the moment, inventories and your working capital, it is clearly too high, is that how you see it? Or has it just to do with the sales level? I mean, if you look at the days of selling, sales etc., it has run away a little bit, if I can put it that way, or not?

00:42:53 Christian Schulz

I mean, it is still a below from last year. I mean, we talked about, in Q1 and also in London that we have had our challenges in the supply chain with the ramp up of the new truck generation in Scania. Since now, in Q1 of this year, we still have introduced a truck in Latin America with six weeks being down in production and a change over. So inventories are, on the Scania side, still quite high when it comes to the ramp down there. We worked that off in second quarter and then obviously with everybody in Sweden pretty much going into the summer break almost starting in June, I mean, also June is not a strong month for inventory reduction. So this is what you will see coming down. I would not say that what we have seen in inventories in the first half of the year is normal level. We still need to work our challenges down there.

00:43:40 Adam Hull (MainFirst)

Just maybe a follow up on MAN. I mean, with the new truck coming on board, as you said, you know, Scania had disruption. When, putting aside the market potential movements and coming down potentially, when would we think the low point operation of the launch period, as it were, is that sort of a later part of 2020 or into early 2021, just in terms of that movement of bringing in the new truck which normally hurts you when you see a bit of new and old truck at the same time. Thanks.

00:44:10 Christian Schulz

My gut feeling would tell me that might be in the later part of 2020. But keep in mind, we learned a lot of things in the Scania ramp up so what we have now is Scania people working in MAN. We are making progress when it comes to the maturity of the program. So, I mean, we have already planned, in our plan that we will have certain hiccups in the production in there, and have prepared for that, but I would say we need to see that quarter by quarter.

00:44:38 Adam Hull (MainFirst)

Okay, thanks very much.

00:44:41 Christian Schulz

Welcome, Adam.

00:44:51 Rolf Woller

Thank you very much. That was 45 minutes. So, very good for the second time. We wish all of you a very refreshing summer break and hope it will not be as hot as it was here in Munich over the last couple of weeks. At the latest we will talk to each other on November 4, when the 9-month results are released. And in the meantime, whenever there are any questions not clarified, please get in touch with the people here in Munich, with Helga, with Thomas or myself. Keep us employed and we wish you a very refreshing holiday. Thank you.