Commented Slides / Conference Call H1 2017

SCHAEFFLER

Results H1 2017 Schaeffler AG

Conference Call
August 8, 2017
Herzogenaurach

Company Representatives

Klaus Rosenfeld, CEO
Dietmar Heinrich, CFO
Christoph Beumelburg, Head of Communications, Marketing & Investor Relations

Conference Call Participants

Ragab Gupta, Citigroup
Henning Cosman, HSBC
Kai Mueller, Bank of America Merrill Lynch
Julian Radlinger, UBS
Tim Rokossa, Deutsche Bank

Operator

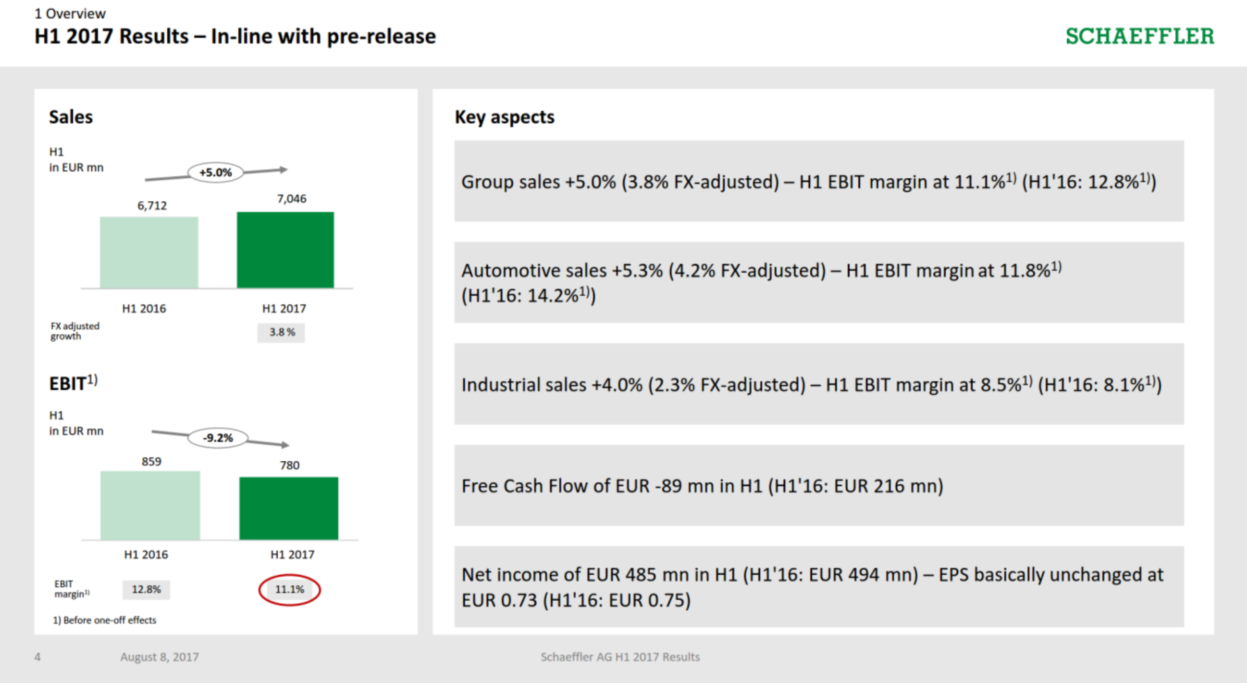
Ladies and gentlemen, welcome to the conference call of Schaeffler. This conference will be recorded. After the presentation there will be an opportunity to ask questions. May I now hand you over to Mr. Beumelburg who will lead you through this conference.

Christoph Beumelburg

Thanks operator. And welcome everyone to our 2nd quarter 2017 earnings conference call. Before we begin our remarks this morning, or this afternoon rather, I would like to point out that as usual we have posted our presentation, press release and also the quarterly financial report on our website for your reference. With me today are the Schaeffler Group's CEO Klaus Rosenfeld, and the group's new CFO, Mr. Dietmar Heinrich who will both lead you through the presentation. And thereafter, as usual, we will open up the call for your questions. With that I will now turn the call over to Klaus

Klaus Rosenfeld

Thank you very much, Chris, ladies and gentlemen, thanks for joining the call. This is our regular first half year results earnings call, as all of you know we pre-released numbers on 18 July and today there is not really much new to report. But we wanted to be complete and also give you the opportunity to ask questions with respect to the full set of numbers. The presentation that you have in front of you has a lot of numbers that were already communicated, so we will go through this rather quickly and then leave as much room as possible for your questions. I will take the first part with the overview and the business results and then Dietmar will follow up with the financial numbers, I will close the call with a little outlook and also the next milestones and dates that are relevant for Schaeffler.



Let’s start on page 4, you have the key numbers here for the half year. Once again, group sales up by 5% as reported, 3.8% FX-adjusted. Half year EBIT 11.1%, clearly after a disappointing second quarter and below the 12.8% in the first half 2016. We explained the main reasons to you, after our ad hoc message and the pre-release and in the final numbers, those numbers have been confirmed.

Automotive sales for the half year 4.2%, again after a disappointing second quarter. EBIT margin below 12%, 11.8%.

On the other side, Industrial continuing on a positive note with 3.2%, FX-adjusted growth in the first half around 4.5% in the Q2 and an EBIT margin that increased to 8.5% in the first half after 8.1%.

Dietmar will comment in more detail on the free cash flow, -89 million was clearly below the first half 2016, however, we are confirming our guidance for the full year with 500 million and expect a second half that will match this number.

Net income more or less unchanged compared to the previous year, first half and earnings per share more or less in line with last year, 0.75 versus 0.73.

You have on the next pages the numbers with also Q2 and Q2 2016, 1 Overview

Overview financial results H1 2017

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	in EUR mn	H1 2016	H1 2017	y-o-y	Q2 2016	Q2 2017	y-o-y
1	Sales	6,712	7,046	+3.8%[1)]	3,369	3,472	+2.2%[1)]
	Gross profit	1,920	1,953	+33	976	921	-55
	Gross profit margin	28.6%	27.7%	-0.9%-pts	29.0%	26.5%	-2.5%
2	EBIT adjusted [2)]	859	780	-9.2%	438	345	-21.2%
	EBIT adjusted margin [2)]	12.8%	11.1%	-1.7%-pts.	13.0%	9.9%	-3.1%-pts.
2	*EBIT adjusted margin [2)] Automotive*	*14.2%*	*11.8%*	*-2.4%-pts.*	*14.1%*	*10.4%*	*-3.7%-pts.*
2	*EBIT adjusted margin [2)] Industrial*	*8.1%*	*8.5%*	*+0.4%-pts.*	*9.2%*	*8.4%*	*-0.8%-pts.*
3	Net income	494	485	-1.8%	241	206	-14.5%
4	Free Cash Flow	216	-89	-305	328	41	-287
	Free Cash Flow underlying [3)]	202	47	-155	279	100	-179
5	Net debt	2,636	2,956	+320	2,636	2,956	+320
	Leverage ratio	1.1	1.2		1.1	1.2	

1) FX-adjusted 2) Before one-off effects 3) Free Cash Flow excluding non-recurring items

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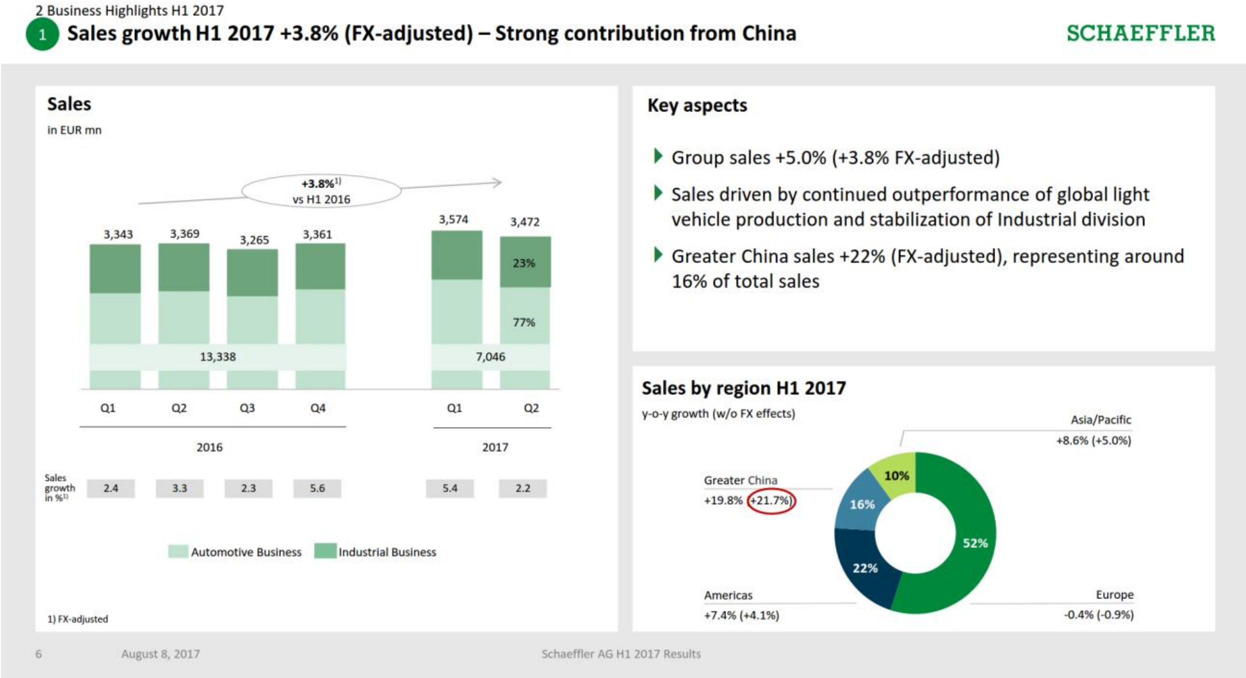
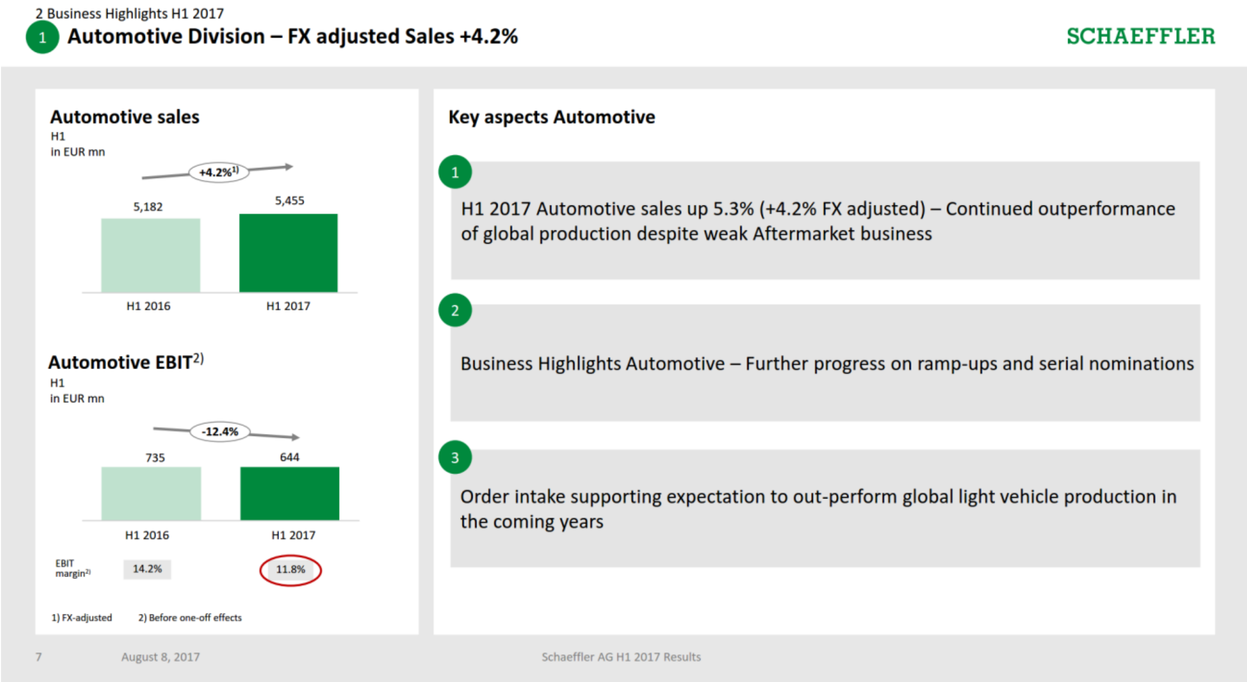
I will jump across this number and go immediately into page 6.



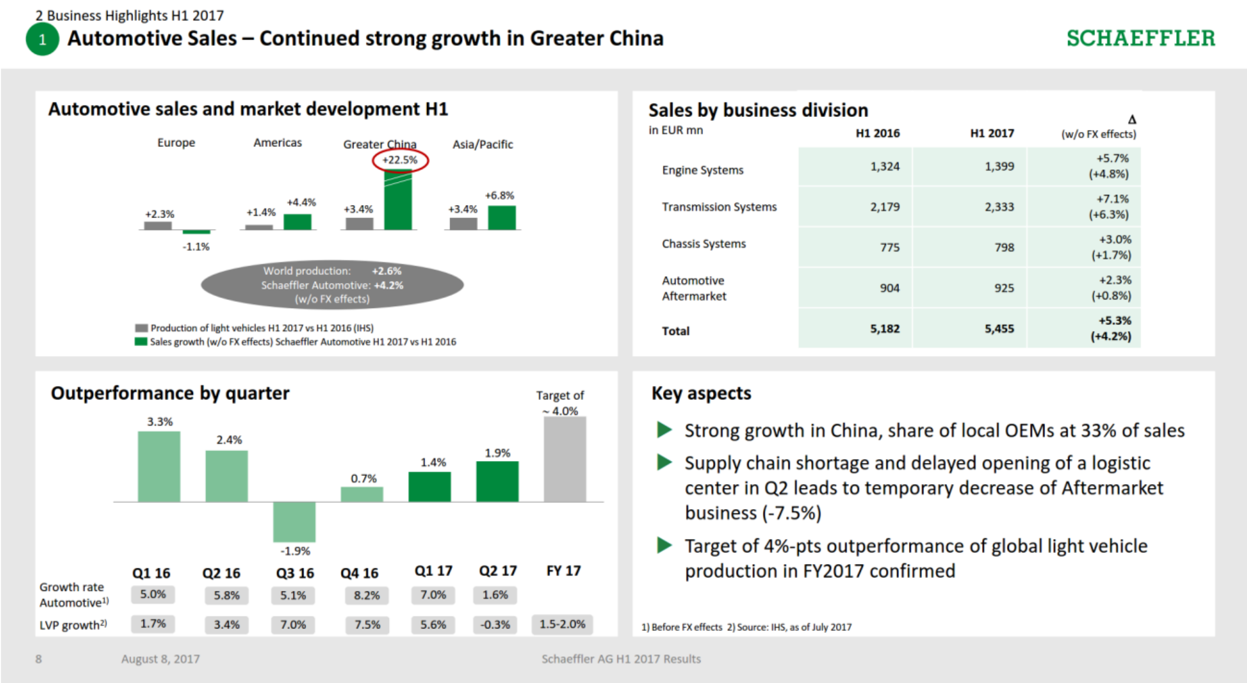
Sales growth as explained, once again you see the regional split with China being once again one of the main growth drivers, 21.7% year on year FX-adjusted growth is clearly confirming once again our strong position in this region.

Maybe it is most interesting to you to talk a bit about the current trading, I can say here that July was a solid performance with growth rates that are positive for the month and clearly above the average numbers that we have as full year guidance, both in Automotive and in Industrial. Industrial continuing strongly what clearly also is a function of the low base line in the third quarter 2016. After market back on track with positive growth in the month of July and a positive contribution. We can say after the -7.5% negative growth in Q2 we expect that the temporary impact that we had to swallow from the logistic problems will go away but that will still need some more months than the month of July so it is a question for towards the end of the year.

In terms of our growth guidance, I can say that we are confident that the 4 to 5% are achievable and we are on track to move into this direction. Clearly also driven by the positive development in Industrial and by the fact that the temporary effects will be mitigated in the next couple of months.



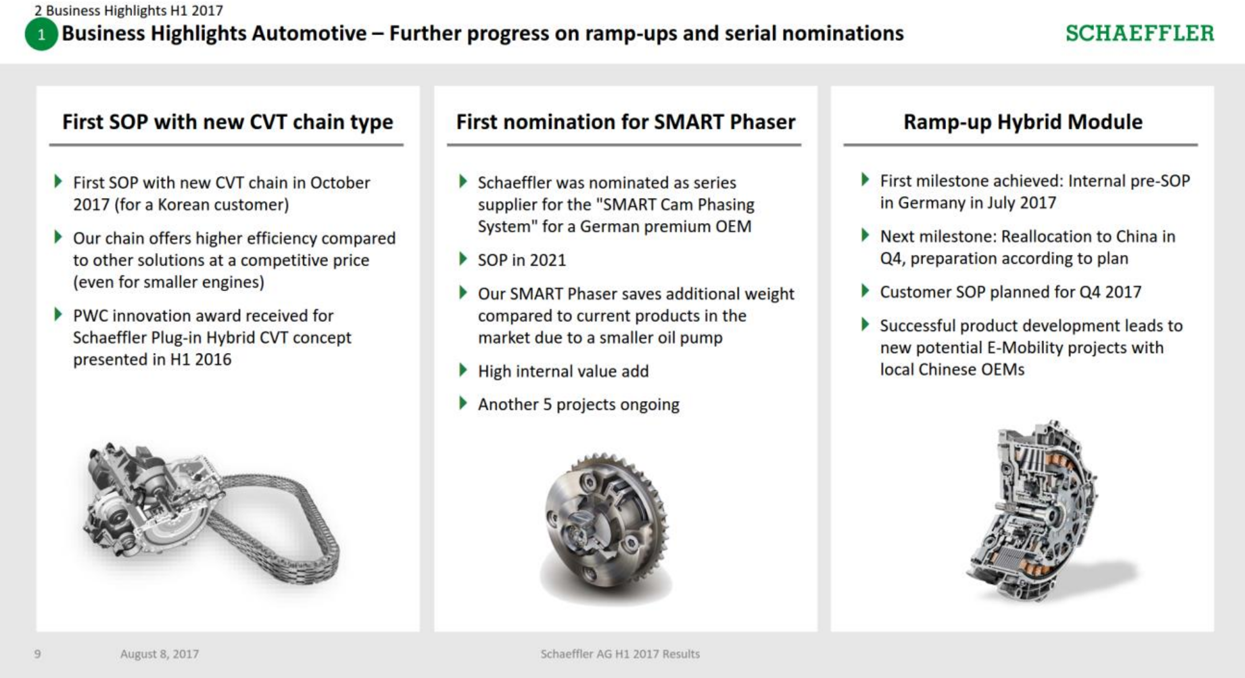
If I go to Automotive and jump across page 7, that is more or less there for purposes of completeness.



I think we can go a bit more into detail when it comes to the regional split, here you see on page 8 Automotive sales and market development, as we indicated during the pre-release outperformance increased slightly to 1.9%, based on a slightly negative market growth in the 2nd quarter. When you see the regional split you see that in the regions Americas, Greater China and Asia Pacific we are clearly outperforming the market and in Europe it is the opposite, market growth 2.3% for our European definition, while we are slightly negative in terms of growth that includes, as all of you know, the aftermarket impact that was a European impact.

Secondly if you look at the breakdown of the European regions, that includes India, Middle East and Africa, also Eastern Europe. You see that in particular these markets were strong in the first half 2017, India up 8.1%, Middle East and Africa up 10.8%, also Eastern Europe up by close to 4%, so in these markets where we are tentatively under-representative stronger growth, if I look at the main core markets for Schaeffler Germany, Southern Europe, Western Europe, these markets, in particular Germany, was -4% in the first half 2017 and that explains next to the aftermarket impact while in Europe as a whole in our regional definition, including those markets that are mentioned we are below the market growth.

But if I compare our development to the main European markets that are relevant for us: Germany, South of Europe and Western Europe we are more or less in line with the market in the first half 2017. When I look into the second half 2017, we are confident that the 4% outperformance is achievable, we are expecting a slight market growth in the second half that will bring the full year to somewhere around 1.5 to 2% and with a good pipeline of new projects and launches we confirm the around 4% outperformance target.

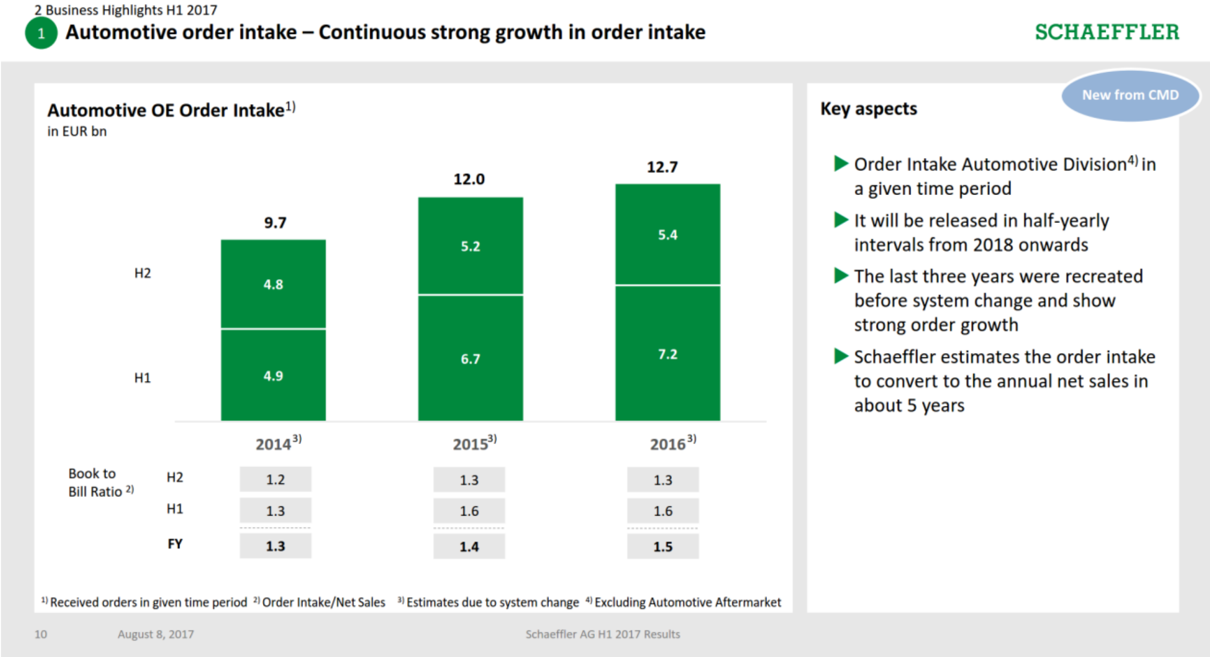


If I go into some of the positive examples on page 9 from the business highlights, we have selected three main projects just to highlight what is going on:

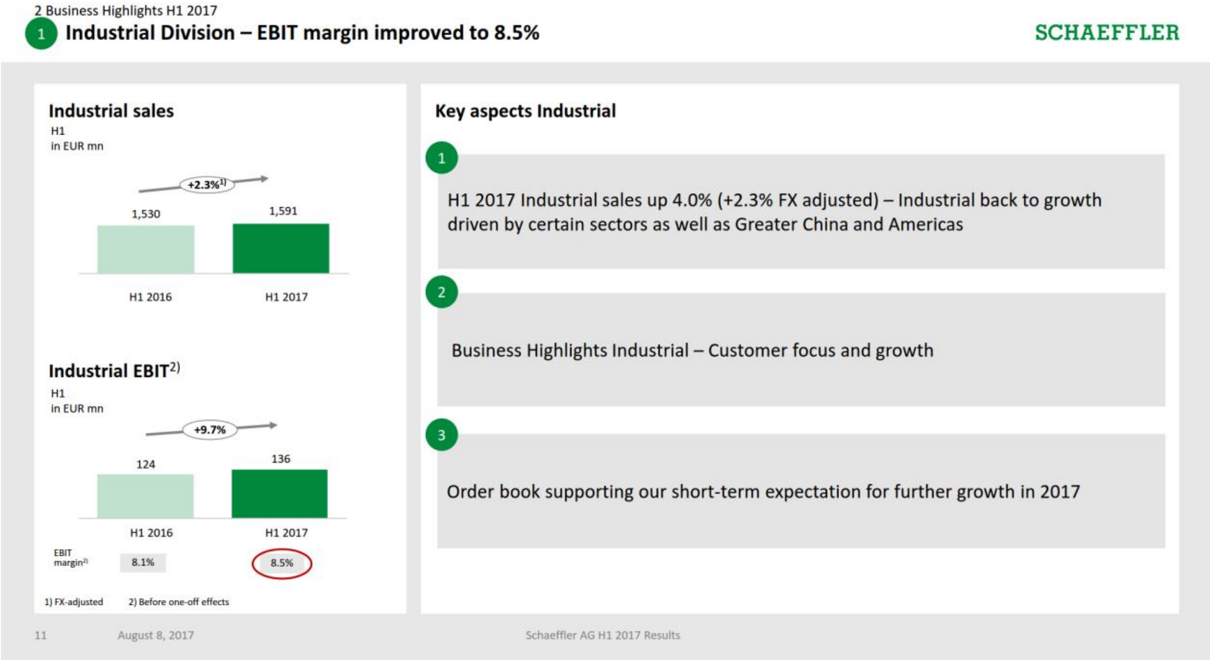
The first one is a transmission project, for us a breakthrough project where we won the first major transaction with a Korean customer. First SOP for a new CVT chain, in October 2017, this is a breakthrough project because it will be relevant for a large number of transmissions. The contract as such is around a million of transmission with a high two digit euro content per vehicle number and a significant gross profit from this, so we see this as a very interesting development where we can once again demonstrate our strength in the classical transmission business. Clearly in a growth market we are expecting that the number of cars that will use this CVT chain will increase quite substantially in the next months and it also reflects once again the innovative strength Schaeffler.

The second example also carefully chosen is an example from the engine side, it is a dynamic variable camshaft product, cam phasing system for a German premium OEM that has an SOP in 2021. It is one of those projects that has high internal value added, also a significant two digit content per car number where we are expecting also significant further projects coming up. And we see it as an example that despite the Diesel crisis and despite all the discussions about what is happening with E-Mobility the big German premium OEMs continue to buy our classic technology for making combustion engines more efficient. So another good example that clearly helps and demonstrates the technology strength of Schaeffler.

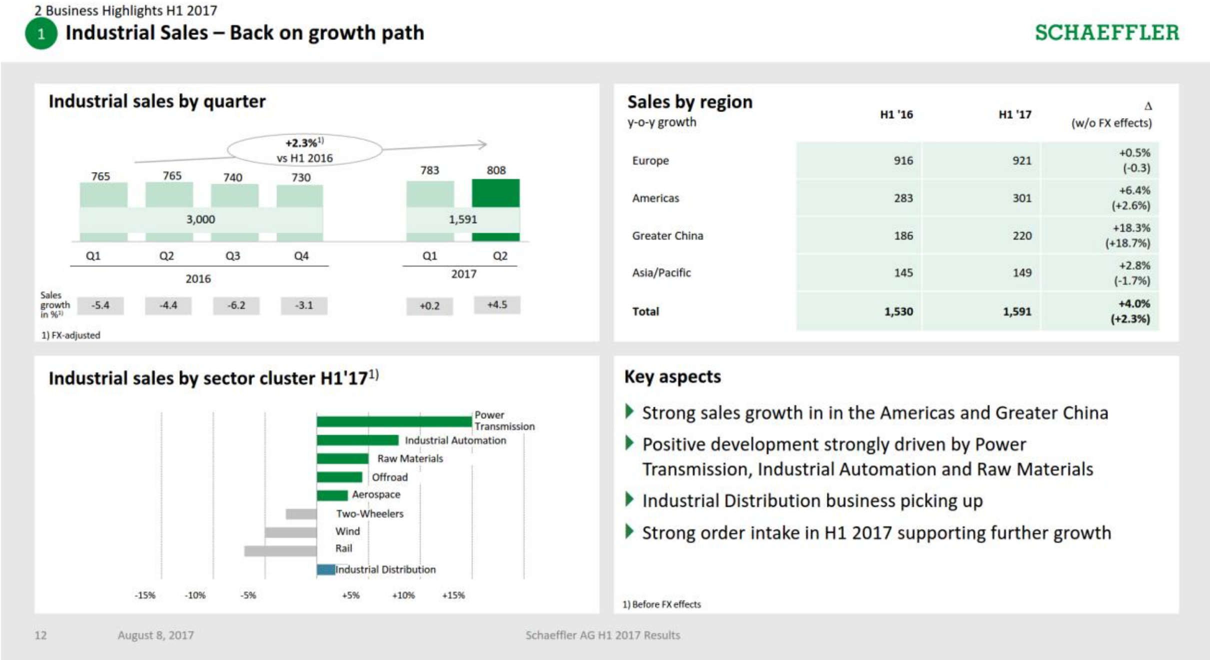
The third one is then an example from the E-Mobility side. It is one of the projects that we have clearly on our list when we talk about series projects in E-Mobility – I want to emphasize here the fact that this customer project though is a Chinese project, will have its SOP in Q4 2017 as scheduled. It is our first SOP from the portfolio of E-Mobility series contracts and we are very confident that we will make this because all the internal pre-SOPs have been achieved in July 2017. It is a high volume and high content per vehicle project and we think that that it will be the start of a successful further product development for the new E-Mobility project. I can also say that the number of projects has increased but that there are no new series contracts that we have achieved since our Capital Markets Day.



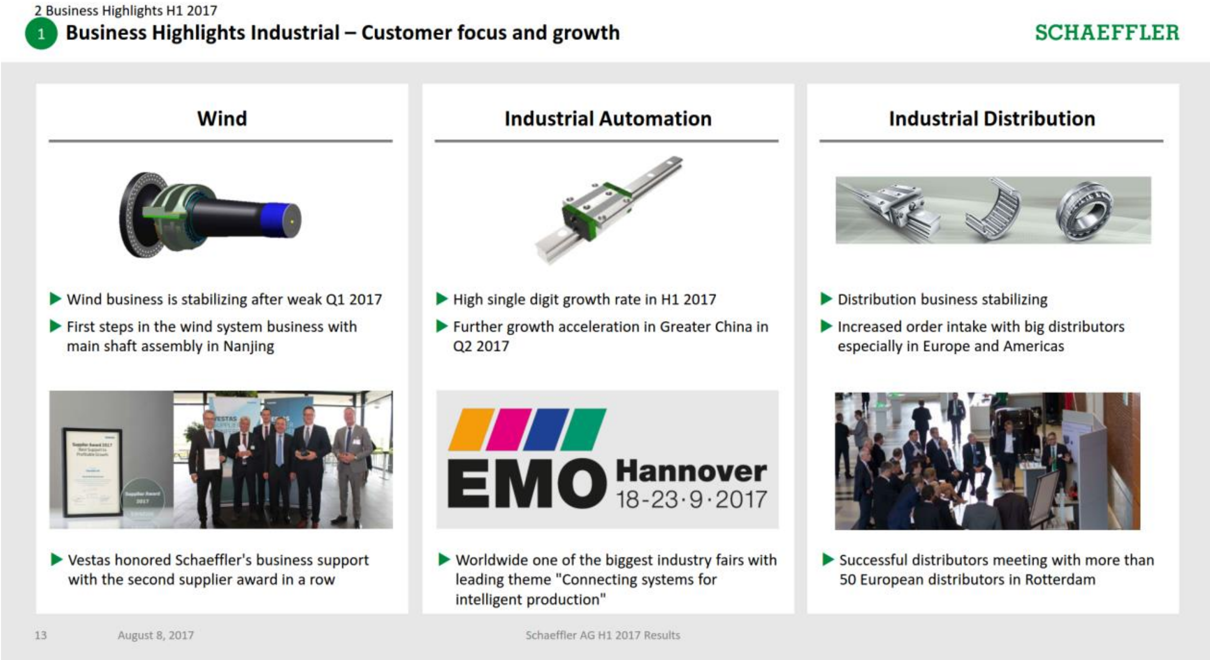
Let me come to the last page for Automotive, page 10, for those of you that have not been able to participate in the Capital Markets Day we have decided to share with you going forward our order intake numbers for Automotive and as I told you when we had the pre-release that has clearly required some significant input here also to get the historic numbers in place. You see on page 10 our 2014, 2015, 2016 Automotive OEM order intake, it is without Aftermarket and it is based on the received orders in a given time period with a lifetime sales calculation basis. You see that we have split the years into two half years and we have agreed that going forward for 2017 full year onwards we will share with you on a half year basis how the order intake develops, and in particular how it compares to our current sales. You see for the years 2014, 2015, and 2016 that our book to bill ratio for the full year has been 1.3 times 1.4 times 1.5 times what confirms once again that the company has a significant growth potential. For 2017 once again, as there is a new system required, we are so far not in the position to give you the numbers for the first half 2017, we will do that when we report about our full year numbers for 2017 in Q1, 2018.



From this to the Industrial division, also here page 11, nothing new.



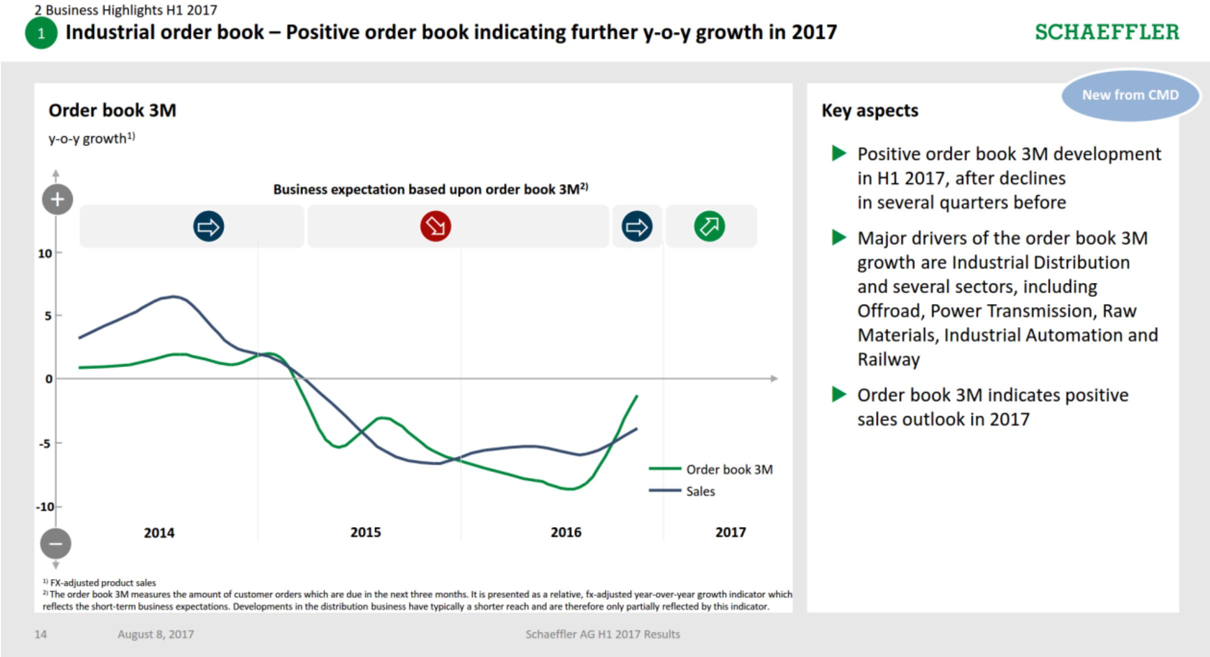
On page 12, very quickly, you see that Industrial is back on track with a second quarter +4.5% growth, 808 million euros of revenues. I can say as said before, July looks also positive with a continued growth trend. You see that the growth comes basically from all major regions with China having the highest growth rate after clearly a weak first half 2016, you also see that five of our eight sectors are contributing to the growth side, in particular Power Transmission, Industrial Automation, also Raw Materials. Industrial Distribution is picking up, it has not achieved the full growth rate that we would like to see but it is clearly on the right track and Rail, Wind and Two-Wheelers are on a half-year basis still negative. But Wind e.g. is also getting back as you see from the 2nd quarter results.



When I come here to the major customer projects that are on page 13, let me do this very briefly. We can report across the sectors significant successes, one of the major successes is that the Schaeffler business support was for the second time in a row honored by Vestas as one of the key suppliers that offers systems know-how, that is critical for us because we see that in the wind business it becomes more and more relevant not only to deliver component, but also for systems and Vestas honored this approach with this award.

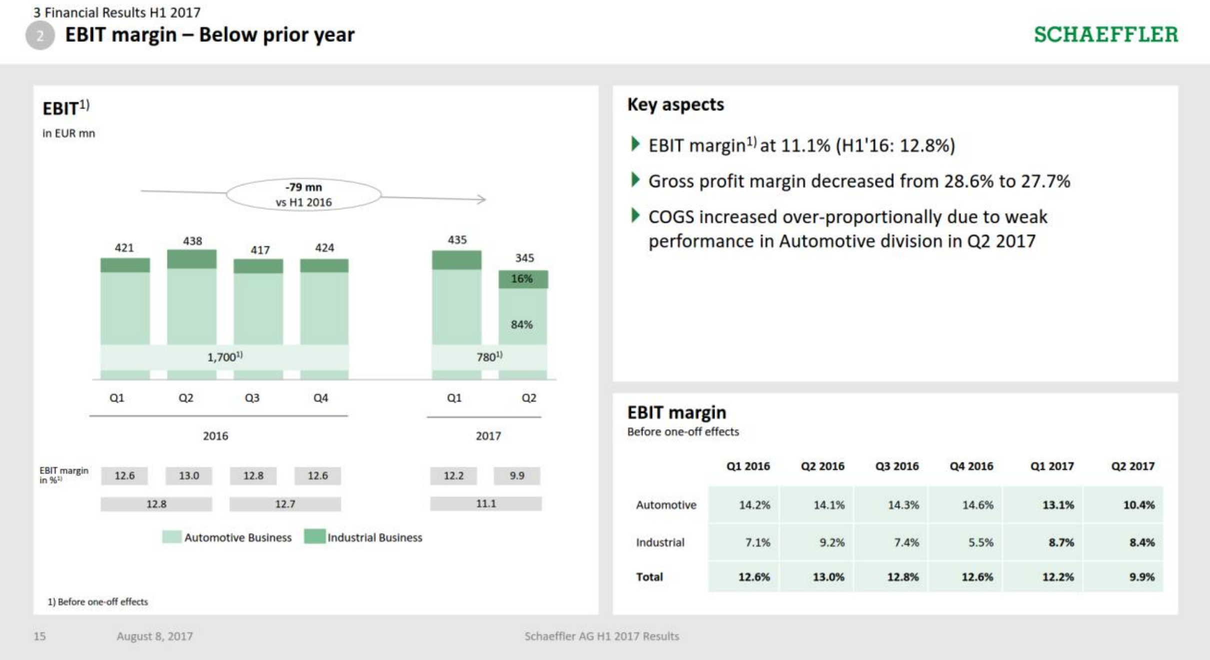
Industrial Automation, one of the areas with a significant growth rate in the first half 2017, we see in particular an acceleration in Greater China in our linear business, and we are approaching the EMO Fair in Hannover where we will once again show our competence.

Industrial distribution had a very strong successful distributors' meeting in Rotterdam in July and as I said before, the business has definitely more potential.



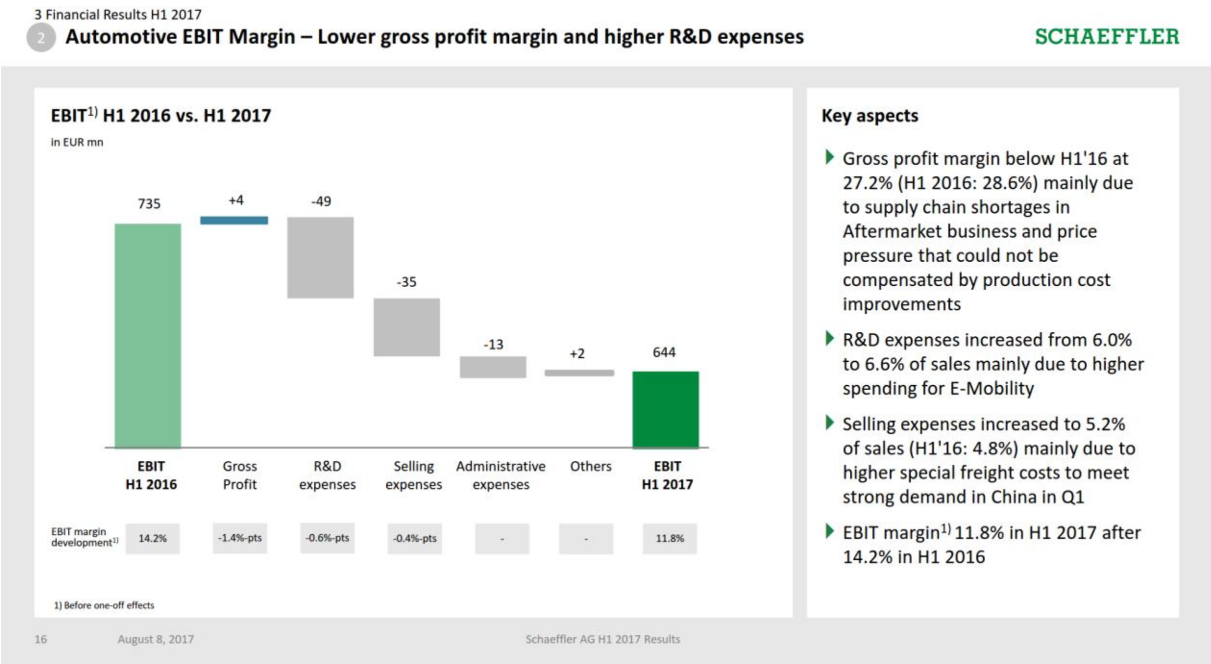
Before I hand over to Dietmar, page 14 is the order book for Industrial, so not the order intake but the order book. On a lead time of three months basis you see here for the year 2016 that the green curve, the order book, hits the sales line from below indicating clearly that there is more growth expected. I can say that when I look at the numbers for the first half 2017 that trend continues, so we are quite optimistic that the Industrial business will continue to grow and support our overall growth in the full year 2017. With this I have done the first part and I hand over to Dietmar to his presentation of the financial results.

Dietmar Heinrich



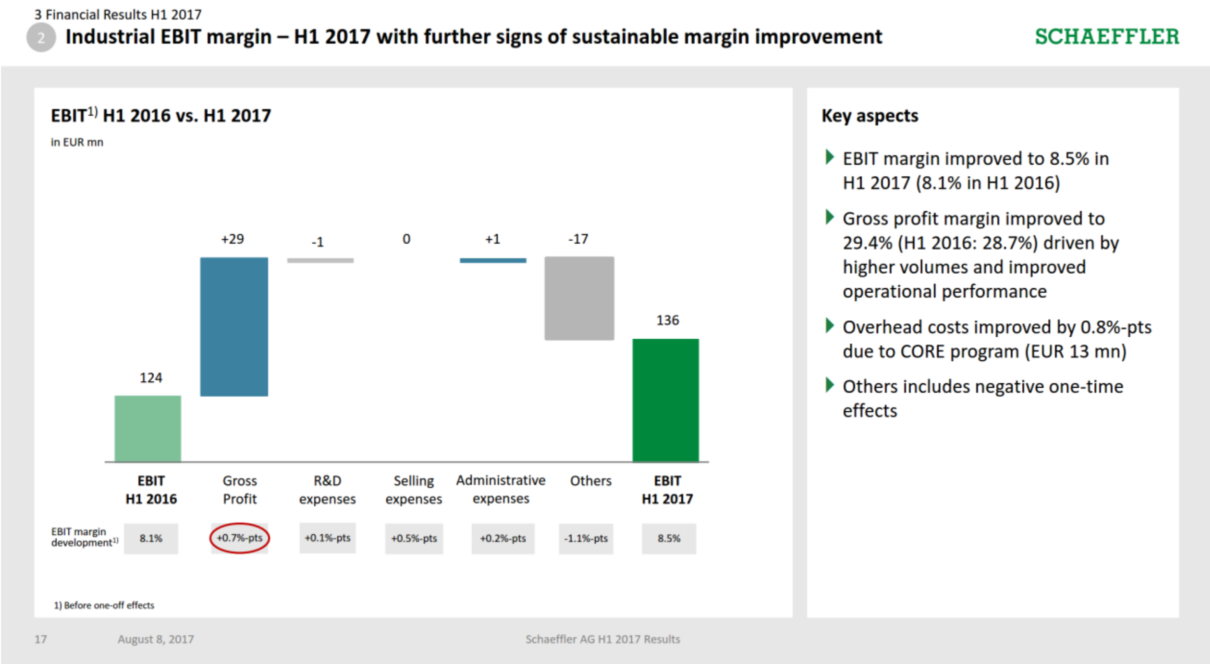
Thank you very much. I would like to deliver insight into the financial results and will start first with the EDIT development.

We can see that actually our margin now as of the end of the first half year results 2017 is at a level of 11.1% which is lower than previous year, and we can also see that actually this is having two impacts.
On the one side, from a structural point of view, we have lost in the gross profit margin which declines from previous year.
On the other hand, we can see that it especially happened in the 2nd quarter and we can see that the drop is mainly caused by the development in the Automotive area and with page 16 I would like to give you a bit of insight what is the reason for the drop in the Automotive side.

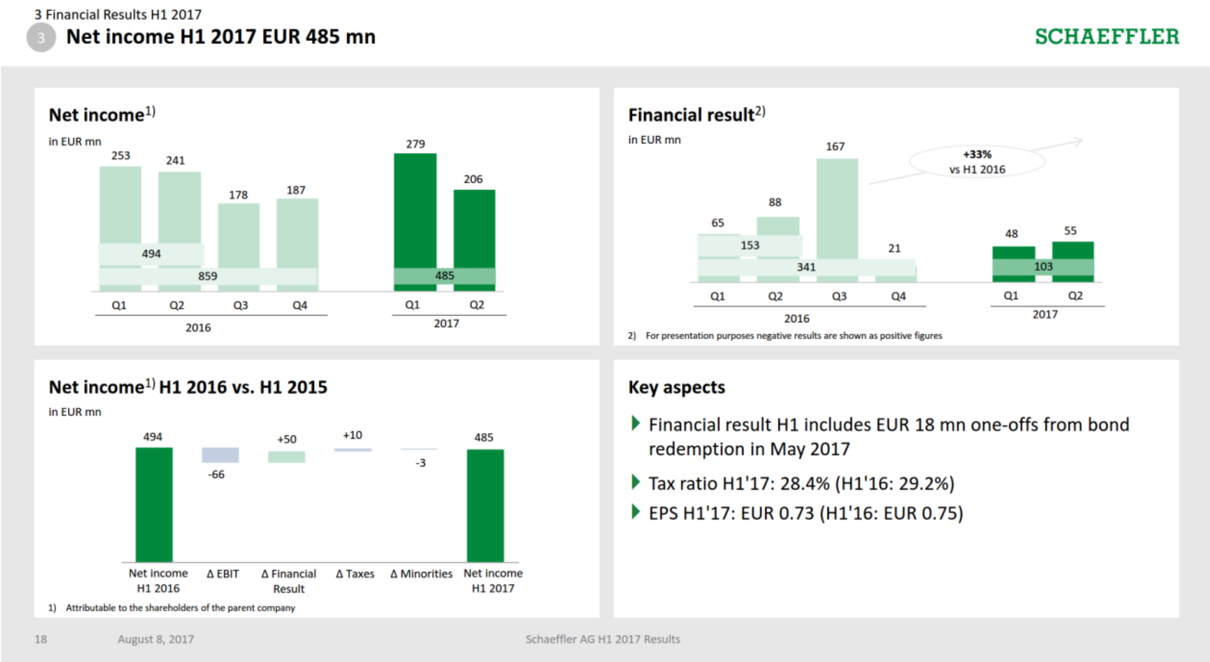


And we can see here that we actually have impact on the gross profit margin so we have significant volume gains but we have not been able to realize this on the profit side with the increase in sales due to supply chain shortages and also the price pressures that we have in the market.
But also on the raw materials side which we could not fully compensate with production cost improvements.
Secondly you can see that our efforts are actually directed to the future of mobility, to the E-Mobility, are also having their impact, so we are increasing our research and development expenses significantly. Actually we increased them from 6% to 6.6% and in order to prepare for the future but we also had some negative impacts with the strong growth that we realized in China in the first half of the year, there we have actually been hardly able to manage this and we had to manage this with additional freight and special freight costs, so in order to get the products to our customers.

So at the very end with these impacts our EBIT margin in the Automotive area dropped to 11.8% which was at a level of 14.2% in the first half of last year.

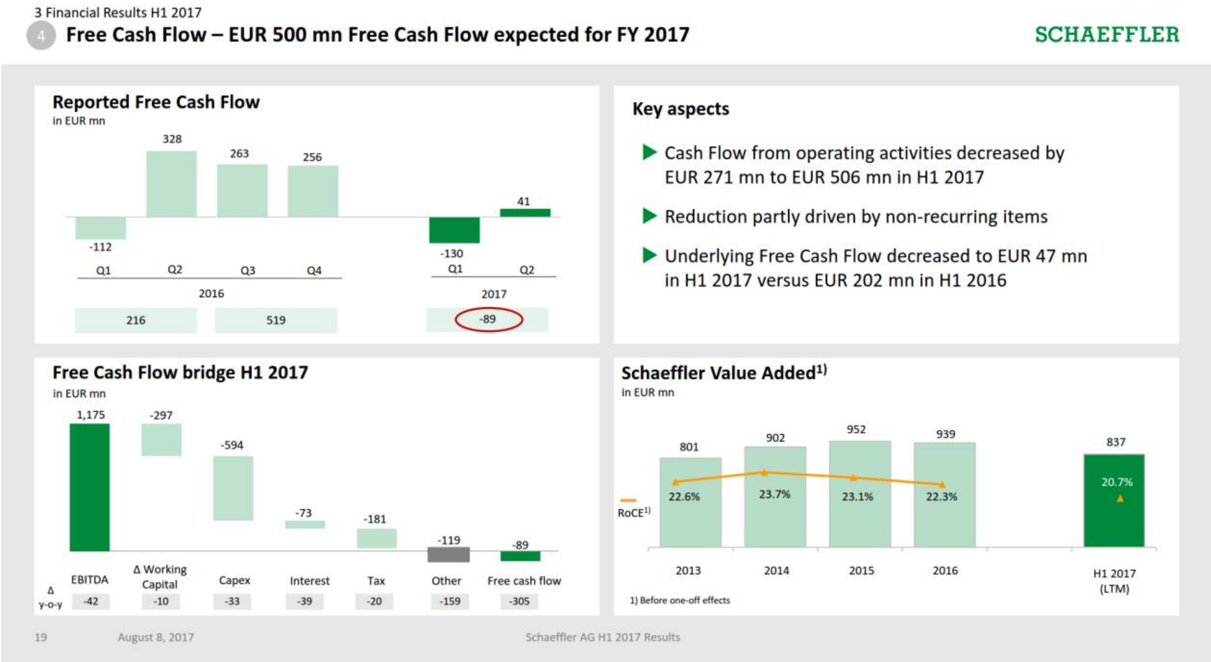


Secondly I would like to look to the Industrial development, there we have a different development, a positive development, actually our EBIT margin improved to 8.5% which is 0.4% increase compared to previous years. We can see that actually this is caused by higher volumes and improved operational performance which helped to lift our gross profit margin. As a second impact the cost savings that we initiated with our core program are paying off. We realized overhead cost improvement of 0.8% which is equal to about 13 million euros on the overhead side. But we have negative impacts, one-time impacts, including foreign exchange impacts which are partly offset or had to be offset with the gross profit development, so we are having a one-time impact here as well.



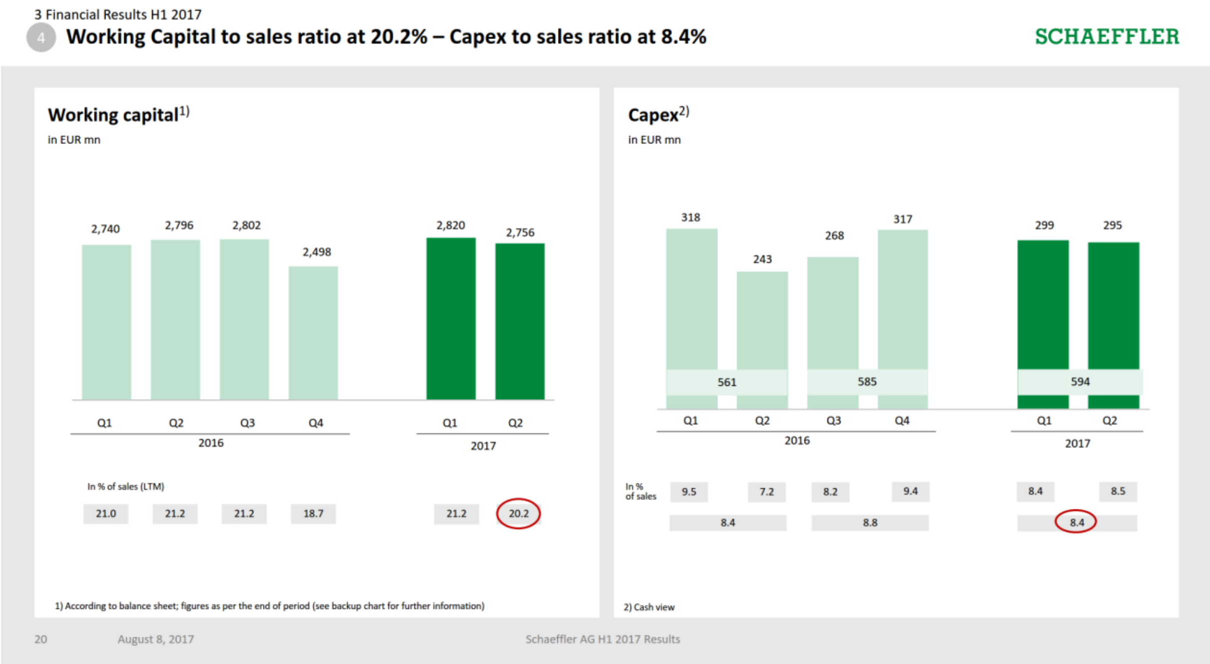
With having looked at the two divisions I would like to show the overall situation regarding profitability of the group. We can see that despite the negative developments on the EBIT development our net income with an amount of 485 million euro is basically on the level of the previous year.

When looking to the reasons for this we can see that our financial result improved significantly by 50 million euros on the one side, we have had a strong impact coming from the redemption of one of our bonds that we did at the end of May. Secondly our tax ratio is slightly better compared to previous years. So these two impacts together actually compensated on the euro negative impact or actually had a positive impact of 60 million euro compared to the negative impact on the EBIT side of 66 million euro.

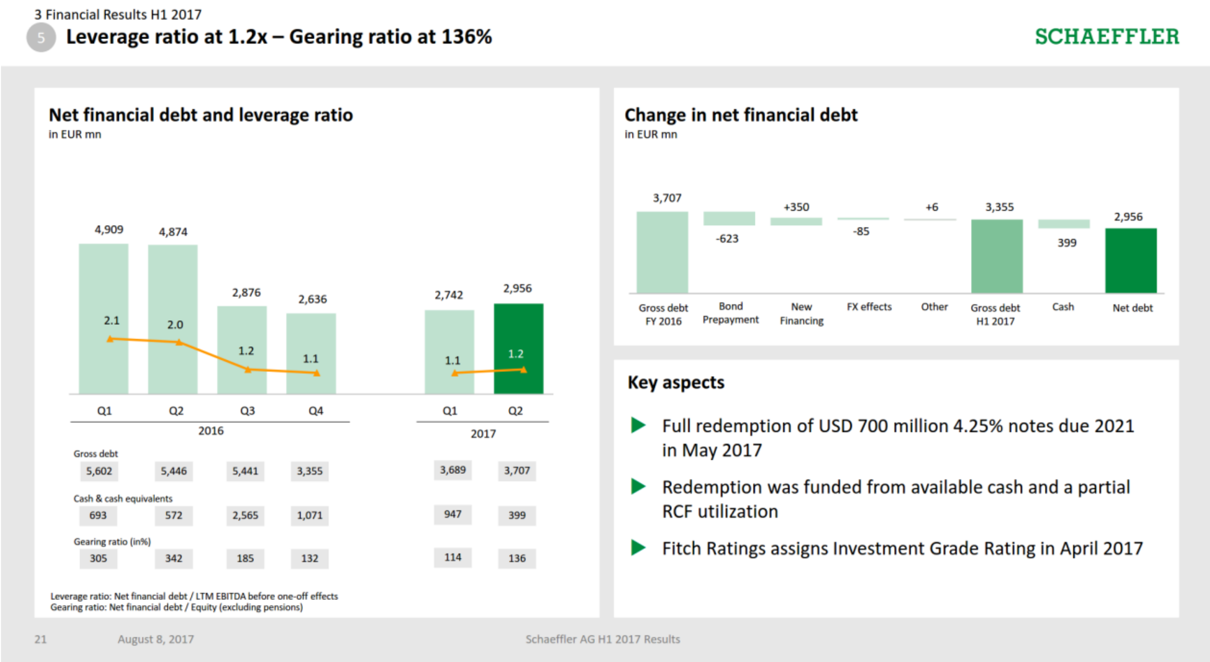


And now looking to the impact of the cash flow we already saw that our, from an overall perspective, free cash flow dropped to a level of -89 million euro, but we have a couple of non-recurring items in the results which we already explained during the pre-release in mid-Jul.

By eliminating this impact actually our underlying free cash flow would be at a level of 47 million euro compared to 202 million euro level on a previous year base.



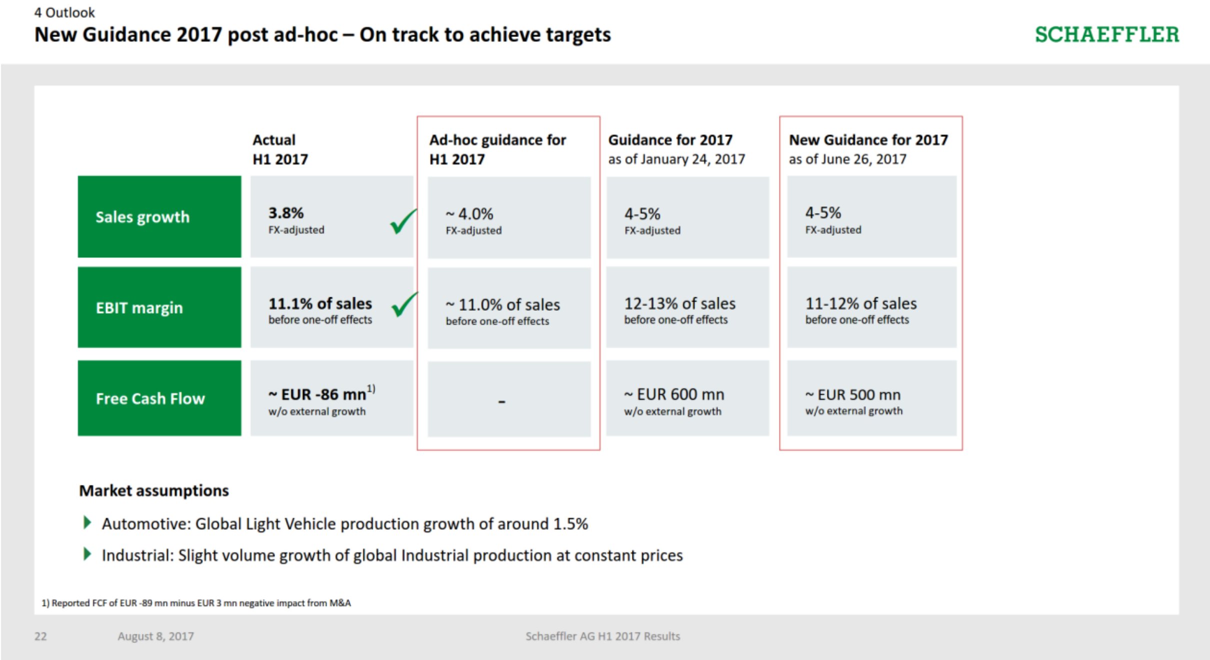
Our measures in order to further improve on the current cash flow side, we can see on the next page, page 20, that our working capital ratio improved by 1%-points so we established measures in that regard already with our budget and we can see that they are actually paying off now and help us then to free cash flow which was actually seen in the past in the working capital development side.



And then looking at the overall financial situation we can see on page 21 that our net financial debt is at a level of close to 3 billion euro at the end of the first half of the year which is a slight increase compared to the first quarter. We have in there the positive impacts from the full redemption of the 700 million US dollar notes which we did at the end of May which we actually funded from available cash at that time and also a partial utilization of our revolving credit facility.

And from a financial side, with some positive statement at the very end that with our development at the end of April the ratings also assigned investment grade rating which we see as a very positive development. And with this insight into the financial development I would like to hand back to Klaus to give an outlook regarding further developments.

Klaus Rosenfeld



Thanks, Dietmar. Very quickly on page 22, we just explained to you that we reduced the guidance for the full year to 11 to 12% on the EBIT side.
We confirm the sales growth 4 to 5% and subsequently also reduce free cash flow from 600 to 500 euros.
These numbers are still relevant and I can confirm that we are on track to achieve this guidance and are confident that the new guidance 2017 is and will be achieved.

Last word before we come to your questions: We will go on the road tomorrow, spend some time in Frankfurt and some time in London, the next major conference will then be the Deutsche Bank Conference at the occasion of the International Automotive Fair in Frankfurt where we will be present and look forward to meeting you. We will then also go and see you at the Goldmann Berenberg Conference in Munich, 1 October, Renata Cassau will start and there will certainly be more to come than on the 8 November when we will report about the nine months' results. And with this we finish our presentation and are ready for your questions.

Q AND A SESSION

Ragab Gupta, Citigroup

Good afternoon, gents, thank you for taking my questions. The first one would be on the Industrial topline. You mentioned on the preliminary results call that you'd increase prices by 4% and expect this to come through in the 2nd half results. Just looking at the development in Americas and China it would suggest that some of this has come through already and while your growth remains positive, it is sluggish. Is it possible for you to just give us an idea of how much of the Americas and China growth is price related and how much is volumes? I can ask my second question now or I can do it after you have answered the first one, which would you rather?

Klaus Rosenfeld

Well, ask the second question.

Ragab Gupta, Citigroup

Sure, the second one is on cash flow priorities and you piecing it out at your CMD. I was wondering if you could elaborate on how committed you are to the dividend policy in a sense that the number one priority for the use of cash, but if you were to find a suitable acquisition target would you be prepared to forego the dividend? I just wanted to understand that kind of order of priority. Thank you.

Klaus Rosenfeld

Okay, let me start with the second one. As you said, the dividend policy has highest priority and we have no plans to change this. As you know, we are part of a bigger holding group and we clearly confirm as we said in our financial ambitions the 30 to 40% payout ratio, so I think I can say even if there would be a bigger acquisition we would finance the acquisition by external funds. Dietmar alluded the investment grade rating; we have enough financial flexibility if there would be something bigger, what I don't see at the moment, so the dividend clearly has highest priority and would from my point of view - again, I can only speak for the Vorstand – not be changed in case of a bigger M&A transaction.

The price impact in terms of Industrial, so far the impact from price increases has not impacted the first quarter. As my colleague Stefan Spindler said last time, we expect a first impact on the price increase in Europe, sometimes towards the end of the year. US and China have seen follow-up price increases but as far as I know this will not really impact the full year 2017 in a material manner.

Henning Cosman, HSBC

Hi, good afternoon, thanks for sharing these business highlights on page 9. Can I please ask two questions on that then. First the smart phaser, obviously a good example that you seem to be selling well beyond the 20/21 emission targets and engine and transmission products. Can you just elaborate a little bit how you see this, because obviously OEM customers they don't seem to have a very good idea of how the Powertrain mix is going to develop, so can you just talk about the risk a little bit? Of getting these orders now and being asked to ramp up these equivalent capacities? And then you are at the mercy a little bit of however the mix develops in the market, be it the consumer or be it the OEM deciding then at the time. If you could just talk about that risk a little bit or if you don't see that much at all?

And then the other question is on the CVT chain. One of your competitors has quite a few problems with the Korean customer delivering into China. Could you talk about whether that is already budgeted or if there is any risk to your budget coming from those ramp ups potentially from the Korean customer into China? Thank you.

Klaus Rosenfeld

The first question, Henning, that is why we chose the example, because it indicates that the world does not come to an end because of all these discussions about what is the right Powertrain solution. There are clearly OEMs and this is a German Premium OEM that are continuously investing into new technologies. And can I talk today about the risk what is happening in 2020 with this contract? No, I cannot. What I can say is that we are proud that we were nominated for this, this is classic technology to optimize the combustion engine and it clearly shows us, and that is why we chose the example, that the OEMs in Germany are still investing into this and are still making long term projects that start production in four years. I have no information at all that this project is at risk, the opposite is true. We are fully committed to this and the investment that is necessary here is part of the normal investment plan, nothing that would change the overall logic because we are producing these cam phaser systems. And we have also added here that this is not the only projects but that there are five other projects ongoing with a similar product, so that gives us confidence as a supplier that again the world will not completely change tomorrow but it will be a phased trajectory into new technology that is hopefully more CO2 efficient.

In terms of the Korean risk, yes you are right there are issues with the largest Korean customer with selling into China but they don't impact this project. This is a new project where we have the SOP in October 2017. It is nearly a million of transmissions that are impacted here. This is in particular for smaller cars but it is not specifically exposed to China, so I don't see any undue risk here that this project would be negatively impacted by any sales problems that the largest Korean car maker would have in China. We would rather see upside potential, because if this is a breakthrough for us, we have never been able to sell a CVT chain of our quality into an Asian customer that we will see significant follow-throughs with more small transmissions, and once again an example that the world is not only about E-Mobility but also about the classical solutions.

Kai Mueller, Bank of America Merrill Lynch
Thank you very much for your time, two questions from me.

The first one – we were talking about the aftermarket and how it was obviously weaker in Q2 and that really impacted your margin in the business. How has that developed in your auto-business in July and do you think you can sort of regain your lost revenues that you had in Q2? And I remember you took some write-downs in some of the inventories as well, could we be seeing those coming back as sort of write-ups in Q3 and Q4? That was the first one.

And on a second point, maybe more holistic question given that we have seen now this under-absorption of the costs and you mentioned the price pressure you have seen from your customers and that you weren't able to offset this. What have you changed since that event in terms of your controls and any procedures in order that such a development doesn't happen again? And that you sort of preparing yourselves to be more prudent on that side?

Klaus Rosenfeld
Okay, that is a very nice question, the last one. First of all, we have a new CFO. Hopefully he will get very quickly on board with all the details but what I can say is that after the event in the 2nd quarter we have established a Friday afternoon call with people who are normally a bit challenging. But every Friday, also during the holiday time, we get, Dietmar and myself, an update on what is

going on with the new projects and that is the way you control such a situation and that also gives us confidence that we are on track also with respect to our guidance opinion. With respect to the aftermarket I can say the logistical problems with the external provider are fixed so we are catching up there. And you remember we had on the one hand this external party that did not perform as we wanted but we also had our internal issues with supplying the right product in time. That still needs some work. July was positive for the aftermarket so we are back to normal, we already compensated and made up the loss in the second quarter. No, we haven't, but we are on track to do this and my expectation is that at the latest by year end we have compensated for this. The valuation issues were there but they are not that significant that you will really see a big impact from this. As soon as we sell the product that was sitting on stock, this effect will come back but it doesn't create major swings in the EBIT – it will support the EBIT a bit, but it is incorporated in the overall guidance and doesn't make a big difference.

Kai Mueller, Bank of America Merrill Lynch
So you are back to your normal pre-event run rate or are you actually catching up some of the lost sales?

Klaus Rosenfeld
We are catching up some of the lost sales and again in July we see a positive growth compared to July 2016.

Julian Radlinger, UBS
Yes, good afternoon. Thank you for taking my questions, just two of them in that case. Number one is regarding capex: I am surprised that in H1 the capex to sales ratio remained around 8.5% because if I remember correctly, at the beginning of the year you were talking about the capex to sales ratio this year being about last year's 8.5% ratio plus an incremental 50 to 100 million euros for the European distribution center which would be roughly equally distributed over the quarter. So how can we reconcile those previous comments with the ratio that we have seen in H1?

That would be my first question and then my second question is regarding the organic growth in the Industrial division, could you just please confirm or update a comment that I remember Dr. Spindler making at the Capital Market's Day which was that absolute Industrial revenues this year should be relatively steadily distributed over the four quarters this year, so in other words H2 absolute Industrial revenues should be roughly equal to H1 Industrial revenues. Thanks a lot.

Klaus Rosenfeld

Okay. First on capex: You are right, we said capex will be somewhere around 8.5 to 9% plus some extraordinary capex for the EDZ logistics center. And that is still the case, you also added that we said it will be evenly split, that is at the moment not the case so the EDZ is more geared towards the 2nd half of the year. It has to do a little bit with a delay in certain areas, we first intended to open up the center already this year but this will probably be postponed a bit into next year but we stay with the overall number, Dietmar, I think that is what I can say there. So the 600 million that you see there may be a little bit less than the 50% of the full year but if you say 1.3 minus whatever hundred, that should be the capex number within the cash flow, let's see what the third quarter will bring. We have clearly a strict capex control system in place and we all know that we will speed up certain developments with respect to investments into E-Mobility but as we always said this doesn't require, at least not in the year 2017 significant chunks of new investments because we can use in most of the areas the existing facilities that we have and don't have to build complete new plants for the E-Mobility projects.

In terms of the organic growth, yes Dr. Spindler said it will be more evenly split. However, we saw a pretty good July, you saw that in the 2nd quarter the number was a little bit above 800 million in terms of sales for Industrial, 808, let's see what the 2nd half is going to bring. You also see on page 12 that we had a pretty weak second half with 740, 730, so there will be a baseline effect when it comes to growth. And what clearly counts is FX-adjusted growth, we need to see how further unfolds. We stay with our expectation that somewhere around 3% FX-adjusted growth rate should be possible for the full year.

Tim Rokossa, Deutsche Bank

Yes, good afternoon. I also have two questions. The first one refers a bit to Kai was asking earlier, when we look at most of your items in the P&L we see that the topline growth is slowing, you already indicated that it would pick up again or has already picked up again, but then also most cost items have disproportionately increased year on year versus your topline development. You spoke about the Friday afternoon call, I got that – what do you really think? Since we see this in so many cost items, it is not just R&D, it is also cost of sales, it is also selling expense, admin expenses, what is really causing this development and with this Friday afternoon and other measures that you have in place, do you expect that the cost items will grow disproportionately in the second half of this year relative to your topline?

And then the second question is, BorgWarner hosted their Investor Day yesterday and I don't know if you got a chance to listen or hear into what they said but aside from the topline growth development they projected onto the content per unit that you also provided us with, they also gave us a so-called participation rate which is effectively the market share they are targeting by Powertrain type, so 50% of all combustion engines, for example, they want to deliver parts into an average content of Aldila, 36% of all hybrids, Aldila. Is that something you might want to share as well going forward for us in order to be independent of your projections and Powertrain projections by market type also to get a feeling for how ambitious your targets are? And how you track versus those targets? Thank you.

Klaus Rosenfeld

Thank you. Let me start with the 2nd question: With all due respect, I have not been able to look at the BorgWarner capital markets day, and we are always happy as you saw from the order intake, order book numbers to live up to your expectations and share more information with you. I have not thought about this, whether we give you a participation rate or another market share. We saw that with the package we have for you at the moment we see three different categories of Powertrain solutions, what we shared with you during the capital markets day, that is a good basis for assessing our future performance. If more is needed, Dietmar, we need to think about this, again we take it as a suggestion, I cannot make a commitment here without looking at in more detail and Dietmar and sharing it with Matthias, and thinking about what we can do there. I think so far what you have should be a good basis for assessing whether the 6% overall growth rate that we talked about during the capital markets day will be doable.

In terms of the cost items, when you talk about cost control, we are following this development very carefully. When you see what happened in the second quarter with all the things, then it is not only a question of overhead, it is in particular making sure that our gross profit is developing in the right direction. We have as you know our cost optimization programs in the Industrial side and we are continuously discussing whether new items, new projects, also new measures need to be put in place, so yes there is at the moment higher cost growth than on the sales line but most of this as Dietmar explained has to do with investments into the future, like R&D, things that we explained, some of this is temporary. So let's wait and see for the third quarter and see how the cost side develops. On SG&A or on the admin side, I think we are in pretty good shape, that is clearly not growing as fast as the sales type but on the R&D, and on the sales cost, that is clearly growing with and to some extent above the sales growth rate and we need to see in particular what the next year budget will bring there, we are clearly committed to make sure that we see earnings growth and not only cost growth.

Dietmar Heinrich

May I add something to that? Especially regarding the cost development, we of course took the opportunity or had to do this, to review the cost development in the situation and actually we prepared for this ad hoc information that we had to provide to the market. When we established subsequent measures to control costs in a better way on the one side in the production area, in the factories, and also in the overhead. And I see that actually on the Industrial we continue with the positive development so what we initiated with CORE last year is really paying off and we will see this as further impacts. On the automotive side basically with R&D, we continue with our activities, but what we are working on is what we already mentioned in the pre-release that we had some issues and have not been as strong with the recovery of our prototypes and costs and we are putting more focus on this so that we can actually share this burden with our customers as well. So I am confident with the measures that we established that we are moving forward in the right direction.

Christoph Beumelburg

Now that I mention that you should limit your questions to two at a time, a couple of you have dropped out of the queue? Anyone wants to ask the last question? So we conclude the call. Henning, one last question from Henning and another one from Tim, then we conclude the call.

Tim Rokossa, Deutsche Bank

Can you hear me? Can I come back to the Industrial bridge then, because I wanted to ask about the seizing from the CORE program and obviously they must have been over-compensated or compensated in terms of the overhead by some cost increases. So I just wanted to ask how the run rate is for these items? And how that compares to the absolute cost savings or the net cost savings going forward? If you could just talk about that a little bit more.

Klaus Rosenfeld
I just need to get to the page.

Tim Rokossa, Deutsche Bank
17.

Klaus Rosenfeld
So what we are seeing here on page 17, that we improved EBIT from 124 to 136, 12 million, and you see in the third bullet point that overhead cost improved by 0.8% due to the CORE program, basically CORE program wave no. 1 with a number of 13 million in the first half. So that explains more or less the delta between the EBIT in the first half 2016 and the EBIT 2017. The rest is then that the others have some FX impact, gross profit improvement, and so on. So that means we are more or less on track with the execution of these CORE waves. As you know we said during the Capital Markets Day that we are expecting going forward from CORE wave no. 1 23 million in the period from 16 to 18 and 34 from the second wave, the remaining gap will be closed by better mix and if necessary additional measures, so I think that this is all on track and as I always said and as Dietmar just indicated we are fully committed to the 10 to 11% in 2018 and if that is necessary we will put in additional measures when needed but that is a very major milestone that we want to achieve in 18 to get back to the 10 to 11%.

Tim Rokossa, Deutsche Bank
If I could just clarify, what I mean when you talk about overhead, and if I look at your line items here – R&D, Selling Expenses and Admin which I would consider overhead, there is obviously no plus +13 there, in fact it is a zero, so I would have thought there must be a -13 for the actual overhead to get to a net zero or am I reading this wrong?

Dietmar Heinrich
Yes, but what we see and what we have to consider is that actually our sales increased significantly and in line with of course our cost increased to some extent, especially in the selling area, logistics, proportionately – so we have an increase and that is what we see then with the percentage points, that we have a 0.8 % improvement in the overhead ratio actually, or in the profit margin,

coming from that side – others I would just refer to what we explained in regard to core wave 1 and 2 impacts in the prerelease, there we actually confirmed the savings coming from core first place, for this year, and some slight impact already from the second phase as well this year.

Tim Rokossa, Deutsche Bank

Thank you. Mr. Rosenfeld, I know you probably don't want to provide too much detail on that and you will do this with the Q3 call but since you mentioned the order intake development and the revenue growth in Automotive and that it is better year on year also versus your full year estimate and it has been a major issue primarily in Europe, can you confirm that growth rates for you in Europe have also improved in July and whatever you see in early August?

Klaus Rosenfeld

I need to be careful here, so one second please. Once again, your question was whether our growth rate in July FX-adjusted for – it is only automotive he is asking, I can say it for the whole region, it has definitely a positive growth rate but for automotive, just a minute. Where do we have it by region? So one moment, to get you right, growth rate in the month of July in Europe FX-adjusted for automotive? That is a positive growth rate but we are not reporting by month but I can tell you it is a positive growth number in Europe.

Tim Rokossa, Deutsche Bank

German production was quite weak so that is actually favorable for you.

Klaus Rosenfeld

It is not very big but it is positive.

Christoph Beumelburg

That concludes the call, thank you for joining in. Don't forget we are on the road tomorrow in FFM, then in London, we also do a Lunch Meeting hosted by Citi, if you want to join, talk to the colleagues of Citi.
Thank you and good bye.