Company Name: VW
Company Ticker: VOW GR
Date: 2013-07-31
Event Description: Q2 2013 Earnings Call

Market Cap: 82,936.73
Current PX: 175.106
YTD Change($): +12.356
YTD Change(%): +7.592

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 21.268
Bloomberg Estimates - Sales
Current Quarter: 50851.500
Current Year: 200538.045

Q2 2013 Earnings Call

Company Participants

- Christine Ritz
- Hans Dieter Pötsch
- Christian Klingler

Other Participants

- Stephen M. Reitman
- Jochen Gehrke
- Michael J. Tyndall
- Horst Schneider
- Jürgen Pieper
- Philip R. Watkins
- Fraser E. Hill
- Charles A. Winston
- José Asumendi
- Laura I. Lembke
- Adam B. Hull
- Frank Biller
- Philippe J. Houchois
- Jan Schwartz

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen and welcome to the Volkswagen AG's Publication of Results of the First Six Months of 2013 Conference Call. For your information, today's conference is being recorded. At this time, I would like to turn the conference over to Christine Ritz, Head of Group Investor Relations for Volkswagen AG. Please go ahead.

Christine Ritz

Ladies and gentlemen, welcome to Volkswagen's conference call on the results for the period January to June 2013 based on the half yearly financial report we published this morning. Joining me on today's conference call are Hans Dieter Pötsch, Member of the Board of Management, Volkswagen AG responsible for Finance and Controlling; and the Member of the Board of Management, Volkswagen AG responsible for Group Sales and Marketing, Christian Klingler.

The webcast can be viewed via our website at www.volkswagenag.com/ir where you will also find the chart available to download. We will take questions from analysts and then from journalists after the presentation.

Let me now pass you over to Mr. Pötsch.

Hans Dieter Pötsch

Yeah, thank you, and a warm welcome from my side to those of you joining this call today. Our results for the first six months came in fully in line with our expectations, driven by strong sales in China and supported by the new models rolled out under MQB. The Volkswagen Group delivered 4.8 million vehicles to customers, a plus of 5.4% across our car and truck divisions. Sales revenue, at €98.7 billion, was up 3.5%, a good solid performance in a tough European market, especially considering that sales from our Chinese activities are mainly reported through our joint ventures. Operating profit came in at €5.8 billion.

While Q2 was up on last year, the slower starts to the year in Q1, as we ramped up production of our new models and the difficult European market environment, in particular, meant that earnings for the first six months came in below the first half of last year. Profit before tax, at €6.6 billion, includes strong earnings from the equity accounted investments in China. Automotive liquidity of €11.3 billion remained at a robust level, strengthened by the recently issued mandatory convertible notes and provides a solid foundation for future growth.

Let me now pass you over to Mr. Klingler to take you through the sales performance.

Christian Klingler

Ladies and gentlemen, I'm also pleased to welcome you once again to the conference call and to take this opportunity to present the first half sales figures to you. This chart shows half yearly graph of the world car market and group deliveries to customers in comparison to the same period last year. The global car market advanced by 3.5% in the first half of 2013. But as expected, the momentum has clearly slowed over the last 12 months. The growth was driven primarily by the positive development in North America and the Asian markets, while sales in Europe were still negatively impacted by the prolonged economic and financial crisis.

From an economic point of view, the year 2013 is more challenging than last year. Taking a look at our deliveries to customers, the Volkswagen Group was again able to outperform the overall car market in the first six months of this year. Our sales increased by 5.5%, with growth coming up from China, the United States and United Kingdom. However, the risk in the total market remains high, which we continue to monitor very closely.

Let us now move on to the performance of the Volkswagen Group in direct comparison to the total car market on a regional basis in the first half of 2013. As you can see, the Volkswagen Group had a successful first half year in 2013 by outperforming the total car market in many regions. We have continued to expand our markets out further despite some challenges in South America.

In a decreasing Western European market, the Volkswagen Group was able to gain market share in the first six months of this year. As already mentioned, the main reason for the sales decline in Europe is found, above all, in the challenging economical situation, in which some markets have fallen to new lows and remain at a very low level.

In particular, the major markets, France and Italy, contracted by over 10% against the first half of 2012. Germany and Spain are down as well by 8% and 5%, respectively. The challenge now is to perform successfully against the prevailing negative trend in the market uncertainties. We are convinced that we can defend our strong market position. Although our sales in Central and Eastern Europe were affected by the change of several key volume models, especially of ŠKODA brand, we performed better than the overall market. We also observed high volatility in South America. The development in this market, in particular, Brazil, is characterized by trade restrictions, tariff barriers and increasing competitive pressure from manufacturers with new local production facilities. However, we are confident that with a wide range of local and import models, we are in the position to successfully compete in the challenging environment.

Our development in Europe and in South America has been compensated by strong performances in North America and Asia-Pacific, where our deliveries to customers have shown double-digit growth one more. The positive sales trend in North America was especially driven by the optimistic business outlook continuing in the United States. In addition to this, major market crosses further, increasingly driven by Asian markets such as China and Japan, where demand for our products remains high. Nevertheless, we're looking for further opportunities and potential to continually improve our performance in all regions to build on our long term success.

Here is a look at how each of the Passenger Car brands of the Volkswagen Group performed in the first half. Nearly all of our brands achieved an increase in terms of deliveries. And for the Group, total deliveries to customers, including Commercial Vehicles, exceeded last year's level by 5.4%.

Volkswagen Passenger Cars deliveries rose by 4.4% compared to last year to over 2.9 million cars, mainly due to the strong performance in China, Mexico, South Africa and United Kingdom. This increase resulted, among others, from our higher volume model Golf, which will be rolled out to the further markets over the next few months. Audi increased its deliveries by more than 47,000 cars due to a strong presence not only in Asia but also in the Americas and emerging markets, such as Russia. ŠKODA suffered from weaker markets in Central and Eastern Europe and the change-over of its volume models saw that its deliveries decreased by 5.8% to 465,000 units. SEAT deliveries were up by 11.5% to over 182,000 cars, driven by new products and strong demands in Germany, Spain and Mexico. Porsche deliveries reached nearly 82,000 units in the first half of 2013. Bentley has managed to significantly expand deliveries by 8.9% to over 4,000 units, with strong demand in United States and the United Kingdom.

Now we turn to the situation of the Commercial Vehicles brand of the Volkswagen Group. The deliveries of Volkswagen Commercial Vehicles remained at the level of last year, with a slight increase of 0.2%. Again, the financial crisis in Europe and also a weaker market in Germany negatively affected sales in this region. However, growth, in particular, in the pickup segment in South America, namely Brazil and Argentina, as well as Australia, compensated the decline in Europe. The global truck market above 6 tonnes declined by 4% in the first half of 2013, influenced by the negative trend in Europe and the slowdown of the Asian market. The Western Europe truck market shrunk by 13% and in Central and Eastern Europe by 7%. On the contrary, the major market in South America, Brazil increased by 4%.

In this overall challenging environment, MAN suffered a decline in its deliveries of 5.2%. This decline is largely related to Europe where major Western European markets and Russia experienced the largest sales decreases caused by the difficult economic situation. Bus sales, on the other hand, showed a positive development.

The first half of the year, Scania was able to significantly increase sales by 18.6%. Especially in Brazil, Scania has outperformed the heavy-duty sub-segment development and significantly increased sales. Despite negative market trends, Scania was able to also increase sales in many European markets, including Russia. Underlying sales in Power Engineering, where we are represented by MAN, declined by 7% and reached €1.84 billion.

Let us now take a look at a few model highlights of the second quarter of 2013, which will support our sales performances in the next coming months. With the Volkswagen GTI, Golf GTI and Golf GTD launched in May and June of this year, the successful roll-out of the new Golf family continues. Both models provide an undiluted driving pleasure as well as the dynamic combined with distinctive sport design and new features. At the same time, they continue to offer the qualities for daily-use of the Golf. In addition, the new Golf Estate and Golf BlueMotion will be launched the next – on the market next month and will help to drive sales further.

The Volkswagen Gran Lavida is the new addition to the very successful Volkswagen Lavida sedan in China. With its progressive yet elegant design, it offers a perfect combination of comfort and versatility to the customers. The Volkswagen Gran Lavida had its world premiere at the Shanghai Auto Show in April and hit Chinese roads last month.

The Audi RS6 Avant is the perfect combination of an everyday Audi Avant concept, intelligent performance and ultimate driving dynamics. Besides exclusiveness and the high quality of Audi, this model provides a sporty and unique character, which arouses enthusiasm and emotion. The now third-generation of this model was presented at the Geneva Motor Show this year and was already launched in the market last month.

The new ŠKODA Superb comes with an extensive face lift, which includes completely new front and rear feature elements from the brand's new design language as well as improved engine efficiency. Comfort, roominess and quality, these are the main attributes that defines ŠKODA's flagship. Introduced in April at the Shanghai Motor Show, it reached its first customers at the end of June.

Christine Ritz

Thank you, Mr. Klingler. Now let's look at our financial performance in more detail. Mr. Pötsch, please.

Hans Dieter Pötsch

Yes, of course. And let's begin at a high level. For the period January to June 2013, Automotive Division reported revenue of €87.5 billion, that's up 2%, while operating profit was down at €5 billion, a minus 15%. Influences here include the positive effect from the full consolidation of Porsche, while weaker mix, as European markets remain subdued, restrained earnings. Sales volume, which excludes cars sold by our Chinese joint ventures, came in almost flat at minus 1%.

Moving on to the financial result. The proportion relating to the equity consolidated companies grew slightly, as our Chinese activities performed well, more than offsetting the technical decline from fully consolidating the earnings of Porsche AG. The proportionate operating profit of the Chinese joint ventures was up one-third at €2.4 billion. The other financial result was broadly flat at minus €1 billion after adjusting for €2.6 billion of measurement, gains on Porsche-related put and call options in the first half of 2012.

Turning to the group operating result performance in more detail. Volume, mix, price contributed a negative €0.5 billion in improvement from the €0.9 billion negative reported for Q1. Weaker product mix and sales outside of China were partially compensated by the full consolidation of Porsche, which is included in this position. This position also includes a contingency reserve in the triple-digit million range arising from the recall action initiated in relation to a 7-speed DSG gearbox in the Asia-Pacific region. Exchange rates after hedging were flat. Product cost savings came in at a plus of €0.6 billion, fully offsetting the increase in fixed costs, startup costs, which includes the growth in our factory footprint with the associated higher fixed costs as well as the related higher depreciation.

Despite flat earnings at our Light Commercial Vehicles brands, the weak market in Europe, in particular, weighed on earnings in our Commercial Vehicles, Power Engineering division. In addition, in Q2, MAN topped up the contingency reserve established in Q1 relating to a large order to construct turnkey diesel power plants. In total, the division's earnings slipped to €78 million.

The Financial Services division, including the financial services activities of all our brands and also of Porsche Holding Salzburg, lifted operating earnings by just short of €100 million. In total, operating profit came in at €5.8 billion.

Let's now take a closer look at the financial performance of our main brands. The Volkswagen Passenger Car brands reported an operating result of €1.5 billion in the first half, reflecting lower sales volume and weaker mix as well as costs for new technologies. Earnings at ŠKODA were held back due to costs related to important model startups, as well as the tough European market conditions.

SEAT reported a positive result for Q2, benefiting especially from the success of the new Leon, which offsets model start-up costs. With a 10.5% margin year-to-date, Audi posted robust earnings of €2.6 billion despite the tough market conditions, as well as costs relating both to new technologies and to the expansion of their production footprint. Porsche continued to post strong earnings, with an operating result of €1.3 billion and a margin of over 18%. Bentley made steady progress. Altogether, premium brands made up around two-third of our operating results, highlighting the difference in the resilience of the markets for premium in comparison to the markets for volume cars.

Scania posted slightly lower earnings, while MAN slipped to a loss after the inclusion of project-related provisions in difficult market conditions. Our Light Commercial Vehicles brands was able to grow earnings slightly on the back of positive price and mix effects.

The increase in the Others line reflects, in part, the full consolidation of Porsche, which has led to higher elimination of inter-company profits. Volkswagen Financial Services booked 2 million new contracts. That's up 8.2% on the first half of 2012, growing earnings slightly in a tough market, underscoring the importance of Financial Services to the Automotive arm of our business.

Let's now turn to cash flow in the Automotive Division. Operating cash flow increased from €6.8 billion to €8.4 billion. Working capital grew by €2.1 billion, around €1 billion lower than last year. At 4.5% of Automotive revenue, CapEx was in line with our guidance of between 6% and 7% for the full year, following the usual seasonality pattern. Capitalized R&D of €1.6 billion were just below 30% of all R&D spent, again, in line with guidance and reflecting the higher capitalization ratio of the newly consolidated MAN and Porsche brands, as well as ongoing model development focused on our toolkit architecture. New cash flow came in at a strong €3.1 billion before considering equity investments, which in particular include €1.7 billion for the transfer of the 50% share in LeasePlan from our Financial Services Division in the first quarter, as I reported on our last call.

As of June 30, net liquidity stood at €11.3 billion in the Automotive Division. It's worth recalling that the recent quarter included the annual dividend to shareholders of Volkswagen, as well as to the minority shareholders in Scania and MAN. Liquidity was strengthened by the successful placement of a mandatory convertible note to the value of €1.2 billion, of which €1.1 billion is booked within net liquidity.

And so to conclude my presentation today, let me now turn to our outlook statement, which is detailed in full in our half yearly financial report. We anticipate that in 2013, growth in the global market for passenger cars is likely to be weaker than in 2012 and that the overall volume in the market for light commercial vehicles, trucks and buses that are relevant for the Volkswagen Group will remain at the same level as in 2012. Demand for mobility-related Financial Services is likely to rise further.

We expect that the Volkswagen Group will outperform the market as a whole in a challenging environment and that deliveries to customers will increase year-on-year. We expect the Volkswagen Group's 2013 sales revenue to exceed the prior year figure. Given the ongoing uncertainty in the economic environment, the group's goal for operating profit is to match the prior year level in 2013.

Christine Ritz

Mr. Pötsch, thank you very much. We will now take questions from analysts and as always, we would be happy if you could restrict yourselves to just two questions to allow everyone to ask a question in the time available. Thank you.

Q&A

Operator

Thank you. [Operator Instructions] We will now take our first question from Stephen Reitman from Société Générale. Please go ahead.

<Q - Stephen M. Reitman>: Yeah. Stephen Reitman from Société Générale in London. First of all, question on the capitalization ratio, which rose quite strongly in the second quarter versus the first quarter. Could you comment on what was behind that? And secondly, you alluded to the impact of further footprint expansion at Audi for a slight decline in the margin between Q1 and Q2. Was that referring specifically to Hungary and Mexico? And could you give us like roughly how much that would be? Thank you.

<A - Christine Ritz>: Okay, thank you very much, Stephen. You have two questions for us. The first question refers to the capitalization ratio in Q2, which was higher than in Q1. So you would like to hear some more details, what is behind that.

And the second question refers to Audi and the margin development in the second quarter, the reason we mentioned the impact of the footprint expansion and you are interested in some more details, what is behind that and how much is that. So Mr. Pötsch, please.

<A - Hans Dieter Pötsch>: So first of all, on the capitalization ratio. In terms of R&D, here, it's very clear that we've added by full consolidation companies, mainly MAN and Porsche, which operate on a higher level of capitalization as compared to the average of the Volkswagen Group. You want us to take into consideration that the business model of these companies is different, and to that extent, it does influence the average capitalization ratio. So clean off these effects, the ratio would have gone up from 23% to some maybe 26%. And the remaining difference is clearly to be explained by the high level of R&D going forward, the milestones reached, which will lead to quite a significant number of new model introductions in the next month and quarters to come.

On the Audi margin, I think we can be very pleased with the performance shown in the second quarter. Audi is committed to continue to operate in a range of 8% to 10% of operating margin, and we clearly indicated already at the beginning of the year that we believe that Audi will be able to continue on the upper level of that range, which Audi succeeded with in the second quarter. So I think there's nothing to claim about at this point.

Clearly, there were some effects by the new expansions of the footprint already under execution on different levels. If you might have picked up by the newspapers, the site in Hungary that was opened already, with the production of the A3 sedan already started, there will be another big step taken by starting production of the TT successor because that's pretty far advanced. And of course, also circumstances in Mexico are proceeding. Still, that's in another time window so far, but we will see also some effects going forward on that point.

I do not want to give a number what the effect was concretely because this is going to change in the upcoming quarters here and there. But it definitely will carry Audi into a new size, which is, according to the strategic plans of Audi, therefore, it's absolutely necessary. Otherwise, again, to confirm this, we're absolutely happy with the performance of Audi.

<Q - Stephen M. Reitman>: Thank you. If I may just also ask on Porsche, the 19%, 19.2% margin in the second quarter was extraordinarily high. Is the guidance still for Porsche for the full year to be in the 14% to 15% range?

<A - Christine Ritz>: Okay. Thank you. So one further question on the margin of Porsche, if we can give there an outlook for the full year.

<A - Hans Dieter Pötsch>: We do not want to change our guidance which is in the market so far. We want to maintain at least a 50% level for the simple reason that we should not forget what is in the forefront for the second half of the year on the Porsche side. We'll introduce two milestone projects, one is the supercar 918 Spyder, the first plug-in hybrid in this segment of cars; and secondly, the Macan SUV, which is a new offering on Porsche side in a very attractive market. That's, of course, causing a number of upfront investments and an awful lot of R&D activity also. So there will be some burden to the Porsche P&L in the second half, which should not be taken as any pessimistic statement from my side, but we do not want to change the guidance so far.

<Q - Stephen M. Reitman>: Thank you very much.

<A - Christine Ritz>: Okay, next question, please?

Operator

Thank you. We'll now take our next question from Jochen Gehrke from Deutsche Bank.

<Q - Jochen Gehrke>: Yes, good afternoon. Two questions on my side. First of all, on MAN, obviously, rather disappointing performance, with very substantial charges taken by the company. Now, you have finished your domination agreement. Is there any strategic changes, be it either changing management, changing reporting lines inside this company that we should be expecting from MAN going forward? Or do you regard the further €300 million in the powertrain as a one-off and actually are pleased with the underlying way they are running the business?

And then secondly, on LatAm, yesterday, one of your competitors was relatively optimistic on the second half. I wonder whether you could share your view on the market development, whether you think the government will ever cut the IPI tax support that we've seen now for a number of months and quarters.

And thirdly, just very briefly on MQB and how we should be thinking about your bridge that you presented in the presentation pack. I mean, now we have roughly the same product savings as we have fixed cost increase, is that spread going to be positive? Any change in the second half of the year or should we really wait until 2014 before any sizeable MQB effects will be visible?

<A - Christine Ritz>: Okay. Thank you, Jochen. So you have three questions for us. The first question refers to MAN. Do we intend to do any strategic changes or what can we expect there in the future?

Second question refers to the market in Brazil. What is our expectation for the second half of this year?

And the third question refers to the MQB impact. What do we expect for the second half or for the full year? Would the MQB impact will be visible in a way, also in comparison to fixed costs, and you are interested in some more details here. I would suggest that Mr. Klingler starts with Brazil.

<A - Christian Klingler>: Okay. So as you know, the Brazilian market has now, since more than a year, this IPI tax advantage which has been reduced a little bit over the last months, starting in January. Of course, a lot of the market development depends on this IPI tax structure, which is, by the way, influencing both the cars market as well as with another structure, the truck market. How and when this IPI will be changed, we don't know yet.

We expect that the global market, which means the total passenger car market, in Brazil stays more or less flat to last year, maybe smaller decline. So we are not in the situation to believe that there is something very positive in terms of total market there. I would even like to add that it is even not a very positive sign that the market is not growing strong because, normally, if you have an incentive scheme as you have today in the market, this should be dealt, a more dynamic situation.

Brazil is, as you have heard as well in the press, under some social tensions. There's some discussions, some political discussions as well, and we are extremely sensible on what is going on. And we are following very clearly the political and economic situation.

On the other side, we see that a lot of competitors are going stronger and more aggressive into the market. Some of them have new plans and then, as a consequence, new products. And we are there to follow up that very thoroughly. Thank you.

<A - Hans Dieter Pötsch>: Okay, so let me continue, first of all, with the question on MAN. Clearly, at the first look, we are disappointed with the performance. The markets are continuing to be relatively weak. Nevertheless, I think it's worthwhile to have another look at the performance because it's not all bad. There are a number of entities, the entity in Brazil, the gearbox company rank, which do perform quite okay, I would say.

And then the other part is that on the basis of a number of decisions taken in the past, I think the team is making good progress at the truck and bus side. Also, yes, we had this one-off situation with regards to power plants in the Caribbean on the diesel and the turbo side, which is burdensome as we had to accept. But I think there is some good starting position built now to take further steps then. Now important here is that we were able to get the domination agreement registered. So everything clear on that side.

And it's very clear that the teams at MAN and also responsible people in the group are looking at further possibilities to find ways to improve efficiency and productivity. I should not miss to say, at this point, that the truck market seems to be a little bit more supportive in the last couple of weeks. Hopefully, this continues on. You're well aware that in the forefront of the introduction of EU6 next year for the trucks, we always said that we do expect some pre-buying. And hopefully, these are the signs pointing into that directions. If we are going to change anything further on in terms of more structural things, it's something which we will give a thought, and certainly, we'll inform you going forward.

On the MQB side, let me, first of all, say that there is nothing to be changed as compared to previous statements made by the company. Maybe we could add the point that the first MQB models are extremely well received by the market. And certainly, the direct response in a challenging environment, they also do contribute significantly to stabilizing prices, which is one of the most important things in this world.

Now clearly, and again, just to repeat this quickly, in consistence with former statements, we will see the number of vehicles built on the MQB platform going upwards in the second half of this year. So there should be some slight effect, more pronounced in the fourth quarter, which should create the possibility to visit that effect. And then clearly, the number of vehicles, full year basis 2014, will be significantly higher, in total, roughly 2 million cars. If we take China out, it's already 1.5 million cars, outside of China roughly speaking. So we're looking forward to be able to see these effects in our P&L also.

<Q - Jochen Gehrke>: Sorry, if I just may follow on, on MAN. I mean, obviously, the problem is not spread all around the group, but at least in my view, and I think partially shared also yesterday by management on the call, the company sits on structural overcapacities in part of the business. Should we be thinking that going forward, Volkswagen should see this as an opportunity as VW keeps on growing to take some of that capacity on-board and maybe retool a plant and, therefore, take these burdens off the shoulders of MAN? Or is this a far-fetched thought as one example for a Corporation? Thank you.

<A - Hans Dieter Pötsch>: Let me simply say, at this point, without confirming anything, but it is clear that after the conclusion of the domination agreement, we have all the options open. And that's what I meant, actually, when I said that the teams of MAN and Volkswagen will sit together to develop a clear strategic plan how to go forward in the best interest of the company.

<Q - Jochen Gehrke>: Okay, thank you.

<A - Christine Ritz>: So let's have the next question, please.

Operator

Thank you. We'll now take our next question from Michael Tyndall from Barclays. Please go ahead.

<Q - Michael J. Tyndall>: Yeah. Hi, it's Mike Tyndall from Barclays. Thanks for taking my questions. Two, if I may. One, if I just think about the second half in terms of launches, Mr. Pötsch, you mentioned that Q1, that I think you're running at something like four times your normal average in terms of launch costs. I would have thought that a lot of that is now behind us in terms of the major launches. If I think about MQB costs, a lot of that is behind us. From what I can see, you only need to do what you did in the first half to reach your target. So, I'm wondering, are there any other headwinds that we're missing in terms of what the second half looks like? Because it feels like your momentum, if you like, is going to accelerate into the second half.

And then the second question. I'm going to be a bit greedy here and ask about next year. Consensus is currently sitting at €14.1 billion, a long way ahead of your €11.5 billion target for this year, a bit like the scenario we are in last year. I wonder if you could just, perhaps, give us – I know it's early. You're not in your budgeting round yet, but maybe some color as to how you feel about that consensus number for next year at this point given a lot of the work that you've been doing should start to reap dividends next year. Thanks.

<A - Christine Ritz>: Okay, thank you, Mike, for your two questions. The first question refers to the second half, if we see any headwinds in the second half or how do we – or what do we think of the second half and our performance there.

And the second question refers to the year 2014. What is there, our thinking, our expectations in terms of performance. And maybe we can talk also a little bit about the market environment in 2014 and then also you asked for the dividend. So I would suggest that Mr. Klingler will start with the markets next year and then we – or second half next year and then we will add the financial performance.

<A - Christian Klingler>: Okay, with pleasure. So as you know, we are – in terms of general markets on a world level, on a positive way. So maybe we go with the good things and talk then afterwards with the, let's say, chances of not-so-good things, as you like. We believe that the general market in North America has further potential for growth. This is essentially due to several reasons. One is, of course, the economical situation, which is recovering step-by-step, slowly but surely, as well as the house prices are getting, let's say, better confirmation and therefore the people going for further possibilities of investment. Of course, they have now access, again, to very low interest rates. Personally, I don't hope we'd come back to the situation before the crisis because this was one of the reason of the crisis. And we see as well that the average age of the cars is pretty high. One of the highest in the developed countries. And it's pretty logic that you replace a car.

Particularly stronger growth is in the truck market due to a lot of new launches and the passenger car market will not grow as fast as the truck market. So for the first six months, just to give you a feeling, the passenger car market in United States, growth was about 4%, something like this, and the truck market was something like 9% to 10%. So we believe there is continuous positive sign in total market there.

We see as well a positive situation in China. Of course, economical situation is not the same as it was one or two years ago. But still demand is positive and we believe, up to the end, it will be there. We are on a situation where we feel end of the year for South America, which is more or less stable. And as I mentioned before, this is not a very positive feeling due to the not-so-strong impact of incentive scheme given in Brazil. So, normally, it should be even stronger. So therefore, we are, in general, follow very closely what's happening in South America.

India is a very special case. There is negative development driven by political uncertainty. As you know, there will be elections as well driven by high cost of interest rates. And various changes in taxes, particular in terms of petrol taxes and so forth. So, here, we believe the situation will not improve. Russia is going to be stabilized. There is maybe some risk ahead of us in terms of total market. And in Europe, we believe that the situation, which has been developed over the last, I would say so, about two years, even a bit longer, will continue to be there. So we are not believing that the crisis in Europe is over.

So, let me go then to 2014 on a general level of market, we think that there's potential further growth on a worldwide level, again, driven by the Asian markets and to a lower extent by North America. We believe that as well that in Europe, we will not have a positive tendency on a high level. So, in our feeling, we believe, in the best case, it's something like a flat orientation which means even could become a little bit worse. But let's be honest, we are now in July, talking about 2014 in July the year before is very, very early. But that is today's reading so we shall see what's happening over the next years – next months, sorry, to come.

And for the other countries, I would prefer to wait a little bit. So for some opinion, we need to wait, what's happening with the political development. In Russia, we need to wait, what's happening with the prices of petrol. And in South America, we need to wait a little bit, what is happening with the political and economical situation, particularly in Argentina as well as in Brazil. So this would be my answer.

<A - Hans Dieter Pötsch>: Okay. So maybe I can continue on commenting on the situation with regards to the financials. Just absolutely in line with Mr. Klingler's description of the economical framework. It's definitely clear that going forward into the second half, we still have to recognize that there are continuing uncertainties in the markets, specifically in Europe. And therefore, it still – and it remains quite a challenge to produce the same, more or less, operating result in the second half as compared to the first half in 2013. But we think we can perform in this direction. I need to say that for the third quarter, it needs to be taken into consideration that it will be influenced by seasonal effects like over the summer period, of course, and the factory holidays.

Now looking into 2014, it's absolutely clear that the longer we look forward, the more difficult it is to really do a proper forecasting. At this point, uncertainties are increasing. As Mr. Klingler said, we feel more supported. We talk about Asia, North America, the most difficult area to do a proper forecasting is certainly Europe. Now clearly on that basis, we have to stay cautiously optimistic, maybe that's the right term. There will be clearly also some limited growth opportunities. But as I've said, uncertainty remains, and as we stated in the Annual Report, the group's target for operating profit in 2013 is to match the 2012 figure. And in 2014, we go for exceeding the 2012 figure. When I say exceeding, it's clear that under the circumstances, expectations should remain on a realistic level.

<Q - Michael J. Tyndall>: Thanks very much.

<A - Christine Ritz>: Okay, let's ask the next question, please.

Operator

Thank you. We'll now take our next question from Horst Schneider from HSBC.

<Q - Horst Schneider>: Yes. Hi, it's Horst from HSBC. Just one quick follow-up on the question from Mike Tyndall, just regarding sales. So is it fair to assume that your sales in H2 will be higher than in H1, and we can also expect that the sales ex-China will grow in H2 year-on-year?

Then the second question that I have related to China regarding the dividend payments from China. Maybe you could give us a hint what is the total dividend that we can expect this year from China and how much has been paid actually in Q2?

And the last question also relates a little bit to the cash flow. Because it's the first time that we talked since you issued the mandatory convertible bond, I would be interested to know what is the capital – the policy going forward. So how should we think about these capital raising measures in relation to the free cash flow? So could you confirm that we are now completely done with this instrument issuing convertible bonds? Thank you.

<A - Christine Ritz>: Okay, thank you, Horst. So we have three questions. The first question refers to sales. What is our expectation for sales in the second half. This year, will the sales be higher than in the first half? And what is the sales without China? How would that be in the second half in comparison to the first half?

Second question refers to the payment – dividend payment coming from our joint ventures in China. What do we expect for the full year and what was – what did we already receive in the second quarter?

And then you asked on the – you have a question about the convertible. Is there any further measures to expect another convertible or other, let's say, equity-linked measures. Thank you.

I would suggest that Mr. Klingler start with the sales question.

<A - Christian Klingler>: Okay. So, of course, it's always complicated to answer this very precisely. The tendency is that the second half of the year, in terms of sales, would be slightly stronger than the first half of the year. And this is both true by the sales with China and by the sales without China. So that is, I think, the answer of the question, what I could give you. Thank you.

<Q - Horst Schneider>: Okay, thank you.

<A - Hans Dieter Pötsch>: So on the dividend. Question is, dividend with regard to the received dividends from the Chinese joint ventures. We did receive roughly €2 billion so far. And there is another payment which has not been received yet, but is booked as a receivable in the magnitude of €600 million for the second half.

In terms of the question on our policy with regards to the convertible bond, I can say there were no decisions taken, also no plans under consideration. And maybe at this point, I should also say, as we position to the whole transaction, we did see this as a clear opportunistic move, which was a certain time window also with regard to the first transaction which we did last year. So there is no basis for taking any conclusion that this would be any kind of normal procedure going forward.

<Q - Horst Schneider>: Okay, thank you.

<A - Christine Ritz>: Sorry. But may I remind you to really to stick to two questions because we are running out of time. Thank you.

Operator

Thank you. We'll now take our next question from Jürgen Pieper from Metzler. Please go ahead.

<Q - Jürgen Pieper>: Yes. I have two quick questions. The first one on North America, you already commented on that – on the market, but your own business, how would you characterize it so far with Volkswagen sales being down recently and Audi and Porsche being up? And would it also be the case probably in the second half?

And secondly, if I look at your P&L for the second quarter, your selling cost went up by just 3.6%, which is relatively unusual in the business that they are – they grew so much slower than the revenues. Can this also be continued in the second half from your point of view?

<A - Christine Ritz>: Okay, thank you, Jürgen. You have two questions for us. The first question refers to North America. And if we can talk also a little bit about the poor performance of the Volkswagen brand, what do we expect for the second half?

And the second question refers to our P&L in the second quarter, the selling cost, what do we expect there for the upcoming quarters? And I'm sure Mr. Klingler will be happy to start with North America.

<Q - Jürgen Pieper>: Okay.

<A - Christian Klingler>: Okay, maybe we should, of course, talk about North America, but I think your question, particularly, is focused in the United States, on America. America, the tendency is positive, by the way, for all of the brands. So let's come back a little bit what is the history of – I think particularly, you're going for the Volkswagen issues in general. If you go back to Volkswagen about three years, four years, five years ago and today, it's a totally different world. So we have achieved very strong growth rates over the last three years in nearly doubling the volumes. And we have brought on the market the all new Passat, with our plant in the United States, which is performing very strong, have as you know sold before 10,000 cars, more or less in a year now we sell more than 10,000 cars a month.

So is it abnormal that this growth rate is not coming at the same level this year? The answer is no. It's not abnormal, it's something which seems to be not unusual as we have no additional further strong models being launched there. We expect as well that, over the year, this will be the case. So this is more a structural thing than something else. And I think what it needs to be as well, very much kept in mind, what I said in the beginning, even though the general market in the United States is running up by a rate close to 10%, a little bit lower, particularly strongly is going to truck market. So the passenger car market is not on the same growth rate.

And as you know, the Passat and all of our models, more or less, with the exception of the Tiguan and the Touareg is playing in the passenger car markets. So we expect, in United States, a ratio in terms of growth for the Volkswagen brand, which is maybe on the same level in terms of total volumes than last year.

The other side we see a good performance in terms of Audi. We see a good performance in terms of Porsche. We see, as well, a good performance in terms of Bentley and the other brands. So I think in general, our performance in United States is good, but it as well, if we go for the total North American Continent, in general, positive because we see that we have other growth situations like in Mexico, for example, or like, of course, in Canada. Okay.

<Q - Jürgen Pieper>: Thanks.

<A - Hans Dieter Pötsch>: The remaining question on the P&L in terms of the distribution expenses, it is, of course, characterized by the consolidation of Porsche. I should also say at this point that quite normally, it's not apples-to-apples comparable with others normally. For us, the structure should stay at about the level which is stated in the first half of 2013 now.

<Q - Jürgen Pieper>: Okay, thanks.

<A - Christine Ritz>: Okay, let's take the next question, please. Thank you.

Operator

Thank you. We'll now take our next question from Philip Watkins from Citi. Please go ahead.

<Q - Philip R. Watkins>: Good afternoon. Thanks for taking my question. I just wonder if I could do a follow-up on the China dividend point. It sounds a healthy dividend than I was anticipating. But is this dividend that you anticipate will rise proportionately as China makes more profits? So it could be more than €2.6 billion for instance next year?

And secondly, it's really just I was wondering what you could say about current inventory levels. Thank you.

<A - Christine Ritz>: Okay, thank you, Philip, for your two questions. So the first question refers to the China dividend. If we can give their forecast for the next year, can there be even more?

And the second question refers to inventory levels. And Mr. Klingler is happy to start with that question.

<A - Christian Klingler>: So maybe we've come to the current inventory level. In general, we feel that we are in a good level, that we have, in general, a good performance. End of June, of course, we have some, let's say, with some brands, some high levels which is due to essentially to the closing of some of the plants which is the normal summer break as we have, for example, in China, as well as we have here, particularly in Europe. So we believe that we are continuing to be in a very good path, very good track of having a very healthy stock in general.

<Q - Philip R. Watkins>: Thank you.

<A - Hans Dieter Pötsch>: So then, again, on the China dividend. I mean, first of all, without any operating performance, no dividend, that's very simple. And as you're well aware, we have embarked on a very massive investment program to be able to maintain or even build up our market share in China. It's important to say that we do fund these investments purely by either existing liquidity in China or ongoing cash flow, which is being produced in these joint ventures.

So it's obvious that by taking the resolutions on the dividend payout together with the partners in China, we need to reflect this necessity. So on that basis, I think it's been a big step from last year to this year that we're able to increase the dividend from €2 to €2.6. And then we need to see if net cash flow production continues on, on the level which we actually see, I would not rule out that improvements are even possible on that level but, again, in the framework which I explained before.

<Q - Philip R. Watkins>: Right, thank you.

<A - Christine Ritz>: Okay, next question please?

Operator

Thank you. Our next question comes from Fraser Hill from Bank of America. Please go ahead.

<Q - Fraser E. Hill>: Yeah. Hi, good afternoon. It's Fraser Hill from Bank of America. Just two questions. One on the cash flow. There's some confusion today in the market regarding one of your working capital lines in the statements, if you look at the change in other provisions, obviously, that was negative €884 million, I think, for Q2. Can you just confirm that, that was not effectively a relief into the P&L, into the EBIT, as in there was no P&L benefit? And also confirm that, that was in relation to annual bonus payments, which I think was my understanding of that topic. And I think we saw that last year as well, but maybe just some color from you would be useful.

On the second question, on Porsche. Interested to hear your thoughts on synergies with Porsche. I mean, obviously, I think you've upgraded your synergy target earlier this year from €700 million to €1 billion. And as of May, I think the comment was there was still €620 million-or-so of those synergy outstanding. Where did do we get to by the end of the second quarter? How should we think about these synergies in H2? And in 2014, what's the run rate going to be of harvesting those synergies? Thank you.

<A - Christine Ritz>: Okay. Thank you, Fraser, for your two questions. The first question refers to our cash flow statement and the changes in other provisions. If we can explain that a little bit because we got there some questions. We got some questions today on that position, also in terms of bonus payments and what are here the major factors behind it.

And the second question refers to Porsche and the synergies. We do – we have achieved or we do see to achieve, what is our assumption there for the full year. How much can we achieve this year? And also maybe we can give some details for the upcoming quarters over next year. Thank you.

<A - Christian Klingler>: So first of all, as far as the bookkeeping is concerned. On the question of the provisions, you already made the appropriate point. It's very similar to what we were doing last year and also the year before. It is that the P&L effect proceeds already in the year 2012. And then there is a provision covering the bonus payments. And with regards to the payout, this provision is being consumed. That's it, there is no benefit to the P&L out of this position.

And then on the synergies of Porsche. Clearly, as we are already talking in our last conference call, we're on a very good track there that's why we're able to step up the target from €700 million to more than €1 billion. And it, of course, does have to say with the ongoing execution of projects. And there, one of the cars, which I was talking about before, does play a key role, that's the Marcon car. And of course, that is a very important project, which is realizing synergies between Volkswagen and Porsche. So on that basis itself, we are very well on track. The amount which we think we can realize for the full year 2013 will be at least €400 million.

<A - Christine Ritz>: Okay, let's have the next question, please.

Operator

Thank you. Our next question comes from Charles Winston from Redburn Partners. Please go ahead.

<Q - Charles A. Winston>: Yeah. Hi, good afternoon. Charles from Redburn here. Just two for me as well very, very quickly. Can you confirm the dividends from China, leave China? In other words, are they actually in bank accounts outside? I asked the question certainly because there are some issues about repatriating cash out of China. I just wanted to confirm that you guys can do that.

And then my main question is on pricing trends. I was wondering if you could perhaps give us an update as to the pricing trends you're seeing in Europe both perhaps at the Audi level, the premium level, and at the mass market level. And if there are any growing pricing pressures in some of the weaker emerging markets, such as LatAm, Russia, India, et cetera, that would be kind. Thank you.

<A - Christine Ritz>: Okay, thank you very much, Charles, you have two questions for us. You have a question for Mr. Klingler in terms of pricing trends, if you can give here some more details in Europe and how we can differentiate between mass and premium segments and also the situation in the BRIC markets.

And the second question refers to China, if we really have received the money or if we managed to get the money out of China, if I got you right. So...

<Q - Charles A. Winston>: Yes.

<A - Christine Ritz>: ...please, Mr. Klingler.

<A - Christian Klingler>: So I would try to answer your question about the European situation in terms of pricing. So if you go to the general market and the decline of the market, which is now happening since years, it is pretty normal that the pressure on pricing is going up and this is the case. So when you see as well that the markets are suffering and some of the competitors are suffering, it is not abnormal that the situation is occurring. So this is, by the way, true, of course, stronger for the volume brands than it is for the premium brands. But as well on the premium brands, the pricing pressure is increasing. We see these tendencies over the next months to come as well.

As a general remark for the markets, as you know, the Volkswagen Group and its brands try to be always prudent in terms of the pricing pressure. We have, as well, of course, the obligation sometimes to react when we think it's necessary. But in general, we believe that the market will not give us a situation that this pricing pressure will decrease over the next months, if not, over the next year to come. This is what I would like to answer to your question about the pricing tendency in Europe.

<A - Hans Dieter Pötsch>: Okay. Then a quick one on to China dividend, it's on our bank account in Europe.

<Q - Charles A. Winston>: In Europe, okay, very clear. Thank you.

<A - Christine Ritz>: Okay, thank you. Let's have the next two questions please and then we have actually time for only one question per person for analyst.

Operator

Thank you. We'll now take our next question from José Asumendi from JPMorgan.

<Q - José Asumendi>: Thanks. I will like to dig a little bit into production. And if you look at production for Passenger Cars, ex-China and, if possible, ex-Porsche, is it fair to assume the group is starting to turn the corner in the second quarter, i.e., was production roughly flat in Q2 year-on-year? And could you provide any comments around production sequentially into Q3 and Q4 and, if possible, ex-China?

And then second on CapEx, just basically what are your CapEx assumptions for the second half, if possible, on absolute values? Otherwise, very happy to hear as a percentage of sales. Thank you.

<A - Christine Ritz>: Okay, thank you, José. So we have two questions. The first question refers to production. If you can give a figure for the first half production ex-China and ex-Porsche. And if we can give an outlook for the second half, so Q3 and Q4 production ex-China.

And then the second question refers to our CapEx assumption for the second half of this year, absolute number of CapEx ratio, what do we expect for the second half?

<A - Christian Klingler>: So, first of all, on the production side, production in total terms, first half 2013 was 4,868,000 cars, that's a plus of 4.4%. Without China, it's been 3,408,000 cars. That is a minus of 0.7%. We do not have the detailed numbers with Porsche on hand. But if you assume a rough 80,000 cars figure for Porsche, that is the appropriate production on the Porsche side. Then quite normally, due to the summer shutdowns in the third quarter, production will go down. So this clearly means that in the fourth quarter, we'll move production substantially up just to be able to serve the markets appropriately and to maintain ideal inventory levels towards the year-end on the basis of our target to beat the 2012 volume numbers in 2013.

And then on the CapEx side. First of all, as we did report for the first half, we've been operating on a basis of roughly 4.5% CapEx to sales ratio and we stick to our target for the full year to come out between 6.5% and 7%. Clearly, we need to say here that quite normally, we would operate below our budgets for a good part of the year. Until then, in the last quarter, there is some intensive booking. But again, we have continued to confirm our target of below 7% for 2013.

<Q - José Asumendi>: Thank you very much.

<A - Christine Ritz>: Thank you. As we are running out of time really, I would like to ask you to raise one question only please.

Operator

Thank you. We'll now take our next question from Austin Earl from Marshall Wace. Please go ahead.

<Q>: Hi, good afternoon. My one question is just on the EBIT bridge, slide 11. Could you just explain on the volume/mix/price and how that – the swings in the first quarter of minus €0.9 billion to €0.5 billion for the half, giving a plus €400 million implied for the second quarter? Can you just explain why that swung from minus €900 million to plus €400 million from Q1 to Q2 of this year?

<**A - Christine Ritz**>: Okay, thank you, Austin. So we have the question about the EBIT bridge and the column about volume/price/mix, the changes in Q2 in comparison to Q1.

<**A - Hans Dieter Pötsch**>: So a very quick one. At this point, first of all, we're able to perform better on the volume side. We're able to push through some price increases and the product mix, country mix was also better as compared to the first quarter. That brought us in the position, together with what I already said, which needs to be taken into consideration that Porsche came up with a quite convincing performance to reduce the distance as compared with last year's performance.

<**Q**>: Can I follow up and just sort of ask, I mean, did mix and price go from being negative to positive?

<**A - Hans Dieter Pötsch**>: No. It's still negative but to a lower extent.

<**Q**>: Okay, great. Thank you very much.

<**A - Christine Ritz**>: Thank you. Next question, please.

Operator

Thank you. Our next question comes from Laura Lembke from Morgan Stanley. Please go ahead.

<**Q - Laura I. Lembke**>: Yeah, good afternoon. I actually also have one follow-up question on China. I saw that your Profit Per Vehicle in the joint venture has actually now reached a record level, so I was just wondering if there were any special effects in the second quarter or if you would say that this is actually a sustainable level of profitability going forward or if you could even maybe – or if you believe you could even exceed that going forward? Thank you.

<**A - Christine Ritz**>: Thank you, Laura, for your question on China. So you are wondering if the Profit Per Vehicle in China, if that is a sustainable development we will see or if there any special effects we have seen in the second quarter.

<**A - Hans Dieter Pötsch**>: There were no special effects in China in terms of financial performance in the second quarter. Dare to say that this is the normal level of profit per car. We know it's on a very high level. And as Mr. Klingler pointed out also in China, of course, there are always a number of uncertainties. That's why we're closely watching what's going on. But first of all, to say this very clearly, there were no special or extraordinary effects in the second quarter.

<**A - Christine Ritz**>: Okay. Next question please.

Operator

Thank you. Our next question comes from Adam Hull from Berenberg. Please go ahead.

<**Q - Adam B. Hull**>: Hi, good afternoon. It's Adam Hull from Berenberg in London. Just the one question. On the VW brand margin, you had a 3.5% margin in Q2, up from 2.4%. Now I don't know whether there were some one-offs there for DSG gearbox in Q2. But just broadly speaking, these are some extremely tough conditions in the European market, as you say, you're just getting going on the MQB. When we look back at history, your highest margin for VW brand for full year, was a 4.0% in full year 2011. I don't know whether you can give us some sort of feel as to, even in these tough conditions, is exceeding 4% feasible relatively soon? Just give us a little bit more feeling of – as to the scale of those benefits that are starting to really to come through into 2014 on the VW brand side? Thank you.

<**A - Christine Ritz**>: Okay, thank you, Adam, for you question on the Volkswagen brand then the financial performance. So, you would like to have a little bit more color on the potential of the Volkswagen brand, also in the future, and what can we and you expect from the Volkswagen brand.

<A - Hans Dieter Pötsch>: Well, I think, first of all, it's been quite a reasonable performance, the Volkswagen brand turned out within – in the second quarter. Let me very quickly recall for you that we are still in this process of introducing variants on the MQB platform. So there is quite a significant cost load still on the company. Also, the spreading out the MQB into the regions is a process which already got started and that's a cost we're undertaking. Nevertheless, as I also said, there will be very significant returns coming back. But market performance was okay, as Mr. Klingler pointed out. And on that basis, I think it's been quite as I said, a reasonable performance.

Is it possible to pass over the 4%? Yes, of course, and the target setting at the Volkswagen passenger car vehicles is significantly higher than the 4%. But to get there, we need to have the full installation of the MQB platform in the regions. So that's a process which will take into 2015. And that's why this certainly is not a short term exercise.

Secondly, again, to remind you to that point, it might sound a little bit odd when I say, so far, we can say that we did all the things right in terms of installing the new platform, introducing the new vehicles on this platform, it is that we have significantly successful with the new models. But clearly, currently, there is limited support by the markets. If we have a slightly improved framework, then it's clear that the incremental volume will over-proportionally contribute to the performance of the Volkswagen Passenger Car brand. Now it's not what we do forecast for the near term, but I think I should have made this point just to make sure that, again, all what we can carry responsibility for is well on track, and now we're going to see when the markets continue to stabilize more.

<Q - Adam B. Hull>: Thank you. Could I just ask what the DSG charge because I think you took another and you're taking in VW brand as well in Q2?

<A - Hans Dieter Pötsch>: It was another three-digit hit on the Volkswagen Passenger Cars brands result, by building a provision on top of the one built in Q1. We think that most probably should be it now. But clearly on a clean basis, that would even mean that the result of Volkswagen Passenger Cars brand would be even slightly better.

<Q - Adam B. Hull>: Thanks very much.

<A - Christine Ritz>: Okay, next question, please.

Operator

Thank you. Our next question comes from Frank Biller from LBBW. Please go ahead.

<Q - Frank Biller>: Yes, hello, good afternoon. Frank Biller from LBBW. This week, we heard something about Suzuki negotiations that are going on. Maybe you can give us an update on the current situation here?

<A - Christine Ritz>: Thank you, Frank, for your question on Suzuki. This will be a short answer.

<A - Hans Dieter Pötsch>: Okay. On Suzuki, there is still no comment to be made for the simple reason that, as you know, there are arbitration proceedings on the horizon. And that's why both parties are subject to confidentiality agreements. And hopefully, you'll accept this. But for this reason, we will not be commenting on the matter.

<Q - Frank Biller>: And the timeframe, maybe?

<A - Christine Ritz>: I'm sorry, but we cannot comment on that further. Sorry, Frank.

<Q - Frank Biller>: Okay.

<A - Christine Ritz>: Shall we take the last question from an analyst, please?

Operator

Thank you. Our next question comes from Philippe Houchois from UBS.

<Q - Philippe J. Houchois>: Yes, good afternoon. I just wanted to know, you've continued to do very well in China, the Japanese OEMs have lost a share and struggled to regaining it. Are you seeing a change in competitive behavior on their part using either currency or focus on some regions that would be kind of changing or showing a bit more aggression on their part to try to regain the lost share?

And then briefly, if I can squeeze briefly on MAN, should we be ready for an eventual write-down of the PPA of MAN to clear the decks since we have some more difficulty than on other acquisitions? It would certainly be nice to get rid of the PPA. Thank you.

<A - Christine Ritz>: Okay, thank you, Philippe. So you have two questions for us. The first question refers to China and the competition there. Mr. Klingler will give you there a few insights.

And then the second question refers to MAN and if there are any possible or additional write-downs on MAN.

<A - Christian Klingler>: So if you allow me to answer the question about China. China is a very competitive market. And it is in respect of competition, certainly one of the most competitive in the world by the way, not only the international but, as well, by a lot of local brands. As you know, everybody wants to take and wants to get a piece of the cake at the level of the plans. So it is true there are some differences sometimes. We see that the Japanese manufacturers have lost some of the market shares, but we actually just spot at the same time that the Korean manufacturers have increased some of the market shares.

So if any particular strategy from the Japanese or from other manufacturers in terms of getting additional footprint in China, of course, each brand has its own, some wants to start a bit more in the south, other wants a little bit more in the bigger cities, other wants to be more in the smaller cities. At the end of the day, what comes to us is that we defend our situation on two levels. On one, of course, market share and volumes and second, certainly sits in terms of pricing.

So therefore, we need to have a very good and fresh products, which we have. We need to have a very good organization, which we have with our two partnerships in the north, in the south and our import business in Beijing. We need to have a high value of our brands, which we have as well, and a higher level of customer satisfaction which we have as well.

So at the end of the day, what it means is that we need to continue to really drive every day the business forward. And continue to work on what we have worked over the last 20 years, 30 years, together with the Chinese partners and to be – and to become where we're not in all aspects, the best-in-class there in the industry.

<A - Hans Dieter Pötsch>: Okay. And the second question was regards to MAN and whether there is any potential write-downs. It's necessary to click and say that there is no scenario currently where this would be in view. Clearly, I need to say not talking in part, MAN, but in principle terms, on the basis of the current interest rate situation, impairment testing is relatively easy.

<Q - Philippe J. Houchois>: Thank you.

<A - Christine Ritz>: Okay, thank you. It seems there is a question from a journalist, so we will take that question, please.

Operator

Thank you. Our next question comes from Jan Schwartz from Reuters. Please go ahead.

<Q - Jan Schwartz>: Yes, thank you. But my question is already answered. It was on Suzuki and I'm afraid you won't say anything more.

Christine Ritz

Okay, thank you very much. So thank you very much for your questions and for listening to our call. Enjoy the rest of the day. Goodbye from here in Wolfsburg.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. You may now disconnect.