Company Name: Daimler
Company Ticker: DAI GR
Date: 2013-07-24
Event Description: Q2 2013 Earnings Call

Market Cap: 56,970.79
Current PX: 53.30
YTD Change($): +11.98
YTD Change(%): +28.993

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 4.758
Bloomberg Estimates - Sales
Current Quarter: 29134.000
Current Year: 117142.273

Q2 2013 Earnings Call

Company Participants

- Michael Mühlbayer
- Dieter Zetsche
- Bodo K. Uebber
- Wolfgang Bernhard

Other Participants

- Horst Schneider
- Fraser E. Hill
- José Asumendi
- Daniel Schwarz
- Charles A. Winston
- Philippe J. Houchois
- Jochen Gehrke
- Stephen M. Reitman
- Frank Biller
- Michael J. Tyndall
- Philip R. Watkins

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to the Global Conference Call of Daimler. At our customer's request, this conference will be recorded. The replay of the conference call will also be available as an on-demand audio webcast in the Investor Relations section of the Daimler website. The short introduction will be directly followed by Q&A session. [Operator Instructions]

I would like to remind you that this teleconference is governed by the Safe Harbor wording that you find in our published results documents. Please note that our presentations contain forward-looking statements that reflect management's current views with respect to future events. These forward-looking statements clan be identified by expressions such as assume, anticipate, believe, estimate, expect, intend, may, plan, project, and should. Such statements are subject to many risks and uncertainties, examples of which are set out in the Safe Harbor wording in our disclosure documents. If the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. Forward-looking statements speak only to the date on which they are made.

May I now hand you over to Dr. Michael Mühlbayer, Head of Daimler Investor Relations and Treasury. Thank you very much.

Michael Mühlbayer

Good afternoon. This is Michael Mühlbayer speaking. On behalf of Daimler, I would like to welcome you on both the telephone and the Internet to our half year results conference call. We are happy to have with us today the Chairman of the Board of Management and Head of Mercedes-Benz Cars, Dr. Dieter Zetsche; our CFO, Bodo Uebber; and the Head of Daimler Trucks, Dr. Wolfgang Bernhard.

In order to give you maximum time for your questions, Dr. Zetsche will begin with a short introduction directly followed by Q&A. Now I would like to hand over to Dr. Zetsche.

Dieter Zetsche

Thank you, Michael, and good afternoon from me too. We already informed you in large part 12 days ago, in the second quarter group EBIT as well as EBIT from ongoing business were significantly better than the consensus, yet largely in line with our internal expectations. So today I'd like to briefly complete the picture with additional details on our second quarter performance. Then I'll provide an outlook of our expectations for the second half of 2013.

Let's start with the key figures for the second quarter. Our Automotive divisions increased their total unit sales by 6% to 606,000 vehicles in the second quarter. In Mercedes-Benz Cars, we had our best sales quarter ever, selling 405,000 units. At Daimler Trucks, our sales were up 1% compared to the second quarter of last year, largely driven by the recovery in Brazil and the ramp-up in India. Plus, in many of our key markets, we have gained market share, be it cars or commercial vehicles. Our revenue for the period reached €29.7 billion, 3% more than the second quarter of last year. Adjusted for exchange rate effects, revenue even increased by 5%.

As announced earlier, we achieved group EBIT of €5.2 billion, very much supported by the remeasurement and the sale of our remaining shares in EADS. This special item contributed €3.2 billion to our second quarter EBIT. Our EBIT from ongoing business came to €2.1 billion.

Net profit was €4.6 billion in the second quarter. Excluding the EADS effect, Daimler reported a net profit of €1.4 billion, €1.25 per share. Industrial free cash flow in the second quarter amounted to €3.5 billion. Ongoing industrial business excluding the proceeds of EADS transaction and other M&A contributed €1.4 billion. Net liquidity stood at €11.3 billion as of June this year, slightly below the level we had at the end of 2012.

So much for the second quarter. Now, what do we expect for the second half of 2013. Looking ahead, we see three key drivers further improving our earnings from ongoing business compared to the first half of 2013. These are: Slightly recovering markets; the renewal of our product portfolio; and increasing benefits from our efficiency programs.

Let me give you some more details on these issues for our two largest divisions, Passenger Cars and Trucks respectively. First, markets. Obviously this is an external factor we can't control. Our current expectation is to see some improvement in the global market environment in the second half of this year. In passenger cars, we still expect global growth for the total year of 2% to 4%. The main drivers of this growth will be the S in China. In Western Europe, sales should finally stabilize and the market should slowly start to recover in the second half of this year.

The same goes for truck markets. In Western Europe and in NAFTA, we expect the current decline to ease. Brazil is recovering after a serious downswing in 2012. In Japan, government incentives have had only a limited impact on the truck market so far.

The next two factors, products and efficiency programs, are in our hands, and we are diligently working on their full implementation. Let's start with our product portfolio. In Mercedes-Benz Cars, our product offensive is gaining traction. We continue the regional roll-out of our new products at full speeds during the second half of 2013. That includes the market launch of the new E-Class long version in China in September, which will be decisive in improving our sales and pricing there; the CLA hitting our U.S. dealer showrooms in September as a groundbreaking entry model in that key market.

Most importantly, the reception of our all new S-Class continues to be very encouraging. Even before market introduction, we already had more than 20,000 orders on our books. Hence, we expect significant growth in the luxury segment for the second half of 2013. Market launch in Europe was last weekend; the S in China will follow in autumn. We should see the full sales contribution from the S-Class in 2014.

Our offensive in the compact segment continues as well. In September, we'll introduce the new GLA series model at the International Motor Show in Frankfurt. To satisfy the high global demand for our new cars as quickly as possible, we'll have no summer breaks at most of our Mercedes-Benz plants.

To sum up prospects for Mercedes-Benz Cars, we plan to further increase our total unit sales and to outpace overall market growth in 2013. From today's perspective, we assume that unit sales in the second half of this year will be above the level of the first half. China will contribute to that. Thanks to the roll out of our new products, the increasing benefits from the retail network expansion, and the integrated sales company, we expect sales of passenger cars in China to grow further during the second half of 2013.

Now, let's turn to the commercial vehicle side of our business. At Daimler Trucks, our product offensive is now largely complete. With Actros, Antos, Arocs, and Atego, we have renewed our entire European portfolio for medium and heavy-duty trucks. In short, this is our strongest fleet ever. All trucks come with Euro VI technology and with best-in-class fuel economy. S book-to-bill ratio of 120% in Western Europe reflects the strength of this product portfolio.

Almost 50% of the orders [ph] were (8:02) new Actros and Euro VI. Customers understand the added value of the total cost of ownership equation of Euro VI technology and are willing to pay a premium for it. In order to satisfy demand, we are adding addition production shifts on Saturdays in Wörth for the second half of this year.

We also have best-in-class truck products in other regions. NAFTA, our new Cascadia Evolution sets another benchmark for fuel efficiency; consumes 7% less compared to its predecessor, which itself was a very efficient truck. Our customers appreciate that. As of today, we have roughly 15,000 firm orders on our books.

In India our new BharatBenz fleet roll-out is well under way. Despite a difficult market environment and with an all new plant, we took fourth place in India's ranking of new truck registrations in the second quarter. We've already sold more than 3,100 trucks and have another 3,200 orders booked.

We'll also exploit additional growth opportunities in new and established markets. For this purpose, Daimler Trucks has launched the new integrated Asia business model. The model is designed to realize as much growth and synergy potential as possible in procurement, production, sales, and our price range. To that end, we started manufacturing Fuso trucks in our plant in Chennai, India. These trucks at this time tend for export markets in Asia and Africa. First batch was delivered to customers in Sri Lanka at the end of June.

With an overall book-to-bill ratio for Daimler Trucks of 102% in the second quarter we are confident to slightly increase unit sales for the current year. While improving our top line with new products, we continue to take strong actions for bottom line improvements with our efficiency programs. These programs will ensure that growth from new products will turn into higher profitability. As you know, we have programs in place across all our divisions.

At passenger cars, Fit For Leadership aims at cost reductions of €2 billion by the end of 2014. At trucks, we plan to achieve benefits of €1.6 billion by the end of 2014, with Daimler Trucks #1. Within each of these two programs, we aim to reach 30% of the total amount by the end of 2013. So far through June, 30% of this year's planned cost savings have been booked in each division. With expected acceleration in the second half of 2013, we are confident we will achieve the benefits targeted for this year.

So what does all this mean for our expected 2013 earnings? The current EBIT forecast for the Daimler Group and its divisions remain unchanged. On the basis of our key market forecasts, the continued roll-out of our new products, and the increasing effect of our efficiency programs, we expect our earnings to improve significantly in the second half of 2013 compared with the first half. We target maintaining a stable dividend supported by the proceeds from the EADS transaction and earnings from ongoing business. In the coming years we will continue to target a payout ratio of 40% of net profit attributable to shareholders.

In closing, let me outline our expectations for the years beyond 2013. For 2014, we expect continued improvement in EBIT in all of our automotive divisions and for the group as a whole. We expect a stable development of revenue and earnings for Daimler Financial Services. What are the main reasons for this? First and foremost, we'll fully benefit from a younger, stronger, and expanded model lineup at Mercedes-Benz Cars as well as at Daimler Trucks. Then we'll reap rising benefits from our efficiency programs. Plus, our business model in China will be further improved to benefit more strongly from this market's large potential.

And now, we'll be happy to take your questions. Thank you.

Michael Mühlbayer

Thank you, Dr. Zetsche. Ladies and gentlemen, you may ask your questions now. I will identify the questioner by name, but please also introduce yourself with your name and the name of your organization. Two practical points; please, firstly, avoid using mobile phones; and secondly, please ask your question in English. Before we start, the operator will explain the procedure.

Q&A

Operator

[Operator Instructions]

<A - Michael Mühlbayer>: So, we take the first question from Horst Schneider.

<Q - Horst Schneider>: Yes, hello. It's Horst Schneider from HSBC. I've got three questions. The first one is regarding your free cash flow outlook, especially for H2 2013. After we have seen in Q2 this good cash flow results, even if you strip out the EADS disposal proceed, I would like to know then why are you relatively cautious on the cash flow outlook then for the second half?

Then the second question that I have is, you say that the EBIT will increase in H2 versus H1. I would be glad to get some more details then on the quarterly pattern. So what should we expect that Q3 is already above Q2, or are we expecting a normal, seasonally weaker Q3 and then a very strong fourth quarter?

And the last question that I have is on currencies. I think in the last two conference calls you reiterated your guidance of minus €200 million currency effect in 2013. After H1, you have realized a gain of €150 million. So do you stick to that negative currency impact forecast or have you changed that by now? Thank you.

<A - Bodo K. Uebber>: Schneider, thank you for your questions. So for the free cash flow question, we have not changed our guidance, which we have released end of first quarter. So we are remaining our free cash flow guidance with €1 billion to €2 billion for this year. That includes the M&A activities, which are not only EADS on the positive side, but also we have some investment in the second half into BAIC, as you know. We have mentioned that I do think a couple of months ago is around €600 million where we are investing in the second half.

Why is the second half somewhat lower in free cash flow? As I said, the investment on the one hand but also our CapEx development is somewhat second – light in the second half, almost 60% on the second half, 40% in the first half. And on the other hand, we have also some more tax payments in the second half than in the first half. So everything is unchanged and we stick to our cash flow guidance from the first quarter.

One element I have also to tell you, the working capital development in accounts payables is positively in the first half, and of course it is pretty volatile and will bounce back somewhat in the second half. So with that explanation, I do think you see that the cash flow guidance of first quarter is stable.

Your second question to earnings development, we have given a guidance, a clear guidance, I do think, for all the divisions. We have a remaining guidance, which means in the second half we are better than in the first half. So let us stick to that message. We don't want to discuss now quarterly developments of returns. The only thing is that the sales development in the third quarter will be less than in the first – in the fourth quarter in cars. In trucks it will be steadily somewhat increasing over the quarter. So with that guidance, I do think I have told you enough.

For the currency outlook, on the basis of $1.30, we will see more or less no change in currency for the total year. So that has changed a bit to the positive. We had some favorable developments. Even when the dollar is underneath $1.30 we try to do some more hedging. Having said this, we are 90% hedged, and therefore I don't expect much fluctuation. If we have fluctuations, for example, with the yen, the Japanese yen, which is bouncing back and forth, so to say, and there we have also the currency [ph] effect in (16:24) trucks, which is mainly related to the Japanese yen, which you see also in the revenue development, which was negative affected by the Japanese yen and trucks. I do think I covered all your questions.

<Q - Horst Schneider>: Okay. Just two follow-ups, just that I got it right for Mercedes cars, you meant that the sales will be probably in Q3 below Q2?

<A - Bodo K. Uebber>: Yes. And in Q4 higher.

<Q - Horst Schneider>: All right. Okay. And with regard to currencies, is currency development also the reason that the revenues per unit has come down at Cars but also at Trucks? And is that a development that is likely to continue?

<A - Bodo K. Uebber>: On the one hand, we have mix development, of course, compared to last year, but also it's a part-by-parts business to China which has effect on the revenue per unit.

<Q - Horst Schneider>: All right.

<A - Dieter Zetsche>: On the truck side, when you adjust by the forex, you basically are flat at revenue per unit.

<Q - Horst Schneider>: Okay. Good. Thank you.

<A - Bodo K. Uebber>: Welcome.

<A - Michael Mühlbayer>: Okay. Next in line is Fraser Hill.

<Q - Fraser E. Hill>: Hi. Good afternoon. It's Fraser Hill from Bank of America. Just wanted to return to the free cash flow and also the CapEx and kind of expand your commentary into 2014, if you can help us with that. Obviously, you had a CapEx to sales to ratio that was low, as you point out, and will be second half weighted. I think we're down towards 6% for the second quarter. What's going to be a sustainable level of capital expenditures as a percentage of sales this year and as we look into 2014 and 2015? And how do you think that might need to trend? Certainly, you're spending about 7% of sales, where some of your peer group is spending closer to 10%. So do you feel that at a certain point this ratio will have to increase or not?

Moving on from that point and the BAIC investment at €600 million this year, can you confirm that that will be a one-off investment this year and that there will be no further investments into 2014 and 2015 as well?

And then, sorry, just one final question on the free cash flow. Within the statement in the changes in other operating assets and liabilities, there was a €500 million positive effect in the second quarter. Can you just tell us what was going on with that and also give us some help in forecasting that line going forward? Thank you.

<A - Dieter Zetsche>: Thank you for your questions. As far as free cash flow is concerned, looking forward to the years to come and CapEx obviously influencing that. On the Cars side, we see kind of a constant level in absolute terms on the CapEx all together and with revenues growing, obviously, the ratios will improve, which means we'll decline. On the Trucks side, we see an absolute reduction of investments after this huge renewal, which has gone basically through all the truck lines and therefore we'll see both an absolute reduction plus a higher percentage reductions, because there as well we expect revenues to grow. So our statement looking forward that, on the one hand, we want to have a payout ratio of about 40% of our earnings in dividends and on the other hand that we want to at least earn our dividend from our cash flow from operations. The free cash flow stays absolutely valid.

As far as BAIC is concerned, we announced the overall package, which was negotiated between BAIC and us and the other shareholders in BAIC and we are now coming most likely to execution of that plan. And this is this one-time payment into BAIC in order to achieve 12% of the capital, and there's no plan of continuation of this guidance, so it should be one-off in 2013 and nothing similar in 2014. The last point, Bodo you want to address the second quarter effect?

<Q - Fraser E. Hill>: Yeah. Just on your cash from operating activities, I think within the changes included in your working capital, you've got in your statement in other operating assets and liabilities line and it was about €500 million positive in Q2. I just wasn't entirely sure what was driving that and also how to think about that line going forward, because it's been a big variance in certain quarters.

<A - Dieter Zetsche>: Yeah. I mean – okay.

<A - Bodo K. Uebber>: To your question, there's – mainly there is service – normal services contracts in Trucks, which where we have contracts which are – which we have to account for EBIT but not for cash flows. It's not a cash flow item, which you see here. It's just a topic that we have to – you know that the work is not yet done and will be done in quarters, so that is between quarters something we have to do in service contracts. But it is normal course of business with regard to service contracts, so it is not a cash flow impact. And that was the part I have answered. Yes. Okay. Thank you.

<A - Michael Mühlbayer>: So next in line is José Asumendi. José?

<Q - José Asumendi>: Yes. Hello. Can you hear me?

<A - Michael Mühlbayer>: Yes.

<Q - José Asumendi>: So two questions on Trucks, please. How do you see the book-to-bill progressing in Europe in the third quarter? And how should we think about production sequentially in Q3 versus Q2? And if you could give us some details behind Europe and Brazil and taking some summer shutdowns over there? Thank you.

<A - Wolfgang Bernhard>: The order intake for – in the second quarter it was 19% higher than previous year, so our book-to-bill ratio was positive. In Europe, we had in the first half year in the marketplace a minus 10% roughly. We were able to hold our market share. We're a little bit higher than the year before. We think that for the end of the year, we'll see a market that is around minus 5%. That means if we want to keep up we have to continue that slight uptick throughout the rest of the year, and we have basically booked our factories in Europe until, I would say, October, November timeframe. So we have now a number of extra shifts on Saturdays that we need in order to satisfy the demand that is coming from the market side.

In Latin America, we've seen in the first half a 4% growth. We also think that here the growth for the whole year will be all the way up to 10%. That also means that there's a considerable catch-up to do in order to come to that all the way up to 10%, so we also see and hope for some increased market. In Latin America we were not able to hold market share. We slightly lost 2% of market share, but the market in whole compensated for that.

So all in all, we think that in the rest of the year we'll have slight growth. We will provide for that and it will be driven primarily by Western Europe and Latin America and to some extent by NAFTA. So far we are able to keep up with the market – what the market is giving us, and as I say, we will come up to our guidance from the lower end, so we have a considerable way in order to reach where we want to be by end of the year.

<Q - José Asumendi>: Brilliant. Thank you.

<A - Michael Mühlbayer>: So next in line is Daniel Schwarz.

<Q - Daniel Schwarz>: Yeah, I have also two questions for Mr. Bernhard. The significant acceleration you're expecting in Brazil in the second half, is that mainly driven by pre-buy effects? Or do your customers anticipate that incentives will be renewed in 2014? And what do you think about market development in 2014? And the second question would be, after the renewal of all major products and the implementation of Truck Number One, what do you think will be your main focus of your work in the next years? And did you identify parts of the truck group that you think that could be divested? Or on the other side, parts where you think acquisitions could make sense?

<A - Wolfgang Bernhard>: Okay, thanks for the question. Our first question was with respect to Euro VI and Euro V pre-buys. So far we see that, in the market, in the first half we have seen 50-50 distribution between Euro IV, Euro V. It's picking up now towards Euro VI because our Euro VI trucks are much more fuel efficient, so some of those customers see already their economical advantage of taking a Euro VI truck. We don't see considerable Euro V pre-buy. Only some of those logistics companies that work in distribution tasks, Euro IV is – Euro V is still being in demand.

<Q - Daniel Schwarz>: Sorry. My first question was more on the Brazilian market, whether you see pre-buy effects in Brazil because customers...

<A - Wolfgang Bernhard>: No. We can cut that short. There's nothing like this happening.

<Q - Daniel Schwarz>: Oh, okay.

<A - Wolfgang Bernhard>: Second question was with respect to – that was – I think you asked about M&A activities. Right now, we have – we're very busy of working on our operational tasks. There's a lot of work to do and we are not in any way busy and thinking about M&A activities. This is not something that is in the top of our mind right now. We have to continue to launch our products in Europe, we have to work in Latin America, we have to make sure that we continue to gain market share in NAFTA and we have huge launches that we have to come up with in India. So right now, this is what is on the top of our minds. It's what we call Daimler Truck Number One, being in the number one position and the main task is basically to get our cost positions right to – and to top out on our market potential.

<Q - Daniel Schwarz>: Okay. Okay. Thank you.

<A - Michael Mühlbayer>: So next in line, we have Charles Winston.

<Q - Charles A. Winston>: Yeah. Hi. Charles Winston from Redburn Partners. Thanks for taking my questions. Just two or three for me. Firstly, just if you – the new E-Class or facelift E-Class has been in the market for two, three months now. I was just wondering if you could give us a feel for what the achieved pricing on the new model is like relative to the outgoing model? And sort of perhaps give us a feel as to the quantum of the pricing changes that we could see there?

Secondly, just looking at the cost side in Mercedes. We saw I think it was €528 million cost headwinds in the first quarter and €554 million in the second quarter, you're talking about roughly €200 million of Fit for Leadership savings in the first half, and I guess those are probably 2Q biased, that suggests that the cost inflation, which I guess includes content, has sort of got probably quite materially worse in second quarter versus first quarter. I was wondering, is that interpretation right? And if it is, is this a content issue? And if it isn't a content issue, perhaps you could flush out what was going on there?

And sorry, very finally, I just wanted to follow-up on Fraser's question actually, in terms of the other operating assets and liabilities, that €500 million. You explained it by talking about service contracts in trucks where you account for EBIT with those no-cash flows. The issue is – this is a positive. In other words, when we're reconciling from profits to cash, it was a positive, suggesting that there was a non-cash cost in the P&L as opposed to a non-cash profit. And I was just wondering if I've understood it right that the explanation of service contracts doesn't explain the direction of the impact in terms of the cash flow. Thank you.

<A - Dieter Zetsche>: Let's start with your question regarding the new E-Class. Sorry – first of all, as you know, the introduction has taken a place in Europe basically exclusively. So and, yes, it's happening now. In China, it will start in September, so we have some delay there to see effects. But based on Europe and the early signs in other markets, we are very satisfied with both with our order intake and with our pricing, so we have a positive development on incentives with the face-lifted E-Class, and once again, the demand for the new product is very encouraging.

As far as costs are concerned, I would like to focus on the second quarter if that's fine with you. We're talking about roughly €500 million. About half of that is increased content related to new product and capacity expenditures all around the technical part, the product, the plants. The other half is basically costs which are not ongoing – more than half of that non-periodic costs in 2012, which has a base effect as these positives of last year do not – could not be repeated. They have a negative impact on this comparison. And the other half is similar in 2013, where we have, again, aperiodic cost effects in the second quarter in 2013. So about half of that has substance and half is aperiodic. Bodo, you would take on the third part regarding the €500 million?

<A - Bodo K. Uebber>: The €500 million. So the cost position is unchanged in Q2 2013. The main part of the cost changes that is more than 50% is related to high expenses amongst others for new technologies as we already said, new products and additional capacities.

<A - Dieter Zetsche>: [indiscernible] (32:24)

<A - Bodo K. Uebber>: Oh, the third one. Sorry.

<A - Dieter Zetsche>: Third one, yes.

<A - Bodo K. Uebber>: No, no. Sorry, I was a bit confused there. [indiscernible] (32:30) Sorry, I just wanted to clarify the service contract piece, therefore I had not the attention on what you said.

<A - Dieter Zetsche>: Fine.

<A - Bodo K. Uebber>: Sorry. So I clarify the service contracts. Service contracts are here for trucks and passenger cars in this line item. Sorry to say so, it's both. And these are expenses which are accrued for over the lifetime of the contract, and therefore it has an EBIT impact in this quarter, but it has not yet a cash flow impact. So that is a precise impact, sorry. We had to look into the book, so to say, and talk to the accountant and therefore he has a precise answer. Thank you.

<Q - Charles A. Winston>: Thank you, guys. So very quickly just to follow-up, the aperiodic costs and relating to my second question, the half of those which as you said related to a comp impact really from 2Q of 2012, is there any more of that to come? In other words was that – is there any more in 3Q and 4Q? Or was that just a one-time issue?

<A - Bodo K. Uebber>: So we think second half impact will be by far lower than the first half impact.

<Q - Charles A. Winston>: Thank you.

<A - Michael Mühlbayer>: Okay. Next in line, we take the question from Philippe Houchois.

<Q - Philippe J. Houchois>: Yes. Good afternoon. I have a couple of questions please. The first one is on this dispute that you're involved in with the EU on air conditioning coolants. How seriously should we take that issue? What is the risk that your sales in France are further blocked for the rest of the year? Are there other countries coming through? And how difficult or really what's the hurdles, not a lot of car makers have agreed that this new product from Honeywell and DuPont is acceptable. You seem to take a different view. How resistant are you going to be? And how difficult is it for you to change course and possibly dump that product? That was my first question.

The second one is you talked to us in the end of Q1 about your interest in potentially disintegrating some of your dealerships and freeing up some of the cash there. I believe you sold a few dealers in France. Can you confirm that? And can you also tell us where you stand on this project? Thank you.

<A - Dieter Zetsche>: Thank you for your questions. As far as the first question is concerned, our position is pretty clear. We got the type approval for the products in question, which is A and B-Class and SL by the KBA with their former coolant. It's called R134; this doesn't matter, but that's what we got. And to our understanding, it's just a pure technicality. This type approval is recognized in all European countries. It has been done except for France, and we still do not have a clear explanation of why that is so, and we are in intense discussions between Brussels and France and Germany in order to clarify and rectify the situation as fast as possible.

So it's difficult to answer your question because we don't have really a good reasoning why we are facing the situation in France the way we do. And therefore, it's not that easy to tell you about the solution. But we are, of course – we are in constructive talks, and we are optimistic that there will be a solution in a foreseeable timeframe. Just to make it clear, but that's what you understood anyway, that we're talking about these specific vehicles in France, not about our total sales in France, but that's of course already significant.

The second question was about own retail. It's true that in France we sold one owned retail outlet to an independent investor. We talked about before the broader scope studies we are entertaining on our own retail business altogether, the performance, the financial feasibility and so on. These studies are ongoing discussions about potential actions to be taken, as well, but there's nothing which would be as concrete at that point of time that we could make an announcement for that reason.

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

<A - Dieter Zetsche>: Thank you.

<A - Michael Mühlbayer>: Jochen Gehrke, you are next.

<Q - Jochen Gehrke>: Yes, good afternoon. Just two topics if I may. First of all, in China, can you just help us understand where we are now with regards to your dealer openings? I think you had very significant plans for this year. How much is there more to come in the second half and genuinely speaking, where do you stand against your plans now by the second quarter after what I understood to be a rather disappointing first?

And secondly for Mr. Bernhard, in the Trucks, can you help us understand where we currently stand with regional profitability in the various areas? And more broadly speaking, after you've looked at this business now more deep with one quarter being the CEO, what part of the business is at the moment in deepest need of improvements to finally reach the 8% on a through the cycle basis? I mean, I understand that markets have always played a role, but I think it's equally fair to say that Trucks is now running several years behind its own profitability ambitions. And how long, markets taken aside, do you think it will take for Daimler Trucks to finally have the structure in place that we are going to see the 8%-plus/minus a quarter that you guys have historically defined? Thank you.

<A - Dieter Zetsche>: To your first question, at that point of time, we have 279 dealerships that are active in China, which is about 20 more than by the end of last year. Our plan for this year was to open altogether about 75 dealerships. And this plan is – and continues to be valid. About 45% of the 75 new dealers we want to see in Tier 3 in smaller cities which was one area of concern, as we explained before that we did not have enough dealers there, to your first question.

<A - Wolfgang Bernhard>: To your second question pertaining the Truck business, we do not disclose any regional results. We haven't done that in the past, and we will not do that in the future. I give you a little of overview what is going on. Obviously in Europe we're well situated. We just invested heavily into a new technology, and it's paying off in terms of market share and in us having a firm grip on the market side. So Europe seems to be doing okay. We are enjoying also a NAFTA growing market share with good profitability. So we also are okay in NAFTA.

However, as I mentioned before, situation is not that bright in Brazil. We are losing market share in Brazil. We're not taking advantage of the growth of the market as it's moving on. So we have something to – a lot of things to do there. And with Asia basically, we have a big job in terms of growing the top line of the business. So it's a very differentiated picture. Obviously, we're working hard in every region. It's not that anybody can fall back and lean back and relax. Everybody has to work hard to improve the performance. We always said that we are going to step-by-step improve our performance towards an 8%.

As you know, truck markets in particular are very much dependent on – are very volatile and the performance of the companies are very much depending on those markets. So it is very difficult for us to forecast at what point of time we will reach that 8%, but you can be sure that all our efforts are being focused on that target and we will reach that target step-by-step as we move on, and as the markets allow to do so.

<Q - Jochen Gehrke>: Okay. Thanks. But sorry for coming back to the first point, historically you always said that Europe plus LatAm should be a double-digit business, North America about 8% and then Asia somewhat around 5% and then – in bringing together the 8%. Now in the second quarter you made 6.5%, obviously in H1 much less, but which of the areas at the moment really has the biggest improvement potential? Is it LatAm? And if that were to close that gap, then we have finally seen the 8% or is it more complex than that?

<A - Wolfgang Bernhard>: Well, I see basically that with Latin America there's the greatest improvement that we can make. There's a long way to go in terms of sales and products, so this is where we can do the most good. On Europe and America basically all the good products are underway. And all the things that we need to do is working on the operational side.

<Q - Jochen Gehrke>: All right. Thank you.

<A - Michael Mühlbayer>: Okay. Next in line is [ph] Laura Lemke (42:47).

<Q>: Yeah. Good afternoon. I've got three questions please, two on Trucks and one on Cars. Just coming back to the Trucks, obviously looking at your full-year guidance I think you still have some way to go in the second half here, and I just wanted to check what your underlying assumption is regarding potential Euro VI pre-buys, so what you're actually factoring in here in order to make that number and maybe you can give a little bit more clarity on what your expectations are here for the Q4, especially given that it's now quite unlikely that we're going to see toll road incentives in Germany? So that's my first question.

And, second one is also on Trucks, obviously like you just highlight most of your growth going forward will be driven by the emerging markets, yet that is obviously a region where ASPs are much lower and arguably margin as well, so does your long-term truck target of 8% margin reflect the potentially negative mix effect? Or maybe put differently, can you assure us that the growth in emerging markets will not be margin dilutive going forward? And then lastly, just on Mercedes, I mean your competitor BMW is now launching its i3 vehicle in a few days and obviously has been prepping the markets for quite some time regarding its brand strategy. So I was just wondering if you could remind us of your electric vehicle strategy, please.

<A - Wolfgang Bernhard>: Your question on the emerging market, fortunately we are able to take a share out of those emerging markets and special applications where we are able to sell our premium trucks coming out of Europe. So this helps us on the one hand. And on the other hand, with the vehicles that we have in India, we are able to capture more of the heart of the market. It's not the lower end from their point of view, it's the heart of the market where we can now attack. As Dieter already mentioned in his statement, is that we are starting to launch these products out of India into Sri Lanka into the other African markets. So, this is very important, very important from us a strategic asset.

Additionally, we also have our joint venture in China. With this joint venture, we are basically partnering up with the third largest truck manufacturer in the biggest truck market of the world. We are working together with this joint venture partner to see how can we increase our footprint and how we can capitalize on that status. So, we are having our focus on those emerging markets.

<A - Dieter Zetsche>: As far as electric vehicles are concerned, we have the smarts in the market since quite some time, and are market leader for instance in Germany last year, this year so far. We announced that we will introduce the B-Class with electric drive train first in the U.S. and later on in Europe, starting end of this, beginning of next year. So that's imminent. We have, and that's certainly not a question of big volumes, but SLS E-Drive as well which is more a demonstrator of top-notch technology. So we think we are very well prepared in this technology and well underway in the marketplace.

<Q>: Okay. Thank you. And can I just follow-up on the question regarding the full year truck guidance for 2013 and the assumption on the Euro VI pre-buy?

<A - Wolfgang Bernhard>: Yes. I already said that we are – we were basically not happy with the first quarter. We are very happy with what happened the second quarter. It came in as expected. Now, for the rest of the year we have to catch up with what has not been achieved in the first quarter. This will happen in the second half of the year. So that's why we're saying the second half of the year will be higher than the first quarter, and by the end of the day, we are standing by our guidance, that our earnings for this year will be in the magnitude of the last year. So this all said and done, we think that with the market assumptions that we, have we can reach what we said by the beginning of this year. Is that okay?

<Q>: Yeah, just one just to clarify, so – because obviously, I think going into the year there was the expectation that Germany would introduce the toll road incentives for Euro VI but now that seems to be delayed. So I'm just wondering if that has changed your market assumption and maybe makes it more likely that you'll reach the guidance?

<A - Wolfgang Bernhard>: No. This had no implications on the market whatsoever.

<Q>: Okay. Thank you.

<A - Michael Mühlbayer>: Okay. Next in line is Stephen Reitman.

<Q - Stephen M. Reitman>: Yes. Good afternoon. Stephen Reitman from Société Générale in London. On the compact cars, could you give some color on the – your experience with the CLA in terms of customers, and also in terms of the transaction prices on that car, and what you expect for the GLA coming out later this year as well? Thank you.

<A - Dieter Zetsche>: Thank you for the question. I think it's not exaggerate to say that the reaction to the CLA is kind of overwhelming so far. Wherever I come into any market, they expect me to look for some more production for their particular market, so very positive. Within this volume aspect, we have second positive element that it's a high conquest rate, as with the A-Class, where we see a 50% conquest. The CLA is a conquest car as well, very important for us for the offensive we want to drive in the compact car segment.

Pricing, basically we are selling the vehicle the way we are offering it, so this is a good situation, even given – especially given the fact that in Europe you know that we have significant price pressure in the marketplace across the board and the compact segment definitely is not an exception there, but it's going well. Perhaps it's fair to say that in Germany, the pricing pressure generally is particularly high and that there are some customers questioning our price point with the CLA, and it's pretty ambitious there, but overall, we have a really good price realization with the CLA.

The introduction in the U.S. is just ahead of us. This is a new price bracket for Mercedes in the U.S., so it's – we go deeper into the market to a new customer segment different from Europe, where the pricing is somewhat more ambitious. So overall, we feel very good with the CLA as far as volume is concerned, the specific customers in the sense of conquest, and the pricing so far as well.

<Q - Stephen M. Reitman>: And do you have any flexibility in Kecskemét in terms of the production mix between the B-Class and the CLA?

<A - Dieter Zetsche>: The B-Class is the one which is supposed to give us the flexibility by shifting it potentially back and forth between Rastatt and Kecskemét, and therefore potentially freeing up some additional volumes for the CLA. Of course, there are limitations to that because you have an entire supplier base which has to follow these potential moves, plus B-Class and A-Class are selling very well as well. So we have an overall supply issue with the compact cars, which is directionally a good problem to have, but you know that now these days, we'll see the beginning of additional capacity from [indiscernible] (51:03) as well, which will help us too.

You were asking for the GLA before as well. There, of course, we have shown the concept car. In Frankfurt we will show the production car. Whatever we hear from our dealers in the first place, but customers so far as well, the reaction is very positive, but there we are not talking about orders or about pricing so far, so that is premature to make any final judgments in this regard.

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

<A - Michael Mühlbayer>: Our next questions we get from Frank Biller.

<Q - Frank Biller>: Yes, yes, hello. Frank Biller from LBBW. Actually it's three questions. The first question from my side is about the second quarter and the earnings here. Well, you talked about your internal plannings and now we have seen the very good figures for the second quarter. How much have you been better than your internal planning in the second quarter, and how much was related here to foreign exchange and maybe raw material tailwinds here? That's my first question. The other is on markets, China, Europe, USA. Can you talk a bit about the current competition, the situation in pricing here; is it a bit better than in the first quarter, or is it still as sharp the pricing pressure? And the other thing is on margins on Mercedes-Benz cars here. Is it fair to assume that in the second half, you should be able to reach at least the margins of the second quarter?

<A - Dieter Zetsche>: Let's start with Q2. I would say, in – one point is that in the first quarter, the prospectives in the marketplaces looked pretty bleak for the industry altogether, especially in Europe. The second quarter, the market situation improved somewhat, not dramatically but somewhat. So we could realize some upside on the sales side.

Secondly, you like to be a little bit cautious with your cost programs you're running, in taking them into your expectations. The way it's worked out is that we were very much at the upper end of our expectation as far as cost improvements are concerned, and that was another contributor to the positive outcome. And third, I would say perhaps our expectations were somewhat between the consensus and our final outcome, so a little bit upside to our planning, a little bit we expected to come in above consensus as well. So, overall, it's pretty much within our expectations, but at the high end of the ranges. China pricing, do you want to say something about Q2?

<Q - Frank Biller>: About the markets?

<A - Dieter Zetsche>: Yeah, okay. About the markets, what we expect for the rest of the year, on the truck side in Europe we expect that Europe will be bottomed out and we will see the uptick, so we expect growth in the marketplace for the rest of the year in Europe. NAFTA will be a little bit up we expect until the rest of the year. Asia will be basically flat and Latin America we will see further continued dynamism in the marketplace. So we will see also an increase in Latin America.

<A - Dieter Zetsche>: Yeah, as for pricing in China, we clearly are to come a little bit more to a pull versus a push situation in the marketplace, that's when, especially in the first quarter, we took volumes back significantly. We have seen some positive impact from that side. From our side, incentives are coming down. Of course, we have less to no control about the dealer behavior. Overall, we see some developments in the right direction, but we always told you this is not changing or turning a switch and everything will be perfect from one day to the other, but it's a process over time.

<A - Michael Mühlbayer>: So next question we take from Michael Tyndall.

<Q - Michael J. Tyndall>: Hi. It's Mike Tyndall from Barclays. Thanks for taking my question. Just three questions if I may, two are very quick; just to confirm what you were saying about the other line in the EBIT walk-down, you – am I right in saying that you said 50% of it was benefits you saw in 2012, which haven't necessarily been repeated in 2013? The second question just again around the dealers, and I'm just wondering to what degree in your Fit for Leadership plan there is any cost savings associated with perhaps you shutting down some of your dealerships. I know that's been reported in the press?

And then the final question if I may on the compact cars. I mean they've had a fantastic reception in the market. You are capacity constrained, at least to some degree. I'm just wondering if we think about it from a contribution margin perspective, have we reached cruising altitude now or is there still significant gain to come in terms of contribution margin from those vehicles, say, in 2014? Thanks.

<A - Dieter Zetsche>: Perhaps let me start with the last point. As you know, this is a family of vehicles. We have launched three of the five vehicles. The third and the fourth and the fifth, based on the market segments and the overall configuration, will provide for higher margins than the first two. And therefore, just because of the launch sequence, we see further improvement as far as the average margins being accomplished are concerned. To your second question, Fit For Leadership, there we have two aspects of Fit for Leadership. One is 2013, 2014 with €2 billion target by the end of 2014, as far as running rate is concerned. Within this, there's no element of retail included. Talking about Fit for Leadership in the sense that we want to address structural issues as well, one element we are looking at is our own retail. As I said before, ongoing without specific results at that point of time, this might have cost or margin impact as well, but nothing specified at that point of time. So I could answer your question, no, there's no content in Fit for Leadership with the slight remarks I made before. To your first question, when I said before, 50% is related to aperiodic aspects. Out of this 50%, it's basically half-half, 2012-2013. So, good [ph] guys (58:27) in 2012 which are not repeated in 2013 represent half of the impact and bad [ph] guys (58:34) in 2013 are the other half. And of the total, the other 50% is related, as we said before, to content and to capacity and other issues. Okay?

<Q - Michael J. Tyndall>: Got it. Thank you very much.

<A - Michael Mühlbayer>: Okay. The last question we take from Philip Watkins.

<Q - Philip R. Watkins>: Good afternoon. Philip Watkins from Citi. And thanks for taking my question. It was really on China. I know we're sort of hearing a little bit less about credit typing there, but I'm wondering if you have seen any problems with car dealerships in terms of them getting hold access to credit, and whether you think you might have to provide more support? Thank you.

<A - Dieter Zetsche>: Directionally, no, but Bodo can answer that more specifically.

<A - Bodo K. Uebber>: In terms of funding we are – we have a good position. We are somewhat pre-funded in China and we can do more in penetration even in the Financial Services business. So we plan also to increase the penetration for the second half. So fortunately we have not any impact on the discussion, which is currently going on in China on the credit side.

<Q - Philip R. Watkins>: Okay. So even the dealerships don't need any more fundings?

<A - Bodo K. Uebber>: Dealerships, of course, when we are growing the business, yes we have [ph] Walter (59:46) financing in China, so there will be an increase certainly when our numbers are going up, but I don't see any problem to finance it.

<Q - Philip R. Watkins>: Okay.

<A - Dieter Zetsche>: Plus we have new dealerships, as we discussed, coming on line and that applies for them as well, of course.

<A - Bodo K. Uebber>: Right. Right.

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

<A - Bodo K. Uebber>: Welcome.

Michael Mühlbayer

Okay. Ladies and gentlemen, thank you for your questions and for being with us today. Investor Relations will remain at your disposal to answer any further questions you may have. We hope to talk to you again soon. Thanks and good-bye.