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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the second-quarter 2015 results conference call. (Operator Instructions). As a reminder, this conference is being recorded Friday, August 7, 2015.

I would now like to turn the call over to Don Walker, Chief Executive Officer. Please go ahead, sir.

Don Walker *- Magna International Inc. - CEO*

Thank you. Hello everybody and welcome to our second-quarter 2015 conference call. Joining me today is Vince Galifi, our Chief Financial Officer, and Louis Tonelli, Vice President Investor Relations.

Yesterday our Board of Directors met and approved our financial results for the second quarter June 30, 2015. We issued a press release this morning for the quarter. You will find the press release, today's conference call webcast and our updated quarterly financial review and the slide presentation to go along with the call all in the investor relations section of our website at www.magna.com.

Before we get started just to remind you the discussion today may contain forward-looking information or forward-looking statements within the meaning of applicable securities legislation. Such statements involve certain risks, assumptions and uncertainties which may cause the Company's actual or future results and performance to be materially different from those expressed or implied in these statements. Please refer to today's press release for a complete description of our Safe Harbor disclaimer.

The second quarter of 2015 was another good quarter for Magna. The strength in the US dollar once again negatively impacted our reported sales and earnings, however our operations performed well. North America posted an adjusted EBIT percentage of close to 11%, roughly in line with the second quarter of last year.

In Europe, our 4.3% margin in the quarter increased over last year's 4.1%. In Asia adjusted EBIT declined $10 million, 6.7% compared to 8.7% last year in part reflecting launch and new facility costs but results remain strong in this segment. In our rest of world segment, which currently represents our South American operations, posted an adjusted EBIT loss of $8 million compared to an $11 million loss in Q2 of 2014.

We announced last month that we had signed an agreement to acquire Getrag, one of the world's largest suppliers of automotive transmissions. Getrag has an 80-year history in transmissions and is a technology leader offering a range of transmission systems including manual, automated manual, dual clutch, hybrid and other advanced systems. Transmissions is an area that we had identified as a strategic priority and we are pleased to have come to an agreement to acquire such a capable and well positioned supplier.

This transaction together with our announced transaction regarding the disposal of our interiors business are two major steps in our product portfolio review. We expect to close the interiors transaction this quarter, and the Getrag acquisition near the end of the year. Last week we entered into an agreement whereby we will contribute our Bestop operation to a joint venture with Kinderhook Industries, a company with extensive experience in the automotive aftermarket.

The new joint venture will manage Bestop and pursue aftermarket growth opportunities. Bestop, which has annual sales of approximately $100 million is the world's largest manufacturer of soft tops and fabric accessories for Jeep vehicles and the sole supplier of factory soft tops on all Jeep Wranglers since 1986.

We received recognition from a number of our customers recently. Our electronics division in Holly, Michigan which last year reached a production milestone of 10 million rearview cameras, received an Excellence in Delivery Award from Honda Motor Company for achieving a top rating for delivery of its rearview cameras.

In China, eight of our manufacturing divisions received Customer Excellence Awards from numerous customers including both global and local Chinese OEMs. In June, we received the Ford World Excellence Award in Smart category recognizing Magna's leadership and excellence and innovation and its commitment to delivering high-performance products that exceed Ford's expectations.

Last week the Volkswagen Group disclosed it has nominated the first 44 suppliers of which it will be collaborating as part of its FAST initiative in order to more quickly implement technical innovations. Magna Powertrain was listed as a VW Group partner.

These customer recognitions reflect our enormous efforts to continue to deliver innovative products that are manufactured to world-class standards.

Lastly, Jaguar Land Rover announced last month that it has agreed to a manufacturing partnership with Magna Steyr to build some future vehicles in Graz, Austria. This agreement brings a new customer to our assembly facility in Graz. Together with the existing business with Daimler, the launch of a new program with BMW in 2017, we expect to run at a high utilization rate once all programs are fully launched.

With that I will pass the call over to Louis.

Louis Tonelli - *Magna International Inc. - EVP and CFO*

Thanks, Don, and hello everyone. I would like to review our financial results for the second quarter ended June 30, 2015. Please note all figures discussed today are in US dollars.

The operating results for the previously reported interiors operations are presented as discontinued operations and this review of results will address continuing operations only.

The slide package accompanying our call today includes a reconciliation of certain key financial statement lines between reported results and results excluding unusual items. In the second quarter of 2015, we recorded a gain on the disposition of our battery pack business. This increased operating income by $57 million, net income attributable to Magna by $42 million and EPS by $0.10.

In the second quarter of 2014, we recorded restructuring charges entirely related to our European exteriors and interiors business. These reduced operating income by $11 million, net income attributable to Magna by $10 million, and EPS by $0.02.

The following quarterly earnings discussion excludes the impact of these unusual items.

In the second quarter, our consolidated sales declined 9% or $778 million relative to the second quarter of 2014 to $8.1 billion. The weakening of certain currencies against our US dollar reporting currency, in particular the euro and Canadian dollar, had a significant negative impact on our reported sales for the second quarter of 2015. Foreign currency translation reduced our sales by almost $900 million as compared to the second quarter of 2014. Excluding the impact of foreign currency translation, our total sales increased 1% in the second quarter of 2015 compared to the second quarter of 2014.

Reported North American production sales increased 1% in the second quarter to $4.6 billion. Excluding the impact of foreign currency translation, North American production sales increased 5% while North American vehicle production increased 3% to 4.5 million units. The increase is the result of a launch of new programs partially offset by lower production volumes on certain programs, programs that ended production during or subsequent to the second quarter of 2014, net divestitures and net customer price concessions.

Reported European production sales declined 23% from the comparable quarter. Excluding the impact of foreign currency translation, European production sales declined 4% while European vehicle production was essentially level at 5.3 million units. The decline was primarily the result of lower production volumes on certain existing programs, programs that ended production during or subsequent to Q2 of 2014, and net customer price concessions. These factors were partially offset by the launch of new programs.

Asian production sales increased $1 million to $390 million over the comparable quarter primarily as a result of the launch of new programs in China and India largely offset by lower production volumes on certain programs, the weakening of the South Korean wan against the US dollar and net customer price concessions. Rest of world production sales declined 23% or $38 million to $125 million for the second quarter primarily as a result of lower production volumes in certain programs and the weakening of the Brazilian real against the US dollar. These factors were partially offset by the launch of new programs primarily in Brazil and net customer price increases.

Complete vehicle assembly volumes declined 17% from the comparable quarter and assembly sales declined 26% to $607 million. Excluding the impact of foreign currency translation, complete vehicle assembly sales declined 8% largely due to a decline in assembly volumes on the MINI Countryman and partially offset by an increase in assembly volumes for the Mercedes-Benz G Class.

In summary, consolidated sales excluding tooling, engineering and other sales declined approximately 9% or $714 million in the second quarter but actually increased modestly if you exclude approximately $800 million associated with foreign exchange. Tooling, engineering and other sales declined 10% or $64 million from the comparable quarter to $599 million. Excluding foreign currency translation, tooling, engineering and other sales increased by $16 million.

Gross margin in the quarter was level with the comparable quarter at 14.4%. The gross margin percentage was positively impacted by a decrease in the proportion of complete vehicle assembly sales to total sales which have a higher material content than our consolidated average; productivity and efficiency improvements at certain facilities; costs incurred related to a fire at a body and chassis facility in North America during the second quarter of 2014; a decrease in the proportion of sales earned in Europe relative to total sales which have a lower margin than our consolidated average primary due to the weakening of the euro against the US dollar; decreased commodity costs; and a lower amount of employee profit-sharing.

These items were offset by operational inefficiencies at certain facilities, lower recoveries associated with scrap steel, higher launch costs and higher warranty costs.

Magna's consolidated SG&A as a percentage of sales was 4.3% in the second quarter of 2015 compared to 4.6% reported in Q2 2014. SG&A declined $59 million to $348 million in the second quarter of 2015 primarily due to the weakening of certain currencies against the US dollar and the elimination of the (inaudible) fees at the end of 2014.

Our operating margin percentage was 8.2% in the second quarter of 2015 compared to 8% in the second quarter of 2014. This increase substantially relates to a lower SG&A percentage of sales partially offset by a higher depreciation percentage of sales. In Q2 2015 our effective tax rate was 26.3% compared to 26% in the second quarter of 2014. This is primarily the result of a change in mix of earnings whereby proportionately more income was earned in jurisdictions with higher income tax rates.

Net income attributable to Magna from continuing operations declined $33 million to $496 million for the second quarter of 2015 compared to $529 million in the comparable quarter. Diluted earnings per share from continuing operations was $1.19 compared to $1.20 in Q2 of 2014. The modest decline in diluted EPS was the result of a decrease in net income from continuing operations attributable to Magna, largely offset by a decrease in the weighted average number of diluted shares outstanding during the quarter. The decrease in weighted average number of diluted shares outstanding was due to the repurchase and cancellation of common shares pursuant to our normal course issuer bids.

I will now review cash flows and investment activities. During the second quarter of 2015, we generated $711 million in cash from operations prior to changes in non-cash operating assets and liabilities and invested $271 million in non-cash operating assets and liabilities. For the quarter, investment activities amounted to $402 million including $361 million from fixed assets and a $41 million increase in investments and other assets.

Our balance sheet remains strong with $1.2 billion in cash as at June 30, 2015. We also have an additional $2.2 billion in unused credit available to us. We are currently at 0.8 times adjusted debt to adjusted EBITDA and continue to target reaching a range of 1 to 1.5 times by the end of this year.

Now I will pass the call over to Vince.

Vince Galifi - *Magna International, Inc. - VP of IR*

Thank you, Louis. Good morning, everyone. I will first discuss our discontinued operations and then our updated outlook.

As Louis noted, we have disclosed the interiors business that we are selling to Grupo Antolin as discontinued operations in our financial statements. In the second quarter of 2015, we recorded a loss for discontinued operations of $55 million compared to a loss of $9 million in the second quarter of 2014. Included in the Q2 2015 loss was $60 million in deferred tax expense related to timing differences that will become payable upon closing of the transaction.

Sales netted in discontinued operations were $695 million compared to $593 million in the second quarter of 2014. Pretax income netted in discontinued operations was $15 million for the second quarter of 2015 compared to a loss before taxes of $12 million for the second quarter of 2014.

Turning to our updated 2015 full-year outlook which reflects continuing operations only, we expect 2015 North American light vehicle production to be approximately 17.4 million units consistent with our May outlook. In Europe, we now expect 2015 total European light vehicle production to be approximately 20.3 million units, up modestly about 20.2 million units in our May outlook. The increase largely reflects higher than expected European production in the second quarter of 2015.

Compared to our outlook in May, we are now assuming a lower Canadian dollar relative to our US dollar reporting currency. Our euro assumption is essentially in line with our previous outlook.

Our North American and European production sales ranges are largely in line with our previous outlook. We have slightly lowered our production sales ranges in Asia and rest of world largely reflecting downward revisions to production volumes in both China and South America. The net result of these factors is a modest lowering of our consolidated production sales range to $26.2 billion to $27.5 billion. Our expected assembly sales increased slightly partly reflecting higher expected assembly volumes compared to our previous outlook.

Implicit in our total sales outlook is an increase in our expected tooling, engineering and other sales compared to our previous outlook. Our total sales outlook range is now $30.9 billion to $32.6 billion, essentially in line with our previous outlook.

We now expect our consolidated operating margin percentage for 2015 to be approximately 8% for 2015 compared to the high 7% range in our previous outlook. Note that that operating income for Magna represents pretax income before unusual items. The increase in the forecasted operating margin percentage largely reflects a higher than expected operating margin earned in the second quarter of 2015.

We expect our income tax rate to be approximately 26% which is unchanged from our May outlook. For the full-year 2015, we expect fixed asset spending to be in the $1.3 billion to $1.5 billion range also in line with our May outlook.

Lastly, we expect restructuring costs for 2015 which are entirely related to European operations to be approximately $25 million before tax again in line with our previous outlook.

Next, I would like to provide some color on our expected segment margin percentages of total sales reflecting our updated outlook for 2015.

For North America, we now expect EBIT margin percentage of total sales to be approximately 10.5% for 2015 up from the approximately 10% range we had previously indicated. This reflects our continued strong performance in North America.

For Europe, we now expect the EBIT margin percentage to be approximately 4% compared to the low 4% range previously in part reflecting the higher proportion of assembly and tooling sales in our most recent outlook.

For Asia, we expect 2015 EBIT margin percentage to be approximately 8% for 2015 which is largely in line with our previous outlook.

This concludes our formal remarks. Thanks for your attention today. We would be pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Peter Sklar, BMO Capital Markets.

Peter Sklar - *BMO Capital Markets - Analyst*

Good morning. First, I just wanted to clarify an accounting issue in terms of how you will be dealing with the sale of the interiors business. In terms of the guidance you are giving for full-year 2015 in terms of what earnings you will be reporting for 2015, will the interiors be classified as discontinued operations right from the beginning of the year or effective the current quarter, Q2?

Vince Galifi - *Magna International, Inc. - VP of IR*

Peter, good morning. It is Vince. So the interiors operation is going to be shown as discontinued operations from the beginning of 2015 for the full-year. And in fact we have restated our 2014 numbers to show our interiors operation as a discontinued operation.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay. Next had a question on Getrag. Can you talk a little bit about what your intentions are with respect to integrating Magna Powertrain with Getrag? And also if you do expect synergies from the acquisition, could you identify the sources of the synergies and the potential magnitude and timing of those synergies?

Don Walker - *Magna International Inc. - CEO*

Yes, as far as the integration, they are actually quite a well respected, well-run company so we are not going to close the transaction until the end of the year depending on when we get regulatory approval. So we are still developing exactly what we are going to do. There is a number of joint ventures in there as well.

But based on expertise they have got and their reputation I don't expect any big changes right away. We will run it as a separate group. There is going to be some areas where we have got overlapping capabilities so we will sort those out but for the most part transmissions is a new area for us. So for the most part, they will continue to run as a separate entity but we as we get closer to taking it over then we will fine tune that.

As far as synergies, I am not going to quantify the amount because quite frankly until we get into the real detail we won't know. But I would think the synergies would be in areas like purchasing, if there is utilization -- underutilization of assets if we can be in-sourcing from one company to the other. I'm sure there is going to be some other functions, corporate functions where we can get some -- we will have some duplication. But for the most part, it will be the purchasing and the operational areas.

Vince Galifi - *Magna International, Inc. - VP of IR*

Just to add some color to Don's last comments, the other area where we are expecting synergies and they are going to be pretty rapid are going to be on the financing and legal structuring of Getrag as we integrate it into our overall legal structure. Don talked about there's purchasing -- capital utilization also on the engineering side. But I would think shorter-term, it is going to be on the cost side the synergies, and longer-term it will be on the revenue side as well.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay. And then just one last question if I may. Could you give us an update on your thinking on capital structure. You have not bought back any stock this year. Even pro forma the Getrag acquisition you have room in terms of the capital structure guidance you have outlined. Can you talk a little bit about what we should expect between now and the end of the year in terms of share buyback or other changes to capital structure?

Vince Galifi - *Magna International, Inc. - VP of IR*

Peter, we have been pretty busy in the first half of the year working on a number of transactions that we have announced and kind of pro forma where we think we are going to be at the end of this year ex any buybacks, we are going to be around a 1.2 adjusted debt to adjusted EBITDA leverage. As you will recall, we have been talking for some time that we want to be in a range of 1 to 1.5 but as we sit and look at the 1.2 target and the amount of cash that we are expecting to generate in 2016, we intend to in the balance of this year go out and buy some more stock to bring our leverage ratio higher than the 1.2.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay, thank you for your comments.

Operator

Ravi Shanker, Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Question on the Asia region, can you help us understand what is going on in the ground there? Your guidance implies a pretty strong acceleration the second half of the year, you saw that last year as well. Is that normal seasonality? Is that something to do with your programs and what is your view on macro in China?

Don Walker - *Magna International Inc. - CEO*

When you look at the Chinese market, the stronger half of the year is typically the second half of the year in particular the fourth quarter. When we look at kind of a macro conditions today in China, things have been slowing down. Louis made some (inaudible) comments on our outlook for the balance of this year where we brought our overall Asian production numbers down by $100 million. Most of that is -- essentially all of that is going to be in China. And that relates to lower bonds on one particular program and a delay of some launches from a timing perspective.

I think when we look longer-term we are still very excited about what we see in China. We've got a lot of growth coming on on increased content per vehicle on some new programs and from localization of some programs that were being manufactured outside of China before which are coming into China. And lastly with the acquisition of Getrag, we are going to get some more exposure to China with some pretty good customers in particular, Great Wall.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. And your margins in that region were lower this quarter than the run rate of the last four quarters. Does that have to do with the macro and the program delays that you mentioned? Or does that have to do with the nascent operations that you have there and maybe lump in are some new product launches?

Don Walker - *Magna International Inc. - CEO*

The numbers are so small in China that $1 million or $2 million or $3 million swing in one quarter impacts overall margins. Some of the things that typically impact what we are doing in Asia is program launches. I would rather look at the full year for Asia and I am comfortable with the guidance we are giving. And as we look in the outer years as well, we are expecting our overall margin to continue to improve in Asia as we ramp up the business that we are investing in for today and we have been investing over the last couple of years.

Ravi Shanker - *Morgan Stanley - Analyst*

Understood. And turning to North America, can you just comment about the Windsor plant? Is that back up to full steam now? I think the shutdown was extended by a week or so. Do you see any pent up production coming out of that?

Louis Tonelli - *Magna International Inc. - EVP and CFO*

It is back up. It started up kind of early June timeframe. It has ramped up a little slower than we expected so the second quarter impact was a little higher and our full-year expectation of volume is a little worse than what we had. Not a lot, it has been offset by other mix in North America. So nothing out of the ordinary. We were talking about $250 million to $300 million of impact this year. It is going to be a little north of that but Q3 and Q4 are more or less in line with what we had previously.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks. If I can just squeeze one more in, the Steyr business -- can you just help us understand the timing of the program changes? When does MINI completely fall off? You said the BMW program ramps in 2017, what is the timing on the GLR programs and are you effectively going to have a gap here in Steyr in 2016? Thank you.

Louis Tonelli - *Magna International Inc. - EVP and CFO*

The MINI program has ramped down in the back half of 2016 and the additional business, BMW starts up in 2017. So we are not talking about a major gap that we are concerned about and we can't comment at this point about the timing -- really can't comment much at all about the JLR business.

Ravi Shanker - *Morgan Stanley - Analyst*

Great, thank you.

Operator

John Murphy, Bank of America Merrill Lynch.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys. Just a first question on North America. If we think about what is going on in two major programs including the F150 and what is going on at the Windsor plant as Ravi just alluded to, those are two big massive changeovers. I think content is shifting around on those products in some cases fairly materially and it is real headwind in the short run yet you are putting up really strong margins in North America.

As Windsor gets back up and running and the Super Duty launches next year, it just seems like there is an opportunity for North America to be significantly better than it is right now. So I just was curious if you could even in rough house dimension the pressure that you are seeing from those programs currently and how much of a relief those finally getting back to normal could be for the North American business which is already firing on all cylinders it appears?

Don Walker - *Magna International Inc. - CEO*

John, if you look at kind of our latest outlook for North America, we kept production volumes the same. We have the Canadian dollar that has weakened compared to our May outlook and we are moving up our outlook on sales slightly but by about $100 million. So that is pretty good when you think about everything going on. So we've got some positive mix in North America.

As I look at the North American operations for the quarter or for the year, I look at 2014 to 2015, one thing impacting us negatively in North America for 2015 is launch costs. What I don't have right now of an update is kind of what 2016 looks like compared to 2015 and with respect to launch costs. So if launch costs ease up all things being equal, that should be a positive to overall operating margin. Keep in mind we have moved up our guidance for North America margins approximately 10.5% reflecting some of the strong performance that we have been experiencing in North America so far this year.

Louis Tonelli - *Magna International Inc. - EVP and CFO*

F150 isn't a big program for us. Content went down able to bid on the F150 current generation versus old generation and you are right, the minivan will be stronger next year and we will have higher content when it launches but when we look at it, it is a couple of programs amongst many program so when we looked at it last which really was in our business plan process, you've got puts and takes. You have some programs that are getting stronger and there's other programs that are weakening.

So I think it is a bit -- probably too early to look at a couple of programs and deduce too much about 2016.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay, then just a second question. Don, you alluded to this award you got from -- or actually being listed as a partner in the FAST program with VW for Magna Powertrain specifically. Obviously the Getrag acquisition adds a big arrow to your quiver on Powertrain, a massive one to put it politely. So as we think about that relationship with VW, is there an opportunity to really expand the Getrag business into VW on transmissions specifically?

Don Walker - *Magna International Inc. - CEO*

I would say at the current time, hard for me to judge but I would say it is probably not a big opportunity because they are launching a lot of new dual clutch transmission, they've got some really good products coming to market and Volkswagen does their own. So I think we do expect some upside potential probably with other customers. Hard to say what Volkswagen Group will be doing but in the past they have typically done their own transmissions.

As they go around the world and we have plants around the world, then there might be an opportunity. But I don't think short term that is a customer we would expect a lot of growth with and that is not in their plan right now. So their growth plan is with other customers.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. And then just lastly, as you think about capital allocation, obviously things are a little bit slower in China, not so great in South America but fairly strong in North America and Europe seems like it is recovering a bit more. As you look at the landscape of what is changing on the macro right now, is there anything that makes you change your capital allocation plans, different programs and different businesses in each region to this point or is everything that you are looking at relatively within the bounds of what you were expecting?

And also if we think about that also, what do you think you are going to do with buybacks in the rest of the year because you have a pretty big authorization here and not much has been done. Could this get pushed out, could the buybacks get pushed out to 2016 this close to 2015?

Don Walker - *Magna International Inc. - CEO*

I will answer the capital allocation. From a geographic strategy standpoint we have been historically underrepresented in China and it is still a huge market, maybe slowing down a little bit. So we have had a lot of focus in the past couple of years to grow our sales in China and we have been successful with that. From a greenfield standpoint, Getrag is certainly going to help (inaudible) and we've have got a lot of other activities over there so that still remains a priority for us and we are starting to make more penetration with some of the Chinese domestic OEMs.

We have done a pretty deep analysis and we think the winners will be there. So China remains a priority for us. India, we are not spending a lot of capital there I think long-term with the growth market but we are going to wait and see with the market. South America, I don't think it is going to come around anytime soon so we have had very little spending there. So overall between North America, Europe being sort of the former Eastern Europe, and China are still our priorities and the capital that we talked about spending is based on booked orders so I don't see any major geographic changes in the foreseeable future for us in the other areas like Russia obviously where we have a wait-and-see attitude.

Vince Galifi - *Magna International, Inc. - VP of IR*

John, just in terms of buyback, if you think about the slide you got in our deck and kind of where we are today, if you look at the 1.5 times range, look at something called deployable cash, we've got about a $2.8 billion gap. But remember Getrag is a $2 billion price ticket. Offsetting that is proceeds that we have from our interiors sale, got some proceeds on batteries, proceeds on Bestop.

So I expect that we will be active in buybacks for the balance of the year. I don't expect that given everything that we are working on and everything that we have announced to date that we are going to fully utilize the remaining authorization which is 35 million shares. If we did that, that would get us well above the 1.5 times target that we have mentioned in the past.

But remember, John, this is kind of a continuing sort of overall target for us and it goes beyond 2015. As we get to 2016 and we are doing our business plans and we look at how we are going to deploy capital to the extent that we don't have the right opportunity whether it is on the capital side or on the acquisition side and we continue to generate a substantial amount of cash, we're going to have to continue to update our normal course issuer bid to continue to be in the 1 to 1.5 times debt to EBITDA range.

John Murphy - *BofA Merrill Lynch - Analyst*

And there would never be a consideration for raising a dividend during a special -- you think the buyback would be the way that you would go?

Vince Galifi - *Magna International, Inc. - VP of IR*

We have got a history of moving up the dividend at the end of Q4 each year. I don't see that pattern changing. I would still like to have the flexibility of using the buyback when we have excess capital to deploy and buy back stock. Once you permanently increase the dividend, it is there forever. We view that as an ongoing obligation so we want to pay a dividend that is reasonable and that is appropriate given our peer group and then deal with any access through buybacks.

John Murphy - *BofA Merrill Lynch - Analyst*

Thank you very much. I appreciate it.

Operator

Rod Lache, Deutsche Bank.

Pat Nolan - *Deutsche Bank - Analyst*

Good morning, everyone. It is actually Pat Nolan on for Rod. Two questions. First, just another follow up on North America. So you actually took up the range a bit and considering you took down the Canadian dollar assumption, it sounds like Windsor is a bit more of a headwind than you expected. That actually implies the mix in North America is actually tracking pretty well this year.

Can you just address, when you think about how you are performing in 2015 relative to the $2.3 billion of growth you are expecting over the next two years, do you think you have pulled forward any of that growth or do you think this higher base for 2014 you can still build that growth on top of it?

Vince Galifi - *Magna International, Inc. - VP of IR*

We talked about that growth in North America back in January at the (inaudible) show. It was based on a bottom-up business blend with a certain set of foreign exchange rates and a certain set of volume assumptions, a certain set of mix. We have not updated that and won't update that again until January. I can tell you that we continue to win new business that is going to impact us in the outer years so there may be some programs that could accelerate if some of that gets delayed. Unfortunately we still need to do that accounting but from 50,000 feet, nothing has been derailed and we are still on track and continue to grow the business.

Pat Nolan - *Deutsche Bank - Analyst*

Thanks. If I could just follow up with one quick one for Don. Don, can you just talk about as you are going through the portfolio analysis process today, do you think it is likely that there will be other businesses within your existing portfolio that if you look 12 months out from now may be another candidate for sale either based on your market share in those businesses or the growth profile?

Don Walker - *Magna International Inc. - CEO*

Yes, I don't really want to comment on it. We have been looking at a lot of different product areas. We've got a couple of really small ones that we are looking at whether we can grow them more whether we should partner or exit them. We have a lot going on in the past year and a half, some of them have come to the conclusion recently. We continue to look at a lot of different things. We are pretty happy with all the businesses we have got however, there are some areas that we think are good growth potentials with new technologies that we continue to look at.

So I didn't want to speculate because it impacts a lot of different factors but I think it is safe to assume we are going to continue to look at where we think the car future is going to be, where we think we've got a leading position and what we need to do to get into a leading position in areas that we think we are not that strong in and then we will take the appropriate actions.

Pat Nolan - *Deutsche Bank - Analyst*

Thanks very much, guys.

Operator

Dan Galves, Credit Suisse.

Dan Galves - *Credit Suisse - Analyst*

Good morning, thanks. Just hoping you could give us a little bit more detail on what is going on in Europe. It seems like Western Europe demand is pretty good. But you guys took down your revenue guidance a bit. How much are you getting impacted by the roll off of previously kind of planned programs for you to get out of? And on the margin side, what are the key drivers to get from kind of approximately 4% this year up to your targeted range for 2016?

Louis Tonelli - *Magna International Inc. - EVP and CFO*

On the volume side, we saw a pretty strong Q2 relative to our previous expectations. But I have to say that a lot of that was not necessarily with our biggest customers in Europe. We didn't change the overall range that much, honestly a little bit of mix change within the numbers but a lot of the growth is not necessarily German three, in fact our German three numbers are pretty static between our old forecast and our new forecast.

So that is kind of -- we have a little bit of business that has rolled off. We've talked about in the past this business has rolled off. I wouldn't call that a huge number and that would have been factored into our previous outlook so it is not affecting our change in our guidance.

Dan Galves - *Credit Suisse - Analyst*

Okay, got it. The minus 4% organic growth in Europe, like what were kind of the key drivers behind that? Was Russia a drag? Any kind of detail on that?

Vince Galifi - *Magna International, Inc. - VP of IR*

You are looking at year-over-year, Dan?

Dan Galves - *Credit Suisse - Analyst*

I thought I saw in the presentation that kind of X currency.

Vince Galifi - *Magna International, Inc. - VP of IR*

When you look at where we were last year in production sales, in Q2 we were $2.4 billion were just over about $1.8 billion today. So the $600 million swing but $450 million of that is foreign exchange. And we look at kind of what has been launching and balancing out, it is kind of neutral I would say. And then we have got volume changes on existing platforms just lower volumes. So that is really what accounts for it.

So as Louis mentioned, the biggest change is FX and we are expecting some programs to run out. You think about some of those -- we talked about going back two, three years ago as we are focusing on improving margins in Europe, we talked about it, we are going to float on a disciplined basis in certain businesses that when they roll off we are not going to go after the business. And some of that is now starting to show up in our production sales as expected.

Louis Tonelli - *Magna International Inc. - EVP and CFO*

One program in particular is our largest production program, it is also the one that you see in the assembly side that is affecting our numbers is the MINI Countryman. The MINI Countryman is down and it is affecting assembly sales. It is also affecting production sales because we have an enormous amount of production content on that program.

Dan Galves - *Credit Suisse - Analyst*

Okay, got it. That makes a lot of sense, thank you.

Operator

David Tyerman, Canaccord Genuity.

David Tyerman - *Canaccord Genuity - Analyst*

Good morning. First question just on the 2016 segment margin targets, have they changed at all on the basis of the new businesses, the Getrag coming in and the interiors going out?

Vince Galifi - *Magna International, Inc. - VP of IR*

Good morning, David. It is Vince. With respect to the North American -- for we talked about 2016 (multiple speakers) about approximately 10%. We did move up our guidance for 2015 to approximately 10.5%. I think it is safe to assume that our guidance for 2016 ex-Getrag is going to be around 10.5%. That also excludes our interiors operations both in our 2015 guidance and really just updated view for 2016. For Europe, our guidance remains unchanged, it is sort of 4.75 to 5.25 for 2016. Again that excludes Getrag.

I think when you start looking at Getrag, Getrag in North America, it should have not much of an impact in North America. In Europe, as I mentioned during the Getrag call, there was a number of launches in Europe that is going to impact us. There will be some launch cost in 2016, which will be negative. So initially as we look at Getrag, margins will be a little less than where we are running in North America. But as that business ramps up with the growth in sales, Getrag should be a positive to overall margins in Europe.

And if you sit back and think about it, we have always talked about there is a relationship between the amount of capital that is employed in a business in the markets that we need to generate to have the appropriate return on capital. The Getrag business, transmission business, is a higher capital-intensive business which should result in higher margins as a result of that.

David Tyerman - *Canaccord Genuity - Analyst*

So next year in Europe, it sounds like Getrag is lower than the 4.75 to 5.25 because of the launch costs, and then some time longer-term it actually pushes above that level.

Vince Galifi - *Magna International, Inc. - VP of IR*

I'm going to just muddy the waters somewhat. We're looking at consolidated operations at Getrag, but remember we have equity accounting as well in Europe. So I gave you a margin number pre-equity accounting, so when you start putting that all together -- I don't have that information handy right now -- that may change the results because you have equity in those sales.

David Tyerman - *Canaccord Genuity - Analyst*

Right, I got you. Okay, it would be helpful to try and get something on that when you guys get a chance. I guess Asia-Pacific, there is really not much impact here, or is there?

Vince Galifi - *Magna International, Inc. - VP of IR*

Asia-Pacific, everything is on the equity line there. So you have no sales and you (inaudible) positive. I think when we think about Getrag, we are going to be running through a rigorous business plan process with Getrag. Timing may be a little tight, given when this transaction may close depending on regulatory approval. But I expect to have some more color on Getrag certainly as we get to January of 2016.

We have got to get in -- we did an extensive due diligence, but we've got to get in and put a business plan together the way we typically do it across the organization at Magna.

David Tyerman - *Canaccord Genuity - Analyst*

Right. Okay, that is fine. The other questions I had, do you have the rough impact of the minivan on North American sales in Q2?

Louis Tonelli - *Magna International Inc. - EVP and CFO*

If you look at it year-over-year, it was about $200 million. That is just looking at our content and the change in volumes between last year and this year.

David Tyerman - *Canaccord Genuity - Analyst*

That is perfect, thanks, Louis. And then the last one, do you have a rough estimate or an exact estimate of the FX impact on EBIT or operating income or some measure like that in the quarter?

Louis Tonelli - *Magna International Inc. - EVP and CFO*

I think the way you should think about it if you are looking quarter over quarter, Europe, you should just translate that, basically it is going to be pure translation of moving on currencies. In North America, it is not that straightforward as a result of foreign exchange contracts and how we account for all of that. So it is not going to be an absolute pull through based on currency movements. But I think you can take half or three quarters of currency in movements in North America, you would probably get a close approximation of the impact of foreign exchange on bottom-line results in North America.

David Tyerman - *Canaccord Genuity - Analyst*

Okay, perfect. Thank you.

Operator

(Operator Instructions). Rich Kwas, Wells Fargo.

Rich Kwas - *Wells Fargo Securities - Analyst*

Good morning. Vince, just a quick question in terms of the sales here, so with the interior sale, I don't recall -- was there going to be much tax leakage with regards to the gross proceeds? And then with the roof sales, is there much in the way of proceeds as we think about modeling this out?

Vince Galifi - *Magna International, Inc. - VP of IR*

Yes, there is some tax leakage with interiors. If you think about the sale price being 525 -- $525 million, there are some other working capital items that we are going to get on top of that, then there is tax, we are probably looking at about $500 million of net proceeds. Then you talked about the roof business. The roof business, there is a -- there is some tax leakage there. I think we are going to be netting proceeds of about $60 million to $65 million.

Rich Kwas - *Wells Fargo Securities - Analyst*

All right. And then Samsung, the sale on that I know you quantified, but is there meaningful cash infusion there?

Vince Galifi - *Magna International, Inc. - VP of IR*

Actually it is quite meaningful compared to kind of Bestop. It is in the neighborhood of about $90 million of net proceeds.

Rich Kwas - *Wells Fargo Securities - Analyst*

Okay, perfect.

Vince Galifi - *Magna International, Inc. - VP of IR*

That is already built into our -- just to clarify, the battery proceeds are already built into our Q2 numbers, our actual numbers. So Bestop and interiors is yet to come in Q3.

Rich Kwas - *Wells Fargo Securities - Analyst*

Okay, that is all I had. Thank you so much.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan - Analyst*

Good morning. Another portfolio question maybe approaching it more from the rationale side. Can you maybe just remind us of the characteristics that you look for in an acquisition candidate? Of course, Getrag is a higher-margin, higher growth business than interiors. So are you only looking at the return on investment of the business that you would be acquiring or even disposing or are you also trying to foster and gender some sort of improvement in the organic growth or margin profile of the total company?

Don Walker - *Magna International Inc. - CEO*

The number one criteria for our consideration is what do we think will be products that are going to be growing on what we define as the car of the future. Obviously the big part of that, it has got to be something that we think is not a me-too product. Interiors, we struggled with that business for a long time, very difficult to make money, very easy to enter, there is a lot of technology involved. So we are looking at what parts of the car do we want to be in, where do we think we are going to be acquiring or developing the technology that will make us unique or desirable for a customer to give us product?

Obviously we are also looking at what the return is going to be on investment. I know we talked a lot about margins but we typically internally look at what is the return on invested capital. So it is really what is the product area, where can we be amongst the leaders in the world, is it something we want to grow in, either giving us new customers, new geographic regions? We look pretty carefully at the footprint because we did a lot of restructuring in Europe. I don't want to be going through a lot of restructuring if we buy a company. So all the normal things but the number one criteria is is it going to give us long-term growth, both earnings and profitability?

Vince Galifi - *Magna International, Inc. - VP of IR*

Certainly when you at -- just to add some comments to that -- when you look at the Getrag transaction, it meets all that because the value of transmissions should continue to grow with the trend towards lightweighting and fuel efficiency. And as we look at Getrag and the business they have today and 2014 and where the business is going to be in 2016, there is a doubling in the sales. So we are going to be benefiting from some of the tailwinds associated with what is happening on the transmission side.

We are certainly looking at whether -- when you're looking at an acquisition, we will also look at is this going to grow sales at the rate of production growth or faster? That is a factor. We certainly look at discounted cash flow and we also look at margin impact and is it accretive to overall margins or dilutive to overall margins?

But ultimately at the end of the day it is a DCF sort of analysis and if we are creating value, that is something that is going to weigh in highly on our assessment.

Don Walker - *Magna International Inc. - CEO*

Just a high-level comment, Magna has historically traded in our opinion at a lower multiple than where we think we should be. We are very diversified. I think that was a good or bad particularly. I'm hoping that as we move our product strategy into areas where their growth and their really technology differentiators we have to be global and I would hope that we are going to be looked at more as a technology company, not just a very good fast manufacturing company. And that is where we are moving the company with our actions that is what we are doing. That is not driving our acquisition strategy but I think as a result I hope people start understanding that about Magna.

Ryan Brinkman - *JPMorgan - Analyst*

Thanks, that is very helpful. Just lastly a quick one on the industry and that is what are you seeing in terms of summer shutdowns, how are they tracking North America and Europe relative to expectations given the stronger paced industry sales in those two regions?

Then we have also heard on 2Q calls maybe for the first time I can remember some of the suppliers talking about unscheduled downtime in China this summer. Just give us what you are seeing in that region too. Thanks.

Vince Galifi - *Magna International, Inc. - VP of IR*

I can't give any comment on unscheduled downtime in China. I haven't heard anything to that effect.

Don Walker - *Magna International Inc. - CEO*

I think -- I'm talking top of my head here -- but I think for the most part given the production strength in North America, our customers are tending to try and run more hours rather than -- they are still going to have their shutdowns but they are trying to pump more production out. I don't know whether anybody else is talking about it or not. I think in many cases people are running higher to make production numbers as the industry is still so strong so I would think there would be the minimum amount of shutdowns the customers have to have in most products.

Ryan Brinkman - *JPMorgan - Analyst*

Great, thanks for all of the color.

Operator

Colin Langan, UBS.

Colin Langan - *UBS - Analyst*

Great, thanks for taking my question. Any color on free cash flow? It looked like year to date it is only about $100 million and I think last year it was around $500 million. Is there something unusual going on and do you still think you could do over $1 billion the way you did last year?

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Vince Galifi - *Magna International, Inc. - VP of IR*

From a free cash flow standpoint, there has been quite a bit of investment in working capital in the quarter and in the first half of the year. We have invested about $620 million in working capital. We've also put about $620 million in capital. If you compare that to prior year as we typically have a buildup of working capital in the first half of the year and typically capital runs a little lighter in the first couple of quarters and picks up in the second half of the year, this year capital seems to be a little higher in the first half. So by the time we get to the end of 2015, I do expect a pretty substantial recovery of working capital in the fourth quarter of 2015.

Colin Langan - *UBS - Analyst*

So do you still think the full year will be stronger than or equal to last year? I thought you originally gave guidance on free cash flow.

Louis Tonelli - *Magna International Inc. - EVP and CFO*

We don't typically give guidance on free cash flow.

Colin Langan - *UBS - Analyst*

Okay, and when we are talking about the second half, it sounds like free cash flow should pick up. Is that in the leverage numbers you were talking about earlier in terms of getting to the higher end of the 1.5 times or would that be in addition to (inaudible) some additional room?

Louis Tonelli - *Magna International Inc. - EVP and CFO*

That would be adjacent to our forecast and our assumptions going forward. Our current plan would include that.

Colin Langan - *UBS - Analyst*

Okay. And I think earlier you were going through the impact of your 2016 margins in Europe of 4.75 to 5.25. The divestiture of interiors does help that outlook or that seems the way you said it. I just wanted to make sure?

Louis Tonelli - *Magna International Inc. - EVP and CFO*

Just step back a second, so free interiors so when interiors was consolidated our outlook was 4.25 to 4.35 and on our last call when we updated our outlook excluding interiors, we moved up the range by about 50 basis points.

Colin Langan - *UBS - Analyst*

Okay, got it. Thank you for the clarification. And then lastly, you mentioned some of the headwinds in the quarter. How should we think about them for the rest of the year? I think you mentioned steel recoveries was an issue and warranty costs. Will they reverse or are they still issues going forward?

Vince Galifi - *Magna International, Inc. - VP of IR*

When I look at scrap recovery given where steel prices are today, that will continue to be a headwind for the balance of this year and with respect to our launch costs as well, that will continue to be a headwind for the balance of the year.

Colin Langan - *UBS - Analyst*

And the warranty?

Louis Tonelli - *Magna International Inc. - EVP and CFO*

Hard to predict warranty. That is a difficult one to say where warranty is going to come up in the next half of the year.

Colin Langan - *UBS - Analyst*

Okay, all right. Thank you very much.

Operator

Pat Archambault, Goldman Sachs.

Pat Archambault - *Goldman Sachs - Anallyst*

Thanks for taking my question. Made it here under the wire. Actually, first, I wanted to see, get a clarification on the answer to Ryan Brinkman's question on China. With respect to seeing any production pullback for the third quarter, was the answer that you are not seeing this that schedules that you have in hand are still up year on year for most of your customers or are you just saying there is no visibility at this time and it is too early to call?

Louis Tonelli - *Magna International Inc. - EVP and CFO*

It is availability. We did cut back our expectations a little bit on our Asia production sales and a lot of that is China so we have kind of taken back some of the sales expectation that we had versus the last forecast so we are seeing some softening. Just saying we don't have enough visibility to specifically what is going on and where shutdowns are etc.

Pat Archambault - *Goldman Sachs - Anallyst*

And did you say that there was one major customer responsible, did I hear that correctly for the China revision? I might have misheard.

Don Walker - *Magna International Inc. - CEO*

It was one program that we've got with a customer and that has been impacting our sales in Q2 and our outlook for the balance of the year in China.

Pat Archambault - *Goldman Sachs - Anallyst*

Got it, okay. So China itself is just kind of TBD, need a little bit more data before we make changes on the whole market it sounds like.

Don Walker - *Magna International Inc. - CEO*

Yes, we are still excited about the market and we have got a lot of neat programs coming on so we are still very bullish on that market.

Pat Archambault - *Goldman Sachs - Anallyst*

Understood. Like my last one for you guys was just general commentary on the acquisition landscape. I mean a lot of us -- there was a very large seating asset that was put up for sale. A number of people thought you might be interested in that, you chose another acquisition instead. And I am just wondering maybe is there any kind of commentary or color you can provide on why the decision was made to go into a new area albeit one that is connected to your existing portfolio rather than building out scale in an existing business like seating?

Don Walker - *Magna International Inc. - CEO*

We actually targeted the transmission area as the growth area well over a year ago. We have been working on this transaction for a long time as you can imagine these things don't happen very quickly. The same with interiors so we were looking at whether or not consolidate, we wanted to stay the course and so we have been looking at that for a long time.

As far as other potential opportunities that are out, we don't comment on it but there is a lot going on in the industry right now. You are talking about JCI Seating so that was just announced that they are looking at options so it is way too early to determine whether we would do anything or whether we have an interest in doing it or not.

Pat Archambault - *Goldman Sachs - Anallyst*

Understood. Just as some clarification, some people have said that your seating business right now would benefit from greater scale i.e., that in certain regions it may not have the critical mass that it would need to sort of reach optimal profitability. Is that something you would agree with?

Don Walker - *Magna International Inc. - CEO*

For sure we are smaller than JCI and Lear and Faurecia. We have been growing our seat business from a very small base going back 15 years ago. We have been growing pretty rapidly in North America. We are just started growing -- we've been in Europe for quite a while but we are just starting to grow our business over there. We are very small in Asia.

We were in the metal side of the business but JCI bought two companies, Hammerstein and Keiper. So -- and Faurecia has got a lot of metals capability as well. So is there still room for us to grow our top line and our bottom-line in seating? Absolutely and whenever there is changes going on it probably gives us more opportunity.

Could we add on to the capabilities we have got in geographic regions and some more metals capability? Absolutely but obviously JCI is sort of the giant and Lear is very big as well. So it is an area we want to grow in, it is a good business for us, it is a growing business. And if we had the opportunity, we would look at things strategically but we would have to look at what size we want to be there as well.

Pat Archambault - *Goldman Sachs - Anallyst*

Got it. Okay. Appreciate the color, thanks, guys.

Operator

Richard Hilgert, Morningstar.

Richard Hilgert - *Morningstar - Analyst*

Thanks for taking my question this morning. Good morning, guys. When I add back the discontinued operations on the income statement, I still see pretty good margin improvement in the quarter. SG&A was down 30 basis points, depreciation and amortization down 10 basis points, COGS was maybe up about 10 basis points. But so I am curious how much of the improvement in there is attributable to the currency? And is there anything going on in the margin that would include some type of either white or blue collar headcount changes or any particular kinds of operating efficiencies going on? Even on an EBITDA margin basis including the discontinued operations, we went from 9.9% to 10.1%. Any color you can add there?

Vince Galifi - *Magna International, Inc. - VP of IR*

Richard, you are adding back discontinued operations and kind of all of our discussions this morning have been excluding discontinued operations because that is more reflective of the business going forward. When you look at comparables for the quarter, last year -- again this is excluding interiors that we are selling -- our operating margin was 8% and this quarter we are at 8.2%. And there is a number of moving pieces that sort of make that happen.

One is we benefited from more assembly sales on an overall percentage basis. And as you know, our assembly operation would run at a margin that is less than overall consolidated margins. We have also benefited on a year-over-year basis because last year if you could run through our MD&A last year or this year, we had a fire in Mexico. And included in our Q2 2014 costs were about $25 million related to that fire.

So on the offset just a couple of other things that are impacting us this year that didn't impact us last year, we have higher launch costs around the company as we are launching new business. And we talked about lower recovery of scrap which overall has been a negative on a year-over-year basis.

So when you kind of sum all that up that equates to about a 0.2% improvement in operating margin year-over-year but there are pluses and minuses in getting there.

Richard Hilgert - *Morningstar - Analyst*

Okay, great. And then a final question with Getrag, is there something that the combined Magna Drivetrain and Getrag, is there any kind of technology or innovations that you foresee that combining the two together you are going to -- will enable these technologies or innovations or anything that you can talk about with respect to prospective revenue generation from the combination of these two?

Don Walker - *Magna International Inc. - CEO*

No specific product areas that I am going to talk about but they have a lot of capability on engineering and we have a lot of capability in engineering as well and if you look at -- there's a couple of other big powertrain companies out there but I think just combining their expertise, our expertise in all areas of engineering, manufacturing, there is a lot of changes going on in the powertrain area and we are looking at some new technologies.

I haven't had the opportunity to get into a deep dive on their technology review but the people who have have been very impressed with their capability. So can't say specifically we are going to do a specific new product but I think with the capability and what we are doing in R&D and a lot of different areas that I would expect that one plus one equals three here.

Vince Galifi - *Magna International, Inc. - VP of IR*

Richard, the other thing too is when you look at China with Getrag's presence in China and its relationships with joint venture partners, that expands and deepens our existing relationships and outside of powertrain, we believe that is going to be an opportunity for the rest of Magna in China.

Richard Hilgert - *Morningstar - Analyst*

Okay, great. Thanks, guys.

Operator

Mr. Walker, I will now turn the call back over to you. There are no further questions.

Don Walker - *Magna International Inc. - CEO*

I would like to thank everybody for taking the time to call in and thanks for the questions today. We have had a very busy year so far. We continue to focus internally on our three priorities we have talked about, world-class manufacturing, innovation and our people system. But I am also very pleased with the progress we are making in looking at our product strategy and making moves in growing in the geographic areas and with the customers we want to grow with.

So again thanks for calling in and have a good day. Bye.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines. Have a great day, everybody.