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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Magna International Incorporated third-quarter 2015 results conference call.

(Operator Instructions)

As a reminder, this conference is being recorded today, Thursday, November 5, 2015. It is now my pleasure to introduce your speaker for today, Mr. Don Walker, Chief Executive Officer with Magna. Please go ahead, sir.

Don Walker - *Magna International Inc - CEO*

Thank you. Hello, everybody, and welcome to our third-quarter 2015 conference call. Joining me today is Vince Galifi, our CFO, and Louis Tonelli, Vice President, Investor Relations. Yesterday our Board of Directors met and approved our financial results for the third-quarter ended September 30, 2015.

We issued a press release this morning for the quarter. You'll find the press release, today's conference call webcast, 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 a reminder, the discussion today may contain forward-looking information or forward-looking statements within the meanings 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 than those expressed or implied in these statements. Please refer to today's press release for a complete description of our Safe Harbor disclaimer.

As we have experienced throughout 2015, the stronger US dollar negatively impacted our reported sales and earnings in the third quarter of 2015. In Europe, while we still work to continue to make operational improvements, overall the segment performed in line with our expectations in Q3. Our Rest of World segment, which currently represents our South American operations, also met our expectations for the quarter, as we continue to contain the losses even in the face of weak production volumes.

Overall, our Q3 operating results were disappointing, coming in lower than our expectations, largely attributable to our North America and Asia reporting segments. In North America, we experienced some operational inefficiencies, primarily due to capacity constraints and new launch activities at certain body and chassis facilities. These issues negatively impacted our Q3 operating results. In Asia, we were negatively impacted by weaker vehicle production, particularly with our largest programs and customers.

The lower vehicle production resulted in lower sales and, therefore, lower contribution margin in the third quarter of 2015. For the fourth quarter, we expect continued sales and profit weakness in Asia, driven largely by expected declines in production for some of our largest customers in China. In North America, while we expect modest sequential improvements in operating results at the end of performing body and chassis facilities, these operations are expected to continue to negatively impact results in Q4.

This past quarter, we a announced the acquisition of Getrag, a technology leader in transmissions, and also announced that we closed a transaction disposing of substantially all of our interiors operations. These transactions are important elements in refining our product portfolio to focus on core product areas.

We also announced last month that we had signed an agreement to acquire Stadco, a Tier 1 Body-In-White supplier based in the UK. Stadco has industry-leading expertise in the automotive industry, in the supply of steel and aluminum stampings, as well as complex vehicle assemblies. The business complements our capabilities, expands our metalforming geographic footprint, and strengthens our existing global customer base.

We received good recognition from our customers recently. Our Cosma body and chassis operating unit received the Best Product Development Performance Award from its customer Mahindra. The award recognizes excellence for the design, engineering, and development of an innovative ladder frame for Mahindra's Scorpio SUV and other vehicle platforms.

Mahindra awarded the complete reengineering to Scorpio chassis frame based on Magna's engineering capabilities and global leadership in chassis systems. Magna has produced 24 million frames for its customers globally. In our mirrors manufacturing division in Holland, Michigan, received the Volvo Cars Quality Excellence Award for outstanding performance. [Find] Volvo with our innovative infinity Inside mirror, and Automotive News PACE Award recipient.

Finally, last week, we announced our SmartLatch electronic side-door latch system has been selected as a finalist for the 2016 Automotive News PACE award. SmartLatch operates 100% electronically. It eliminates the need for cables, rods, and moving handles in the door. The industry first application of the latch is on the BMW i8 and it has been selected by other global automotive manufacturers for future vehicle programs. We believe this product will change the way vehicle latching systems are designed going forward. With that, I'll pass the call over to Vince.

Vince Galifi - *Magna International Inc - CFO*

Thank you, Don, and good morning, everyone. I would like to review our financial results for the third quarter ended September 30, 2015. All figures I'm going to discuss today are in US dollars. Please note that operating results for the interiors operations that we recently sold 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 third quarter of 2015, we recorded gains on a disposition of a portion of our Bestop business and net restructuring charges related to our European exteriors and interiors businesses. The net of these increased operating income by $124 million, net income attributable to Magna by $68 million, and EPS by $0.16.

In the third quarter of 2014, we recorded restructuring charges entirely related to our European exteriors and interiors businesses. These reduced operating income by $7 million, net income attributable to Magna by $6 million, and EPS by $0.01. The following quarterly earnings discussion excludes the impact of these unusual items.

In the third quarter, our consolidated sales declined 7%, or $586 million, relative to the third quarter of 2014, to $7.7 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 third quarter of 2015. Foreign currency translation reduced our sales by about $870 million as compared to the third quarter of 2014.

Excluding the impact of foreign currency translation, our total sales increased 3% in the third quarter of 2015, compared to the third quarter of 2014. Reported North American production sales increased 2% in the third quarter to $4.3 billion. Excluding the impact of foreign currency translation, North American production sales increased 8%, while North American vehicle production increased 4% to 4.3 million units.

The North American production sales increase is a result of the launch of new programs and higher production volumes in certain programs, partially offset by net divestitures, programs that ended production during or subsequent to the third quarter of 2014, and net customer price concessions.

Reported European production sales declined 18% from the comparable quarter. Excluding the impact of foreign currency translation, European production sales declined 1%, while European vehicle production increased 4% to 4.7 million units. The European production sales decline was primarily the result of programs that ended production during or subsequent to Q3 of 2014, lower production volumes of certain existing programs, and net customer price concessions. These factors were partially offset by the launch of new programs.

Asian production sales decreased 12%, or $45 million, to $346 million from the comparable quarter. This was primarily as a result of lower production volumes in certain programs, the weakening of the Chinese and south Korean currencies against the US dollar, programs that ended production during or subsequent to the third quarter of 2014, and net customer price concessions. These factors were partially offset by the launch of new programs, primarily in China, India, and Thailand.

Rest of World production sales declined 38%, or $68 million, to $111 million for the third quarter, primarily as a result of the weakening of the Brazilian real against the US dollar and lower production volumes in certain programs. These factors were partially offset by the launch of new programs, primarily in Brazil, and net customer price increases.

Complete vehicle assembly volumes declined 28% from the comparable quarter and assembly sales declined 32% to $522 million. Excluding the impact of foreign currency translation, complete vehicle assembly sales declined 18%, largely due to a decline in assembly volumes on the MINI Countryman and Paceman.

In summary, consolidated sales excluding tooling, engineering, and other sales declined approximately 8%, or $641 million, in the third quarter, but increased 2% if you exclude approximately $775 million associated with the impact of foreign currency translation. Tooling, engineering and other sales increased 8%, or $55 million, from the comparable quarter to $705 million. Excluding foreign currency translation, tooling, engineering and other sales increased by approximately $150 million.

Gross margin in the quarter declined to 13.9% from 14.2% in the comparable quarter. The gross margin percentage was negatively impacted by operational inefficiencies at certain facilities, in particular, at certain body and chassis operations in North America; higher launch cost; lower recoveries associated with the strap seal; an increase in the proportion of tooling, engineering, and other sales relative to total sales that have low or no margin; insurance recoveries during the third quarter of 2014 related to a fire at a body and chassis facility in North America; and increased preoperating costs incurred at new facilities.

These factors were partially offset by a decrease in the production of complete vehicle assembly sales relative to total sales, which have a higher material content than our consolidated average; lower warranty costs; decreased commodity costs; a decrease in the proportion of sales earned in Europe relative to total sales, which have a lower margin than our consolidated average, primarily due to the weakening of the euro against the US dollar; and productivity and efficiency improvements at certain facilities.

Magna's consolidated SG&A as a percentage of sales was 4.7% in the third quarter of 2015, compared to 4.6% recorded in the third quarter of 2014. SG&A declined $24 million to $358 million in the third quarter of 2015, primarily due to the weakening of certain currencies against the US dollar and the elimination of [Stronach & Co] fees at the end of 2014. These factors were partially offset by higher consulting costs and a $2 million net decrease in valuation gains on asset-backed commercial paper.

Our operating margin percentage was 7.3% in the third quarter of 2015, compared to 7.5% in the third quarter of 2014. This decline substantially relates to the lower gross margin percentage of sales and the higher SG&A percentage of sales. In Q3 2015, our effective tax rate was 27.9%, compared to 20.4% in the third quarter of 2014.

This was primarily the result of lower favorable audit settlements and an increase from permanent items. Net income attributable to Magna from continuing operations declined $91 million to $402 million for the third quarter of 2015 compared to $493 million in the comparable quarter. Diluted EPS from continuing operations was $0.97, compared to $1.15 in the third quarter of 2014.

The decline in diluted earnings per share was the result of a decrease in net income from continuing operations attributable to Magna, partially offset by a decrease in the weighted average number of diluted shares outstanding during the quarter. The decrease in the 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'm now going to review our cash flows and investment activities. During the third quarter of 2015, we generated $563 million in cash from operations prior to changes in non-cash operating assets and liabilities, and $33 million in non-cash operating assets and liabilities. For the quarter, investment activities amounted to $434 million, including $360 million in fixed assets and a $74 million increase in investments and other assets.

In Q3, we collected $473 million in proceeds associated with the disposal of our interiors business. This amount excludes payment for our China operations and other certain amounts to be collected at a later date. In addition, we collected $118 million in proceeds on the sale of our Bestop operation in the quarter.

In the quarter we also issued $650 million of 10-year, 4.15% senior notes. We also repurchased 7.2 million common shares for $346 million pursuant to our normal course issuer bid that expires this month. Our Board also approved, subject to approval by the Toronto and New York Stock Exchanges, a new normal course issuer bid to purchase up to 40 million of our common shares. This new bid would expire in November of 2016.

Overall, reflecting all these cash flow activities, our cash balance increased by over $800 million in the third quarter. Our balance sheet remains strong, with $2 billion in cash as of September 30, 2015. We also have additional $2.2 billion in unused credit available to us. Cash resources are largely expected to be deployed to fund previously announced acquisitions.

Let me turn 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 August outlook. In Europe, we now expect 2015 total European light vehicle production to be approximately 20.5 million units; that's up from about 20.3 million units in our August outlook.

The increase reflects modestly higher than previously expected European production in the third quarter and fourth quarter of 2015. Compared to our outlook in August, we're assuming a slightly higher euro and similar Canadian dollar for 2015, each relative to our US dollar reporting currency. Our North American production sales range has been narrowed but is largely in line with our previous outlook.

Our European production sales range has increased, largely reflecting the higher expected euro and the increase in assumed production volumes. We have lowered our production sales ranges in Asia and Rest of World, largely reflecting downward revisions to production volumes in China and South America, and weaker relative currencies compared to the US dollar. The net result of these factors is a consolidated production sales range of $26.3 billion to $27.2 billion, roughly in line with our previous outlook.

Our expected assembly sales range has narrowed and increased slightly, reflecting modestly higher expected assembly volumes and a higher expected euro relative to our previous outlook. Implicit in our total sales outlook is a more than $200 million increase in our expected tooling, engineering, and other sales compared to our previous outlook. Our total sales outlook range is now $31.3 billion to $32.6 billion, which is narrow and increased slightly at the bottom end of the range from our previous outlook.

We're now expecting our consolidated operating margin percentage to be approximately 7.7% for 2015, compared to approximately 8% in our previous outlook. The reduction in the expected operating margin percentage largely reflects operational issues at certain body and chassis facilities in North America, lower margins in Asia due to our reduced sales outlook, and the increased proportion of tooling, engineering, and other sales that have low or no margins.

We're expecting our income tax rate to be approximately 26%, which is unchanged from our August outlook. For the full year 2015, we expect fixed asset spending to be approximately $1.5 billion, which represents the top of the range from our August outlook. Next, I'd 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% for 2015, down from approximately 10.5% we had indicated previously. This largely reflects the operational issues we have experienced in certain body and chassis facilities which we expect to continue to negatively impact results in the fourth quarter. For Europe, we expect the EBIT margin percentage to be approximately 4%, which is in line with our previous outlook.

For Asia, we now expect 2015 EBIT margin percentage to be approximately 6.5% for 2015, down from approximately 8% in our previous outlook. The decline largely reflects the reduced sales outlook and corresponding margin impact, particularly associated with the weakened outlook for production on our largest customers and programs in China for the second half of 2015. This concludes our formal remarks.

Thanks for your attention today. We'd be pleased to answer questions at this time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our first question will be from the line of John Murphy from Bank of America Bank of America Merrill Lynch. Please go ahead, sir.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys.

Don Walker - *Magna International Inc - CEO*

Hi, John.

John Murphy - *BofA Merrill Lynch - Analyst*

If I could ask you a first question on FX because it was obviously a big factor in the quarter. I know you highlighted the impact on sales, but is there any way to delineate the impact on EBIT in the quarter by region, North America, Europe, and Asia, or even just in aggregate?

Vince Galifi - *Magna International Inc - CFO*

John, when you look at Europe and Asia and rest of the world, it's a little easier, because that's just a pure translation and you can look at movement in exchange rates, and whatever exchange rate you were using your model to where we are now, that will flow through to the bottom line results in US dollars. When you start looking at North American sales, it's a little more challenging and that's because we have a number of hedges in place.

Also we have substantial US sales but we also have Canadian sales and some of the Canadian sales are hedged. So it [isn't] a complete pull-through on a dollar-for-dollar basis on currency translation, but with the declining Canadian dollar, there certainly will be a negative impact to operating results reported in US dollars.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. Then on the second question, if we could think about the inefficiencies in this body and chassis plant in North America, we're not hearing about a lot of disruption from any customers that's apparent, so just curious if you could give us a little bit more detail on that, if there had been any disruption to the customer and also how long you expect this to persist. It sounds like into the fourth quarter, but is this something that could hang around into 2016, or is this something that's just in the ramp of whatever product it is?

Don Walker - *Magna International Inc - CEO*

Three facilities and two of them are in Canada. The biggest impact is one in the Midwest. We have not had an impact to our customers. However, we had -- I'm pretty comfortable -- we have plans in place for two of the divisions, the third one, the biggest one, down in the Midwest, has got a lot of launches going on and all of their customers are either at full production or pulling over full production.

We're putting an expansion on the plant and we've had a few different impacts of downtime, one was in our press shop, one is an e-coating line. So we have had premium freight. We've had to outsource product, as well, as we're doing trials for the new production runs. So that one we're still struggling with.

It will be into Q4 for sure, and I suspect we're going to -- we'll have some impact going into 2016, because the two major launches are happening into Q1, into Q2, so we're in the middle of still working through the details. We have a lot of extra resources down there, but I don't anticipate it hitting the customer but it's going to be having a lot of inefficiencies over the foreseeable future.

Vince Galifi - *Magna International Inc - CFO*

John, just to reiterate. This is going to spill over into Q4 and it's going to spill certainly into 2016. If you look at Q4 versus Q3, we're expecting a modest improvement, but a continuing drag on profitability compared to our previous expectations.

John Murphy - *BofA Merrill Lynch - Analyst*

And this sounds like a capacity issue more than anything else. Is that what it is?

Don Walker - *Magna International Inc - CEO*

The root cause is capacity because of some downtimes and because all of our customers are [pulling] at such a high level. But once you get into the issue and you've outsourced dyes, we can't get in to maintain the equipment so we're having more breakdowns than we would normally have and we're putting an expansion on the plant and we're doing tryouts for the new launches.

So it's a big plant getting bigger. In hindsight, we probably shouldn't have put so much in that plant. We probably should have put it in a second plant. Once it's up and running, it will be good but we're going through a lot of operational inefficiencies.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. Then just a last question on acquisitions. If you could just gives us an update on Getrag and also on Stadco, if you could just give us some information on the customer base and the end geographies that those sales go into?

Vince Galifi - *Magna International Inc - CFO*

I'll start with Stadco. Stadco, we're expecting the transaction to close at some point in Q4 this year. Stadco sales, probably around $400 million, plus or minus. Its major customer is JLR in the UK. It's got operations in the UK and it's got one operation in Germany.

In the case of Getrag, we've been working with the anti-trust authorities to put in all the appropriate filings. Our best guess at this point in time is this transaction is going to close early in 2016 with an effective date being the beginning of 2016. So it's not going to mess up our year-end accounting and we'll start dealing with this in 2016.

With respect to any update on sales, John, there really isn't an update from our Getrag call. Getrag is in the middle of updating their business plan. We should be getting access to that late this year. When we come to January and we update not only guidance for existing Magna operations, we'll give some more color at that point on Getrag.

John Murphy - *BofA Merrill Lynch - Analyst*

Okay. Great. Thank you very much.

Operator

Our next question will be from the line of Peter Sklar from BMO Capital Markets. Please go ahead.

Peter Sklar - *BMO Capital Markets - Analyst*

These issues that you've had in the three body and chassis plants in the third quarter, are you able to give us some order of magnitude of what the drag was on operating earnings versus what you would normally expect from those operations as they're launching?

Vince Galifi - *Magna International Inc - CFO*

When you look at it from -- Peter, we haven't quantified it, but I can tell you that when I look at from last year to this year, there's been pretty significant change in profitability at those three plants. But part of that was expected. We are launching business in those three plants so part of our roll on the launch costs in 2014 versus 2015, this was built into it.

But there are, as Don talked a bit, costs that we weren't expecting as a result of some of those inefficiencies. As I look through sequentially year-over-year and the impact on overall margin and what our expectations were, the biggest impact would have been those underperformers, those operating issues.

Some of the other things that potentially have impacted margin, we've got a little bit more launch costs on a year-over-year basis, or sorry, quarter-over-quarter basis. Our investment in new facilities, that's been a drag in Q3 versus Q2, and a little bit more net commodity costs, lower scrap revenues. We've had the benefit of reduced warranty cost.

But when you run through all that, the negatives are the underperformance, the launch cost and new facility costs are expected. In terms of lower scrap revenues and that was unexpected, but the biggest part of that would have been underperformance. That's why, Peter, we're bringing down our outlook for margin in North America, primarily to those -- substantially those three facilities.

Peter Sklar - *BMO Capital Markets - Analyst*

Right. Okay. Just wanted to go -- lastly, I just wanted to go back to Getrag. When you announced the acquisition, you indicated that Getrag is having -- there is a big ramp going on at Getrag. I'm just wondering if you could elaborate a little bit on it to the extent you can, what are those programs? Where are they? Are they in the joint ventures in China? What's the time frame -- when do those programs begin to ramp and when do they achieve production maturity?

Vince Galifi - *Magna International Inc - CFO*

Peter, when you look through Getrag, and some of these things are may be consolidated, some of them are going to be equity accounted. If you look at something that's consolidated, which is some of the European operations, there's a launch of a new transmission, of DCT's 300 transmission. Sales start to ramp up, actually 2014 to 2015, were expected to ramp you up, and continue to ramp up in 2018 with substantial growth in 2019. There's a multiple number of customers that they're supporting.

In North America, there's a joint venture with Ford that is consolidated. When you look through the ownership structure, Getrag owns 75% of it. This is a business that's ending production, probably the end of 2018. There might be some sales in 2019, but 2018, 2019, so that's ramping down. We've talked that before. It's expected. Ford is moving away from DCTs in North America.

Peter Sklar - *BMO Capital Markets - Analyst*

Their small car program?

Vince Galifi - *Magna International Inc - CFO*

In terms of some of the other areas that are launching, some of the more substantial ones are in a joint venture that's 50% owned by Getrag and it's in China. What's launching there is a couple of -- I've got notes around a couple of programs -- the DTC300 -- and a big part of that is going to be going to Great Wall. It's manual transmissions and sales are ramping up, so I look at my schedule here, 2015, 2016, 2017, 2018, and 2019, continuing to ramp up.

In terms of the final joint venture in China, which is 50% owned, again, it's a couple of transmissions, it's DCT150 and DCT200 and sales start to ramp up in 2017, in this final joint venture. But Peter, we're going to -- as I mentioned to -- in my response to John Murphy's question, we're in the middle of our own business [contract with Getrag], so wanted to give a little bit more color. At this point, we do have limited information. Once we have access to all of Getrag, we'll provide some more color for you.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay. Thank you.

Operator

Our next question from the line of Adam Jonas with Morgan Stanley. Please go ahead.

Adam Jonas - *Morgan Stanley - Analyst*

Hey, everybody. Just launching off a comment in one of your answers, Vince, just a minute or so ago, you said the decline in the NA margin guidance was mainly attributable to the three facilities. That's a 50 bp reduction on $18 billion of revenue, which mathematically gets me to $90 million. I know you're not saying -- you're not quantifying it exactly at $90 million, but are we wrong to interpret that, at least the majority of that number, given your comment, would be related to the facilities' operational efficiencies, order of magnitude?

Vince Galifi - *Magna International Inc - CFO*

There's a bunch of moving pieces, there's mix, and all that, but a substantial portion of that margin decline is attributable to the body and chassis facilities that we've been talking about.

Adam Jonas - *Morgan Stanley - Analyst*

Okay. That's--

Vince Galifi - *Magna International Inc - CFO*

(Multiple speakers) do that. The impact is really half a year on that, right?

Adam Jonas - *Morgan Stanley - Analyst*

Yes. I understand. We'll make a run rate assumption, but it's important to know, just for the market to know, how much of the disappointment was related to issues that are not ongoing, let's say, or temporary in nature, so that's (multiple speakers)--?

Don Walker - *Magna International Inc - CEO*

(Multiple speakers) when we say approximately 10.5%, approximately 10%, it's approximate. We're not--

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Adam Jonas - *Morgan Stanley - Analyst*

Understood.

Don Walker - *Magna International Inc - CEO*

There's some rounding in there. There's bits and pieces of other things, but this is the most significant thing.

Adam Jonas - *Morgan Stanley - Analyst*

Thank you. Just on the FX side, for the quarter, for example, you were mentioning that $870 million was the negative impact on sales. If I just use as a baseline, a pure translation at around a 7% margin on the $870 million of the revenue, would lead order of magnitude $60 million to $65 million reduction of operating profit. Is that a fair baseline to say that?

I know there's a lot of moving piece with the hedging, and of course, where you produce locally, which you do a good job of. But the question is, is the impact more pure translation, like meaning roughly applying that operating margin on the $870 million of lost sales to FX, or is the net slightly higher or lower than that?

Vince Galifi - *Magna International Inc - CFO*

Here's the way I would think about it. You need to look at the various segments and we do a pretty good job in each of them in our MD&A. I would look at it in this fashion, to get you an approximation, if you look at -- in Q3 alone, and I'll just focus on Q3 on a year-over-year basis, foreign exchange had an impact of about $350 million.

The right way to think about that is to just take the $350 million we reported, [EBIT] margin of 4% in Europe and give you that number. Asia, which is primarily China, foreign exchange is about $15 million, so it had some impact, but in the big scheme of things, on Magna, were all not that significant. Rest of World translation was about $50 million negative, so that probably helped our operating margin because we're losing money there.

The other -- we also have some tooling. Tooling is year-over-year is about $100 million, so that has minimal or really no impact on overall operating margin on a consolidated basis. Then you've got North America. And North America, it's about $260 million of FX, and if you took the $260 million, used our operating margin in North America, that you would overstate the impact that translation is having on the bottom line. It's going to be something less than that.

Adam Jonas - *Morgan Stanley - Analyst*

Your own position in North America is more in the direction of a natural hedge?

Vince Galifi - *Magna International Inc - CFO*

Can you repeat that again. Let me focus (multiple speakers)--?

Adam Jonas - *Morgan Stanley - Analyst*

Just to be clear, your comment on North America is you're more than translation natural hedge. Meaning there is an impact, a negative impact, but it's not in the transaction direction, it's more of a natural hedge, more neutralized, is that how we interpret what you just said?

Vince Galifi - *Magna International Inc - CFO*

More neutralized, so if our operating margin (multiple speakers)--?

Adam Jonas - *Morgan Stanley - Analyst*

Meaning less than operating margin?

Vince Galifi - *Magna International Inc - CFO*

That's correct.

Adam Jonas - *Morgan Stanley - Analyst*

Okay. Great. That's very clear. Just last one. Any comments -- a lot of your supplier peers this earnings season, when asked about the Volkswagen issue, and I know you have limited content, of course, very little on the engine side broadly, but they've all said more or less the same thing, absolutely no impact so far and no expectation of any significant impact going forward.

It's natural, given how early it is to say -- to use language like that. Just wanted to offer you a chance to either say something similar or to add any color from your side of the business as we look into 2016? Thanks, guys.

Don Walker - *Magna International Inc - CEO*

Pretty difficult to estimate what's going to happen. I don't think they've seen much of an impact on their sales yet and they're doing a lot of different things with promotions and you can read in the paper what they're doing. The impact on the company itself, again, it's anybody's guess. There's all sorts of speculation what they're going to do. I'm sure they're going through a very difficult time internally, trying to manage with everything with the changes in people.

But Volkswagen is a big, capable organization. I don't know how anybody can say it's going to have absolutely no impact because we don't know what the impact is going to be yet. From a very high level, from our perspective, if they have lower sales, then it will depend on who the end consumer decides to buy from and then do we have higher content or lower content with that other vehicle and do we have higher profit margins or lower profit margins with the other vehicle.

I do think that it will have a negative impact on the perception of diesel in North America, which isn't a big seller here anyway. I don't think it's going to have a huge impact on diesel sales in Europe, and typically, people have relatively short memories, so it probably depends on if anything else happens or not.

There's been speculation that this will increase the sales of electric vehicles. Electric vehicles and hybrids, from an end consumer standpoint, they're either going to buy them or not based on how much money they want to spend because they're still expensive and there's -- difficult to justify payback on pure electric vehicles.

One of the things we are looking closely at, is what will be the impact from the government agencies on the test procedure, and will they be -- I won't get into a long discussion here, because it can be a long discussion, but it probably will put more pressure on all of the OEMs to have lower NOCs and lower CO2, which probably increases their interest in their rate of adoption of new technologies and lighter weight and more efficient power trains, et cetera, et cetera. So too early to tell. We haven't seen an impact yet, but we'll wait and see what happens.

Adam Jonas - *Morgan Stanley - Analyst*

Thanks, Don. Thanks, guys.

Operator

Our next question from the line of Steve Arthur with RBC Capital Markets. Please go ahead.

Steve Arthur - *RBC Capital Markets - Analyst*

Yes, thank you. Following up on the Asian margin side, down quite a lot from Q2 levels, down by about one-half, and below anything we've seen for a while. Importantly, looking into Q4, your 6.5% type of level for the year seems to imply some pick-up in Q4 margins for Asia. Does that sound correct to you, and then just on your understanding now, we recognize the volumes, but looking into 2016, would you expect margins to be somewhat similar to this level for 2015, given the launch factors and so on?

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Vince Galifi - *Magna International Inc - CFO*

Steve, let me just answer your second part of the question. When you look at production on our top programs in China, we've seen in Q3 a reduction and we're expecting reduction also in Q4. In terms of 2016, we have a new business that's launching and we need to [work a little] business plan. So we need to understand the ups and downs of some of the existing programs and also whether some of the launches, whether the launch is the same or less.

I don't have at this point any more information on 2016. With respect to overall margins, haven't done the math yet. Certainly, you have done, but the guidance we're giving then would incorporate the first three quarters of performance. So that [mat deal and improvement earnings] will have decreased margin in Asia in Q4.

Don Walker - *Magna International Inc - CEO*

Remember, the numbers are small, so it doesn't take much to move the margin percentage around a lot.

Steve Arthur - *RBC Capital Markets - Analyst*

Right. No. Makes sense. Okay. Thanks a lot.

Operator

Our next question from the line of Rod Lache with Deutsche Bank. Please go ahead.

Rod Lache - *Deutsche Bank - Analyst*

Good morning, everybody. A couple things. One is just getting back to the $20 million decline in EBIT in North America. You said that the margin effect on FX is less than 10%, so maybe a mid-$20 million negative effect. But if you were to apply the historical 20% incremental margin on the implied volume growth, that's a $60 million positive.

So there's $50 million or $60 million in the quarter that we're just trying to reconcile. Was hoping you can just give us a sense of the magnitude of the scrap headwind and are there -- in terms of the inefficiencies, are there tranches of improvement that you have some visibility on, or could you maybe give us some time frame for when you would expect to eliminate it?

Vince Galifi - *Magna International Inc - CFO*

Rod, if I look at the year-over-year in North America, and I'll talk about the pieces that are in and out of there, but when you look at the incremental sales less FX, we're around 20% pull-through on that. But there are some negatives and I'll take you through them. Some of them I talked about in my formal remarks. But last year, there was a fire in one of our body and chassis facilities in China, and in Q3 last year we got an insurance recovery.

Don Walker - *Magna International Inc - CEO*

Mexico.

Vince Galifi - *Magna International Inc - CFO*

Oh sorry, Mexico. In Mexico. We had an insurance recovery of $10 million. So you really need to back that out of 2014 as a starting point. We've been talking about additional launch costs and new facility costs for the business that's ramping up in North America, it's going to continue to build on our overall sales. So that's been negative.

And we've also had, on a year-over-year basis, a couple things. When you look at net commodity costs, we've commodity cost of scrap, that's been a negative. Then the other thing that's really had an impact is the underperforming operations on a year-over-year basis, but some of that year-over-year variance we were expecting as a result of new business ramping up. But we had unexpected costs [that can purchase] what our expectations were in the third quarter. So that's the math and how you get to where we are at the end of Q3.

Rod Lache - *Deutsche Bank - Analyst*

By this time next year, do you think that there's a path to eliminating the drag from these underperforming operations or launch costs and do you have a figure for the magnitude of the scrap headwind?

Don Walker - *Magna International Inc - CEO*

I would think by Q3 next year that we will be through the issues. Two of the plants, hopefully it's before that, the big plant, because they're still going through launches until next year. It's too early to tell, but I would hope by this time next year that we'll be through them.

Rod Lache - *Deutsche Bank - Analyst*

Okay. Europe, just want to confirm that you're still anticipating improvements at the 5% margin range, just obviously it was not a huge volume quarter this quarter, but just want to confirm that? And lastly, was hoping you can just give us some color on you how we should interpret your plans for execution of the buyback. Is this 40 million meant to signal a magnitude or is that just meant to provide you with flexibility?

Don Walker - *Magna International Inc - CEO*

On the margin in Europe, things are still going roughly to plan. We still have a lot of good things going on there. I don't really want to comment till we get our business plan update because we'll have that in another month and that gives us a better clarity on where things are. Again, we don't know what's happening FX rates, but from an operations standpoint, we're pretty well on track.

Vince Galifi - *Magna International Inc - CFO*

Rod, with respect to the buyback, we've been pretty clear in terms of where we want to be from a leverage ratio standpoint, 1 to 1.5 times. If I look at the end of 2015 and if you pro forma [contracts]. My earlier comments I said [it contracts in a flow] in early January, but we're assuming a transaction took place in 2015; it may just trickle over a couple of days.

We're going to be at the higher end of our range, the 1 to 1.5. We might be 1.3, 1.4. So when you look our preliminary view on cash we generate from the business, assuming we're not making any acquisitions in 2016, 40 million shares gives us flexibility to continue to be in the 1 to 1.5 times range, on an adjusted debt, adjusted EBITDA basis.

Rod Lache - *Deutsche Bank - Analyst*

Okay. Got it. Thank you.

Operator

Our next question from the line of Dan Galves with Credit Suisse. Please go ahead.

Dan Galves - *Credit Suisse - Analyst*

Thanks. A lot of my questions have been asked, but maybe if you could remind us of who your key customers are in China, how focused is the top three or four in terms of the percentage of the business? And based on some early indications of positives from the tax stimulus, how much production growth are you expecting for the industry in Q4, and if you can dial down into your business specifically, that would be great?

Don Walker - *Magna International Inc - CEO*

Right now in Q4, we're expecting overall industry volumes in China to be down about 3%, and as we saw in the third quarter, we're expecting our top programs to be down by a larger amount. So we're seeing the same thing in the fourth quarter, essentially, as we saw in the third quarter.

The first half of the year, our top 30 programs was actually a positive relative to volume, but in the third quarter we started -- we turned negative versus overall volumes and we're seeing the same thing in the fourth quarter. So hopefully the stimulus and other sales is going to improve that going forward, but that's what we're seeing at this point.

Dan Galves - *Credit Suisse - Analyst*

Okay. Got it. And in terms of annual pricing, you commented that fuel economy pressures are likely to build on the automakers and there's been some comments from different automakers about trying to extract some additional pricing from suppliers. Can you just remind us of what your typical annual price-downs are as a percentage of revenue and how do you feel your position is in terms of resisting incremental pressure? Thanks.

Don Walker - *Magna International Inc - CEO*

The request from give-backs are all over the map and it depends on a lot of different things. Quite often it will depend on whether they're awarding a lot of new business, and if they're awarding a lot of new business, then typically then suppliers would be more aggressive on give-backs. If there's no new business out there, then people typically don't give reductions.

Our overall philosophy, quite frankly, with our world-class manufacturing efforts and looking at doing engineering work and redesigning product is to offset the give-backs with operational improvements or design ideas or reduction in our suppliers. So it is -- there is no average percent. People can be asking anywhere from 0.5%. We get requests to reduce 5%. But it really depends on a lot of different factors.

I don't think we're seeing any more or any less particularly than the past. With all the changes coming up that the car makers are trying to make in vehicles, whether its autonomous driving, lower weight, more efficiency, safety products, whatever, they are focused very heavily on major suppliers, they say, give us your best technologies.

There's always going to be pricing pressure but I wouldn't say it's -- I would say it's more of a level playing field because there is limited number of good global suppliers and we'll always negotiate tough. So if somebody says are they going to be tougher, I don't know how they can be any tougher, and they're probably not going to be any easier either.

Dan Galves - *Credit Suisse - Analyst*

Thanks, Don, that's helpful.

Don Walker - *Magna International Inc - CEO*

Just one question on Europe. I'd said everything's pretty well on track. The one exception to Europe being on track is the weakness in Russia and volumes are obviously down. We'll have to wait and see what happens there politically and then what happens with the economy.

Operator

Our next question will be from the line of David Tyerman from Canaccord Genuity. Please go ahead.

David Tyerman - *Canaccord Genuity - Analyst*

Two quick clarifications. On the body and chassis, is there anything in there that is permanent or is this just launch issues?

Don Walker - *Magna International Inc - CEO*

Just launch issues right now. Inefficiency, launch issues, outsourcing. So there's nothing there that should be permanent.

David Tyerman - *Canaccord Genuity - Analyst*

Okay. Thank you. And then on the Asian, along the same lines, is there anything that you see on these top programs that could cause them to be lower on a sustained basis or is it just these programs perhaps are getting greater inventory correction, that sort of thing?

Don Walker - *Magna International Inc - CEO*

Hard to say. For a long time, the international OEMs were outperforming the domestics. And what we saw -- started to see earlier this year was some shift to that, and based on some new programs that were being launched, so I don't know whether we can say that anything is sustainable. We'll give some guidance when we get up to 2016 on where we see our sales and the mix relative to the overall volumes, but I don't think it is something that is necessarily sustainable.

David Tyerman - *Canaccord Genuity - Analyst*

Okay. So it sounds like you're feeling that you'll have a better idea by the time you provide the 2016 guidance?

Don Walker - *Magna International Inc - CEO*

Yes.

David Tyerman - *Canaccord Genuity - Analyst*

Okay. Thank you.

Operator

Our next question is from the line of Rich Kwas with Wells Fargo Securities. Please go ahead.

Rich Kwas - *Wells Fargo Securities, LLC - Analyst*

Hi. Good morning. Just following up on Dan's question, in terms of the customers in China, is it the Detroit-based manufacturers, and European, the German manufacturers, as being your top customers? Any flavor on that?

Don Walker - *Magna International Inc - CEO*

I would say the Detroit three and the German three being the vast majority of our customer base in China.

Rich Kwas - *Wells Fargo Securities, LLC - Analyst*

Okay. Then on CapEx, you raised it to the top end of the range. Don, any thoughts about CapEx investment in China given the slowdown in the market and how you're planning longer term, in terms of CapEx investment over there?

Don Walker - *Magna International Inc - CEO*

Too early to give you much clarity in that. I know the acquisition that we're making in Getrag, they've got some big plants there, so we could -- if we have more powertrain product to launch, we could probably put them in their plant and we have one very big powertrain plant over there, which has had very low orders, way below where we expect them to be. I'm hoping it's going to come back because we have open capacity there as well.

I still think geographically China is a very good business -- avery good place to do business. I know right now there's a lot of concern about it. They seem to have -- they've slowed down a little bit. I still think they're going to be a powerhouse. I think there's going to be lots of opportunity and we continue to focus on it, and quite frankly, I think that's a better place to be doing business than investing more money in some other geographic regions. India, we are growing but we're being cautious. We're being very, very cautious in what we do in Russia, obviously, and South America is very challenging.

So other than NAFTA region and Europe and for the old Western -- or the Eastern Europe block being areas that we're seeing lots of opportunity, China will continue to be one we look at. We don't want to overcapitalize, but we are doing a very deep analysis on what we think the volume will be, who do we think is going to be successful, including the Chinese brands and trying to grow our content with them.

Rich Kwas - *Wells Fargo Securities, LLC - Analyst*

Was the increase to the top end of the range, was that regionally -- was that in China or North America in terms of the increase? Where did that go relative to the outlook, in terms of the [incremental] assessment?

Don Walker - *Magna International Inc - CEO*

It's across the board. We're seeing a lot of growth opportunity in -- that's why our tooling is up as well -- a lot of growth opportunity in North America. I don't have that on the top of my head, but it doesn't stick out in one particular area, and I wouldn't say it's particularly China.

Rich Kwas - *Wells Fargo Securities, LLC - Analyst*

Okay. All right. And then last question on ADAS. I know it's a relatively small business for you, but what are you doing in terms of investment on the R&D side there, with all the news around automatic emergency braking. I know you have product there. How do you think about that business growth-wise over the next few years?

Don Walker - *Magna International Inc - CEO*

We are very big in camera-based ADAS from a censor standpoint. We are making some investments in R&D and some other technologies. I won't get into it here. We have made some relatively small but investments in some new technologies and some DC companies that we think have got very interesting technologies. We talked about one in cybersecurity.

We have been taking a very deep look at where we think the technology is going, and what we think the volume's going to be. It's going to be a rapidly growing area, whether you're talking about hybrids or ADAS. I don't think you go from zero to full implementation in a short time period on anything. I don't agree with people saying how quickly we're going to get to complete electric vehicles.

But I do think it's going to be a growing business. We have taken a real deep look at it. We continue to look at it and it's an area we would like to grow in. But we want to make sure, if we're going to make investments in it, that we fully understand where the technology is going, how fast it's growing, can we make good margins there, and what the competition is doing because it's a very competitive area.

Rich Kwas - *Wells Fargo Securities, LLC - Analyst*

Right. Thank you.

Operator

Our next question is from the line of Itay Michaeli with Citi. Please go ahead.

Itay Michaeli - *Citigroup - Analyst*

Great. Thanks. Good morning, everyone. Most of my questions have been asked but I wanted to maybe try to touch upon a bit of a bigger picture question. Some of the other auto suppliers have talked a little bit at least peripherally around their backlog expectations going forward.

I was hoping you could maybe provide a top-down update on your January outlook of growing the production revenue by about $5 billion or so through 2017, at least in terms of the percentages. How you're feeling about that as you look at the world today as we start to think about modeling your growth over the next couple of years?

Vince Galifi - *Magna International Inc - CFO*

It's a very good question. We're about 1.5 months, a couple of months away before we can talk about that. If you go back to what we talked about in January, that $5 billion, there have been some moving pieces. [Interiors] is no longer part of our Company and that was a part of that $5 billion. If you go back to January and you want to put a box around how big that could have been.

If you look at it, [interiors] would have been 7% of our business, and you take 7% of $5 billion and probably not a bad approximation. Foreign exchanges have moved quite a bit, and you can see the impact just alone this year. That's going to impact that outlook. We've also done some acquisitions and we've gotten some new business and we've got different volume assumptions. So we're going to put that all together, and it's a bottoms-up exercise. That's why I don't have it handy today. We'll give you some clearance, or some more guidance and clarity in January.

Itay Michaeli - *Citigroup - Analyst*

That's very helpful. Maybe just a second question. I was hoping you can give us a broad update on raw material exposure and how to think about the potential impact, both from an earnings perspective, but also from a margins perspective, as you have some pass-throughs and that could you affect the margins fairly favorably sometimes. I was hoping maybe you can give us a sense of exposures and how to think about that over the next 12 months or so?

Vince Galifi - *Magna International Inc - CFO*

When you look at some of the commodities that we've purchased, we buy a lot of steel. I would say, substantially all of that is under customer resell programs where we typically have some fixed contracts for a period of time. The exposures that affect us from a P&L perspective (inaudible), resin and resin pricing, we're seeing more and more of our buy on resin moving to resale.

We're probably about 15% and edging higher on resin, which is substantially more than what it was a few years ago. So if resin prices move up, that will be a negative to us. If they go down, that should help us a bit. Then as part of our process, we do have some engineered scrap and we do sell that.

As steel prices have been coming down -- again, we're insulated from that from customer resale programs on steel we buy -- we're seeing negative impact on scrap recoveries. We've seen that throughout the balance, or the first three quarters of 2015. But when I look at steel prices and our [bursting] guys look at steel pricing, I'm just not sure how much lower they can go. So there's -- the downside there is less significant than what it was at the beginning of the year.

Itay Michaeli - *Citigroup - Analyst*

That's very helpful. Thanks so much.

Operator

Our next question from the line of Justin Wu with GMP Securities. Please go ahead.

Justin Wu - *GMP Securities - Analyst*

Good morning. Clearly, we've seen a ramp up in production schedules in North America for Q3 and Q4, and it seems to be having some negative impacts, although fairly isolated, on some of your plants. But I was wondering if you can comment, as you look across your footprint in North America, are you seeing any other divisions where you could see potential issues with capacity problems and resulting inefficiencies if volumes continue to ramp higher?

Don Walker - *Magna International Inc - CEO*

Difficult question to answer. I don't know of any off the top of my head. A number of our plants are running pretty full now with extra shifts. The biggest areas would be painting. If you run out of capacity in painting, I can't think of anything off the top of my head. Stamping, and we've already talked about a couple of facilities where we've got some issues we're dealing with now in capacity. Powertrain can also be another area.

I don't know of any that I can think of that would be a constraint but we are running [pull outs]. You never know if you're going to have a breakdown somewhere. I don't know how much more the volumes will be going up. Again, if they went up a few percent, that's one thing. If they went up 15%, that would be a huge challenge manufacturing-wise in some of our plants, but I don't anticipate the volume went up that much.

Justin Wu - *GMP Securities - Analyst*

Okay. Maybe just generally in terms of how we should think about operating leverage or your operating leverage in North America. Are we at the point to where, even if we see additional volume growth, that's -- you've reached the maximum on operating leverage benefits due to some of the inefficiencies that just come with the higher volumes?

Vince Galifi - *Magna International Inc - CFO*

You know what? I would say that if you look at where we are today, and where we were three or four years ago, the operating leverage today is going to be less than where we were three or four years ago. Capacity has been [filling] up. But you really have to look at plant by plant to see operating leverage you can attain.

We talked about some of -- the big launch that's taking place in the Midwest. There, if you look at operating leverage, the operating leverage is going to come in at average margins once that business all launches. So it's really difficult to say, other than, compared to three or four years ago on average, the leverage is going to be less.

Don Walker - *Magna International Inc - CEO*

But in theory, if you get higher sales and you don't have a capacity constraint, which most of our plants can handle it, then you would expect a lot of the contribution margin to fall to the bottom line. So barring a manufacturing constraint, higher sales are good.

Justin Wu - *GMP Securities - Analyst*

Okay. Great. Thank you.

Operator

Our next question from the line of Patrick Archambault with Goldman Sachs. Please go ahead.

Patrick Archambault - *Goldman Sachs - Analyst*

Thank you very much for squeezing me in. A lot of mine have been answered, but just a couple of follow-ups. Dan Galves' question on China. One thing I wanted to clarify was, the expectation you have for production to be down in the fourth quarter, is this a conservative first-pass assumption until you get more clarification as to what the market does, or is it based on actual backlog of orders you have?

The reason I ask is Ford has come on the call saying that the fourth quarter is actually going to see a pretty big uptick in production and GM's sales are up 15% in October in China. I understand it takes a while to prepare this guidance and maybe you were putting in a placeholder while some of this was coming through, but just trying to get a sense of how conservative that is?

Don Walker - *Magna International Inc - CEO*

Well, I don't know about placeholder, but it does take a while to run through the process. You're getting news every day, but you can't update your expectations and your business plans and your forecasts every day. So it's going to reflect the best information that we had at the time when we prepared the forecast, and the volumes that we assumed, and we're looking at releases to validate some of the numbers, for sure, but yes, it's always a point in time.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay. That's helpful. Then the other question I had is just understanding the Canadian C-dollar impact. Are your -- you said at the beginning of this call, contracts that are -- stuff that's produced in Canada, the sale price is also denominated in Canadian dollars? Because I know in Mexico, for instance, most people who produce in Mexico sell to contracts that are denominated in dollars, so when the peso depreciates it's an advantage, but it seems like in Canada that's not the case?

Vince Galifi - *Magna International Inc - CFO*

We actually have contracts in Canada that are denominated both in Canadian dollars and in US dollars. We also purchase goods in Canadian dollars and US dollars. So when you start thinking about our overall philosophy on hedging, our net exposure in US dollars, we're long US dollars by the way, in Canada, when you look at revenues and cost.

We've got hedges in place that we put in place some time ago. If you run through our financials, you'll see that we have an unrealized loss in those foreign exchange contracts because they were put in place a long time. When you start working through the math, it's not just the pure translation like it is in Europe.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay. And as a result, it's negative, but less than your operating margin as you went through earlier?

Vince Galifi - *Magna International Inc - CFO*

Yes.

Patrick Archambault - *Goldman Sachs - Analyst*

And then just finally, my last one is I know you're at the top end of -- or pro forma for Getrag, you're at the top end of the leverage guidance, but I just wanted to get your updated views on if you would still consider participating in other areas of industry consolidation as we discussed last time. There's a fairly large [seating] asset that's up for sale. I know you had been taking a look at it but hadn't really come out any direction on it and wanted to see if that was still an open possibility or something you were looking at?

Don Walker - *Magna International Inc - CEO*

People asked us a lot of questions if we were looking at it or not. I don't think we commented. We never do comment on acquisitions. Getrag is a large acquisition and it fits well into what we want to do strategically. We've made the announcement. We're making other acquisitions, smaller ones like Stadco, and a number of others.

So we, to answer your question, we will continue to participate in looking at acquisitions if they make strategic sense to us and if we think it's a good product as far as what we think the car of the future is going to be. We've done a lot in the last little while and we've talked about our cash plan. Ideally, we'd like to invest our cash, and to the extent we don't then we have plans for the cash, as just Vince talked about a bit earlier.

The likelihood of us making a massive acquisition is, I would say, low, but there's probably going to be some interesting opportunities coming up like there always is. We're always looking at them. I'm not going to comment specifically on major seating acquisition, but that would be a massive acquisition.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay. Understood. Thanks for all the info you guys have provided today. Very helpful.

Operator

Our next question is from the line of Richard Hilgert with Morningstar. Please go ahead.

Richard Hilgert - *Morningstar - Analyst*

Thanks for taking my questions this morning. Just wanted to get a little bit more detail on things going forward here with Getrag. Is there much exposure in their business from Volkswagen or diesel engine in general?

Don Walker - *Magna International Inc - CEO*

Very little exposure to Volkswagen. They do a little bit of work with one of their subsidiary companies. Actually, Volkswagen does a lot of their own DCTs. Diesel, I don't know off the top of my head. I don't know if it would make much difference to them one way or another.

Richard Hilgert - *Morningstar - Analyst*

Okay. Then the Stadco acquisition, is there any particular technology or process in Stadco that could potentially help the operations in North America that are having difficulty with their launches?

Don Walker - *Magna International Inc - CEO*

It's not a technology acquisition. I'd say it's more geographic customer, but they are a very good supplier, they've got good capability, they do a lot of aluminum. It's nothing revolutionary, but they have good capabilities and both in manufacturing and know-how standpoint.

Richard Hilgert - *Morningstar - Analyst*

Okay. So there's nothing really in there that would make any kind of a difference for the operations in North America to help get them up to speed a little quicker?

Don Walker - *Magna International Inc - CEO*

No. We know what the issues are. It's just a matter of getting people on it, getting the equipment running efficiently, in-sourcing the dyes. We've hired a lot of people. We've got a lot of energy down there. It's just a matter of getting through it. There's nothing there we don't understand.

Richard Hilgert - *Morningstar - Analyst*

Okay. And then with the higher scrutiny coming from government oversight, both in the United States and now potentially over in Europe, have you had to take any additional reserves for warranty or are you expecting that you might have to or how is this, if at all, impacting Magna?

Don Walker - *Magna International Inc - CEO*

Not sure I completely understand. If you're talking about the test from Volkswagen--

Richard Hilgert - *Morningstar - Analyst*

No, just in general. There's a higher level of scrutiny coming from government organizations, whether it's for recalls, or whether it's EPA, just the general environment that we find ourselves in these days. Has this caused you to rethink whether or not you might have to take additional reserves for recalls and warranty or does this not affect you at all at this point?

Don Walker - *Magna International Inc - CEO*

I don't think it's any -- certainly nothing material I can think of. The whole industry is much more aware that if there's a problem, the OEMs are extremely cautious and they're going to be more proactive. For the most part, they have been doing that anyway.

If anything, it will probably make it a little bit more front and center to the industry when an OEM is designing a system, especially a safety system, to have more clarity as to what they're responsible for in the system, whether it's a component, who's doing what test specifications, who's doing the test, and who's doing the documentation, just so that if there is an issue, they have a better idea when you're doing the [value, mode, and effect] analysis, both on product and manufacturing process, who's responsible for it.

This is fairly well-known. It's fairly basic. But a vehicle is extremely complicated so there's more focus on it in general. I don't think we're doing anything different and we wouldn't expect anything different. But if I look back in five years, you probably will look at the industry and say, well, there was more recalls and more investigation as to whose responsibility it was, but nothing fundamentally different.

Richard Hilgert - *Morningstar - Analyst*

Okay. Great. Thank you very much.

Operator

Mr. Walker, we have no further questions at this time, sir. I'll return the call back to you for your closing remarks.

Don Walker - *Magna International Inc - CEO*

I thank everybody for dialing in today. It's been a challenging quarter and I'm working hard to deal with the issues we've outlined today, so we do have some underperformers. We will get over them. But I appreciate everybody's taking the time to dial in. Enjoy the rest of your day. Thank you.

Operator

Ladies and gentlemen, this does conclude the conference call for today. We thank you all for your participation today. Have a great day everyone.