Company Name: Renault
Company Ticker: RNO FP
Date: 2013-07-26
Event Description: Q2 2013 Earnings Call

Market Cap: 17,489.02
Current PX: 59.14
YTD Change($): +18.455
YTD Change(%): +45.361

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 7.209
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 41540.000

Q2 2013 Earnings Call

Company Participants

- Thierry Huon
- Dominique Thormann
- Carlos Tavares

Other Participants

- Thomas Besson
- Laura I. Lembke
- Philip R. Watkins
- Charles A. Winston
- Gaëtan Toulemonde
- Rabih Freiha
- Horst Schneider

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to Renault's First Half 2013 Financial Results Conference Call. I'll now hand over to Mr. Huon. Sir, please go ahead.

Thierry Huon

Good morning, everyone. Welcome to Renault First Half Results Conference Call, which is broadcast live and in replay versions on our Web site. The presentation file, press release and activity pack for this call are all available on our Web site in the Finance section.

I would like to point out the disclaimer on slide two of this pack regarding the information contained within this document and, in particular, about forward-looking statements. I invite all participants to read this.

Today's meeting is scheduled to last about one hour. As usual, we have two key speakers this morning. First up will be Dominique Thormann, our CFO. He will take you through the highlights of the financial results. And then Carlos Tavares, our COO, will follow up with a review of the operations and the outlook. The presentation will last around 30 minutes and will be followed by Q&A session.

Without further ado, I will hand over to Dominique.

Dominique Thormann

Thank you, Thierry. Good morning, everyone. As you will have already seen from the headlines, the group's financial results for the first half of 2013 show that Renault has managed to improve its operating margin in the Auto division despite a tougher-than-expected European market. This came notably from a strong invoicing activity in the second quarter. Due to special items, primarily related to Iran, our EBIT was negative, and our net profit came to a bit less than

€100 million. I will come back to these impacts in more detail in a few minutes.

Our free cash flow was slightly negative and remained under control, leaving us on track to achieve a positive automotive operational free cash flow for the full year, provided no further material deterioration in market conditions in the second half. In order to analyze the first half performance, I would like to briefly comment the commercial figures on slide five that Carlos will detail later on.

Our Group unit sales declined 1.9% to 1.3 million units. The slight decrease hides again a contrasted situation between Europe and business outside of Europe. In Europe, our sales were down 7.3%, while sales on international markets increased by 4.3%.

On slide six we have the full P&L for the Group which shows an operating margin improvement compared to the previous period. This illustrates our efforts in terms of pricing and cost control.

Starting with the top line, group revenues reached €20.441 billion, a decrease of €181 million from last year or 0.9%. Please note that we had some minor adjustments stemming from accounting method changes in 2012. You will find a table with restated numbers at the end of the pack.

On the next slide, number seven, we show the revenue contribution by activity. Revenues from our Captur sales financing company, RCI Banque, decreased 1.1% to €1.058 billion in the period. However, as you all know, measuring revenues for sales financing is not the indicator of choice in terms of their performance, which I will detail in a few minutes.

I will start by looking at the breakdown of revenues for the automotive activity on slide eight, which decreased by 0.9% in the period to €19.383 billion. It is worth noting that second quarter revenues increased 8.2% after the 11.8% decline experienced in Q1.

If we look in detail and starting on the left-hand side of the page, the first item is foreign exchange, which is negative at minus €605 million. Almost all of our major currencies moved against us. However, the major impact came from the Iranian rial, the Argentinian peso, the Brazilian real as the primary ones.

The second item, volume shows a negative impact of 0.8%. This confirms that our business in Q2 was much better than in Q1 when volumes impacted negatively for 11%. However, part of this improvement stemmed from higher invoices than registrations, leading to independent dealer stock increases.

Geographical mix is almost neutral, despite weak business in France and expansion outside of Europe. This confirms that we have reduced the pricing gap of our vehicles in Europe and overseas markets.

The fourth item to note is the mix effect. The increase in net revenue per unit related to product, version and option impacted for 0.7% of the total change in revenues.

The fifth item is the price effect, which is positive by 2%, showing a further sequential improvement. This material step up in first half 2013 compared to first half 2012 reflects a strong effort deployed by the company to offset the currency effect in some countries but also reflecting our pricing discipline in a tough environment. Sales to partners, representing mainly the sales of parts, components and built-ups to other car manufacturers is positive by 1%, primarily thanks to Citan deliveries to Daimler. The last item named others represents the other activities outside the new car business, mainly spare parts, our wholly owned dealer subsidiaries and buyback restatements.

I will now turn from automotive revenues to Group operating margin variances. The first half operating margin for the Group totaled €583 million, an increase of €75 million compared to the same period one year ago after a positive restatement of €26 million stemming from IAS 19 rule adjustments already mentioned previously.

The walk down on this slide compares this year's impact to the previous period. I will start the walk down reading from left to right. Currencies had a material negative impact in the first half of €242 million, as it's the same currencies explain this impact as for revenues. The next item, volume shows a €34 million negative impact coming from the decrease in units invoiced including the geographic mix.

Mix price enrichments impacted positively for €261 million. Without the impact of price increases implemented in Iran and Argentina to compensate for weaker currencies, this item would have been only slightly negative and significantly better than last year. This achievement is resulting from our strict pricing discipline, helped by the success of recently launched models. Raw materials were a slight tailwind of €13 million, in line with our initial expectations.

For the next part of the walk down, we have grouped four items, which together form the major part of our Monozukuri cost reduction efforts. Purchasing savings equaled €303 million. Warranty came in as a neutral impact. Manufacturing and logistics costs increased by €27 million and were negatively impacted by production disruptions in the first quarter.

The R&D charge in the profit and loss account increased by €70 million as the capitalization rate moved from 45% in the first half of 2012 to 40% in the first half of 2013, in relation with development milestones. Total Monozukuri savings, therefore, came to a positive €206 million. G&A costs decreased €19 million, proof of the strong efforts deployed by the company to limit fixed costs.

RCI Banque had another strong half despite a slight increase in distribution costs, reflecting higher services internationally, as I will explain later. Consequently, its contribution decreased marginally by €8 million.

Finally, all other items yielded a negative €141 million related primarily to buyback restatements, lower spare parts activity and wholly-owned dealer business. The remainder came from smaller items. In total, for the first half of 2013, the group's operating margin reached €583 million or 2.9% of revenues to be compared to 2.5% in the same period last year.

On page ten, we show the split by sector. The automotive division posted a €211 million operating margin corresponding to 1.1% of revenues. The 0.5 points – this is 0.5 points above last year's performance achieved in an adverse environment in Europe. It is the result of our constant efforts to restore auto profitability. However, we should not overlook the performance of our sales financing activity as RCI Banque posted a €372 million contribution to group margin, which is very near the result achieved in the first half of 2012.

I would like to take a few moments to look at the analysis of this performance on the next slide. New financings in the period stayed almost flat at €5.5 billion versus €5.6 billion in the corresponding period of last year despite a difficult environment. This resilience stemmed from higher penetration rates for Renault, Dacia and Nissan brands.

Average outstanding loans stayed flat at €24 billion and net banking income decreased 25 basis points due to the higher distribution cost related to growing international services activity I mentioned previously. The cost of risk showed a slight improvement at 0.4 percentage points average – of average outstandings versus 0.44% last year. The decrease evidenced once again our ability to manage risk even in a volatility economic environment.

Finally, cost management allowed keeping our operating expense ratio at 1.57% of average outstanding loans with three basis points above last year. In total, the pre-tax return on assets reached 3.2% versus 3.4% in the first half of 2012, while our return on equity remained at around 20%.

Now that we have covered the operating margin variance, I will continue down the P&L with the other operating income and expense items on slide 12. While these items posted a net positive result in the first half of 2012 for €37 million, the same period this year shows a significant negative result of minus €832 million.

The first and main item is a charge of €512 million which relates to our decision to deconsolidate our business in Iran and to cover all of our pending related risks. This decision is the consequence of stricter sanctions decided by the US government which now include the automotive sector in the regime. Of course, in the event of an improvement in the situation, we would be able to write back these provisions.

The second item relates to the impairment of assets, both tangible and intangible, amounting to a charge of €227 million.

The last item accounts for €173 million and stems from restructuring charges. The bulk of this provision is for the start of the implementation of our competitiveness agreement signed with the unions in the first quarter in France.

On the positive side, we have €71 million of capital gains resulting from disposal of assets. Lastly, other miscellaneous items impacted positively for €9 million.

Continuing down the P&L, the next item is net financial income and expenses on slide 13. The net charge decreased from €154 million to €139 million. While decreasing, this charge is still relatively high due to the carry cost and to the impact of IAS 19, which transfers the actuarial cost of pension obligations from the operating margin to the financial result.

The next slide, number 14, shows the impact of associated companies in Renault's P&L. I remind you that Volvo is no longer in our scope of consolidation since we sold our remaining stake at the end of last year.

On the back of Nissan's results published yesterday, the contribution for the second quarter equaled €333 million, taking the first half impact to €766 million, up €213 million compared to the same period last year. Renault's share in AvtoVAZ results, which is consolidated with a three-month time lag, posted a slight negative of €10 million versus a positive €4 million in the corresponding period last year.

I will turn back to the P&L for the last time on page 15 where the net tax charge for the half came to a negative €264 million compared to a minus €236 million in the first half of 2012. This charge is mainly resulting from taxes paid abroad, which amounted to €230 million. Bottom line, net profit after-tax came in at €97 million. After taking account of minorities, the net result per share came to €0.14 compared to €2.70 in the first half of 2012.

Now that I have completed the analysis of the P&L, I will turn to slide 16 on the evolution of our net automotive debt. Cash flow from operations totaled €1.655 billion. Changes in the working capital requirement impacted negatively by €138 million. I will review this further in a few moments.

Net tangible and intangible investments came to €1.548 billion. As a result, automotive operational free cash flow came to a slight negative of €31 million. Dividends received from quoted companies totaled €217 million. As a reminder, no dividend was received from Volvo in the period. While dividends paid during the half came to €524 million, reflecting the application of our dividend policy of distributing each year dividends received from associates during the previous year.

Other financial items were negative €462 million, including the cash payments for our increased stake in Alliance Rostec Auto, which is a joint venture controlling AvtoVAZ and the impact of the deconsolidation of our business in Iran. In summary, the net automotive financial position moved from a positive €1.532 billion to a positive €732 million.

Slide 17 shows the change in the working capital requirement recorded in the first half at minus €138 million. Trade payables remained positive in the period at €579 million. Inventories rose in line with the normal seasonal variance as did receivables. Other working capital items impacted positively for €177 million.

Slide 18 shows the inventory situation across the consolidated chain of both Renault's balance sheet and independent dealer network. While inventories have been reduced at the group level in Q2, we have seen an increase at the dealer level. It is worth noting that as our sales mix outside of Europe expands, it increases the level of natural stock due to the longer supply chain. At the end of June, inventory outside of Europe represented 46% of total stock on hand.

The stock rotation figure expressed in the total inventory level at the end of June, divided by the sales of the previous quarter, stands at 67 days, down from 72 days at the end of Q1. As you know, we need to build some inventories at the end of Q2 ahead of the summer break and this is especially true this year as we have some new products in high demand. However, we must admit that, once again, we were a bit optimistic about European demand in Q2 and overproduced in the quarter.

I would now like to move to the automotive liquidity reserve on slide 19. Cash and cash equivalents totaled €9.2 billion at the end of the first half, slightly below the end of last year. But it is worth noting that we reimbursed in the first half the bulk of our long-term debt maturities due this year.

Together, with the fully available undrawn credit lines, the automotive gross liquidity reserve stands at €12.6 billion at the end of the first half. We continued during this last quarter to be opportunistic and to raise cash in overseas markets such as Japan and offshore Chinese issuance.

RCI's liquidity position has also remained strong, as we can see on slide 20. RCI Banque raised about €2.3 billion of new funding with a maturity greater than one year. In the meantime, we've also continued to develop Zesto, our online retail savings account, which has far exceeded initial projections. At the end of the period under review, Zesto had collected almost €1.2 billion in deposits.

Beyond the success in France, we launched at the beginning of the year Renault Bank Direkt in Germany which has already collected an amazing €1.4 billion, out of which €300 million have been placed in term deposits. In total, this new activity accounted for €1.7 billion in new funding in the period and we, therefore, aim to reach 20% to 25% of RCI's total outstandings in funding by the end of 2016.

This completes my financial review for the first half of 2013. I will now pass the floor to Carlos Tavares for the operational review and outlook. Thank you very much for your attention.

Carlos Tavares

Thank you, Dominique. Good morning, ladies and gentlemen. Let me walk you through the operations outlook starting with the sales. As Dominique already explained, our overseas sales were up by 4%, while the European ones were down by 7%. As a result, our total sales were down by 1.9% and 0.9% in turnover.

If you look at the breakdown per region, you'll see that in terms of market share, Europe was marginally down, while Eurasia was up. Euromed was slightly down also, mostly for the supply and planning issue. The Americas were down because we had to stop our Curitiba plant for two months in order to increase our manufacturing capacity by 100,000 cars per year and Asia-Pacific was up.

We have revised, as you know, at the end of the first quarter our forecast for the European TIV, moving down from minus 3% to minus 5%, and we still keep this forecast as the UK market is still quite strong.

Overall, we keep minus 5% for Europe and we have revised our French TIV down to 8% coming from minus 5%, to now minus 8%.

If we move to the next one, you see that the volumes are up in overseas, 4.3%. That means that our market share outside of Western Europe has improved, while in Europe we were marginally down minus 0.06% which is marginal and this situation could be stabilized despite a high discipline in pricing, as Dominique mentioned, thanks to the brand new models that appear to be quite successful in this market.

Overall, we were down 1.9% and in turnover 0.9%. If we move to the next slide, you'll see that major points are related to the fact that our mix of sales continues to move to overseas. As you see, compared to the first half of 2012, we have improved our overseas sales mix by three points, moving up from 47% to 50%, which means that step by step, Renault is moving to become a global carmaker.

You can also notice that in the top ten markets of Renault, we were able to grow share in six of those top ten markets. As you see on the right-hand side of this slide, we lost share in Brazil because of the manufacturing problem that I mentioned, the need to increase manufacturing capacity and then shut down the plant for two months. This has been now done and we are back on track and expect to recover the lost volumes in the second half. We also want to notice that in these top ten markets of Renault, five of them are now non-Europeans. This is an important point to be noticed. So far, on first half of 2013, the highest sales come from Duster, following the new Clio and then by Megane.

If we move now to the regional breakdown, looking at Europe, as I mentioned, we were marginally down in Europe by 0.06% around this year to minus 0.01%. We have 9.2% share. France was up by 0.02% and now reaches 24.9% of share. As you see, the overall volumes were down because of the TIV drop, as you know, minus 7% against last years.

Two important highlights, the first, the fact that the Dacia brand has been the strongest – has seen the strongest market share improvement in the market, 0.42 points ahead of Mercedes, and which has now a total market share of 2%. Also, other highlight, the fact that we continue for the 16th year in a row to be leading the RCB market in Europe with a 14.2% of share ahead of Volkswagen.

Let's move now to the breakdown of sales by channel. Just to highlight the fact that if you look at the bottom of this slide, you see that our sales are mostly focusing on retail and fleet and much less in rental and tactical sales, as you can see on the right-hand side of this slide, which means that the sales of Renault beyond the pricing discipline that Dominique already highlighted, we also had the discipline to move our business to the most profitable channels.

As you can see here, against the overall market, we have much more focus on retail and fleet and much less focus on short-term rental and OEM tactical sales. Overall, you can see the breakdown of our business, but this translates to a more healthy business model overall in an overall market where unfortunately the retail channel has been decreasing by 1 point over this first half of the year.

If we move now to the Eurasia region, to highlight the fact that we have improved our share by 0.9 points, and mostly in Russia where the share was up by 1.1 point, reaching now 7.8% of the market. As you see, the volumes grew from 104,000 units up to 114,000 units in the most profitable region of our business.

You can also note that Duster is now the highest SUV sales in this biggest market which is Russia. Ahead of Toyota, Duster is sold at 14,000 sales on this first half, while Toyota was slightly above 20,000. So number one sales in SUV in Russia. And in Russia, also, Renault is now the second brand in the market overall, just behind the first one, which is Lada.

So if we move now to the next region, which is Euromed-Africa, as already mentioned, our market share was slightly down by 0.2 points, as we were surprised by the strength of the TIV and couldn't supply in a timely manner the appropriate number of cars. This is going to be fixed for the second half and we still have 15.4% of market share in this region. Turkey is our most important market here with Algeria. Turkey could reach 17.2% market share, which represents an increase of 0.7%. As you see, total sales went up from 184,000 cars to 197,000 cars and we expect this to continue to be a growth region for our business moving forward.

Clio 4, the new Clio has been a huge success in the most important markets of the region. In Algeria and in Turkey, Clio is now the first in its segment and has reached the third market position in Algeria and the fourth in Turkey. We also continue to work on pushing new frontiers and pushing the boundaries by making more deals with new importers in major African countries like Ghana, Nigeria and Libya.

If we move to the next region, now the Americas, as I mentioned, the Americas had a reduction, saw a reduction in its market share by 0.5 points, down to 6.2%, mostly driven by Brazil, minus 0.8 points, now at 6% market share as a consequence of the Curitiba shut down for the manufacturing capacity increase. As you see, we were 5,000 sales down compared to the previous year on first half. You can also notice that Duster was the second most sold SUV in the market, just behind the Ford EcoSport. And that we have launched successfully the new master which has reached the first place in its segment in June in the Brazilian market.

If we move now to Asia-Pacific, Asia-Pacific market share was stable at a still very low market share of 0.7%. This represents for our company a big opportunity moving forward. India was the success story with now a market share of 2.5%, increasing the market share by 2.3 points against last year, thanks to the success of Duster. In India, Renault is now the second European brand and we continue to see good potential for our business over there.

And as an highlight, beyond the fact that we are the first European brand in India, we were also pleased to see that we could sign for a significant fleet of 1,400 taxis in Singapore with our Latitude sedan.

If we now move to the next slide, which is the balance of risks and opportunities for the second half, we would highlight the fact that the European TIV is still very low. As you know, it has been decreasing significantly. And with a new forecast, we now foresee that we will be short of 14 million cars for this year of 2013, moving down from a peak of 18 million a few years ago. So European TIV is still slow and still going down even if the pace of reduction has been reduced.

In addition to the risks, we have the slowing down in some of the emerging markets that you have, of course, already noticed, which represents now a risk for our business as we have 50% of our sales outside of Europe. And last risk is the fact that most of the currencies of emerging markets are now weakening, which represents a profit risk for the company.

On the opportunity side, we have a very important factor which is the fact that we have renewed significant part of our portfolio and I would like to highlight the successes of the new Clio, of ZOE and the success of Captur that led to an increase of the number of shifts we have in our Valladolid plant in Spain to face the success that we are having on the marketplace with this product. The fact that we have significantly improved our net pricing performance – and I will come back to this point late on – and it still demonstrates that there is still additional potential on this matter. And finally, the fact that we have been able to stabilize our fixed cost and there is still an opportunity to reduce them.

So let's go through some of those levers on slide number 33. As it was mentioned by Dominique, our automotive operating margin went up against last year and is somewhere one of the major drivers of the improvement of the total profit of the company. We are now working on four major levers to improve the operating profit margin of the company.

As you know well, we have worked on pricing improvement by improving the net pricing of our company compared to our competitors. We are working on reducing the fixed cost by implementing the French competitiveness agreement. We have a significant direction and a significant activity in reducing our variable costs with our plant managers. And we still have opportunities to grow mostly overseas, but also in share in Europe, thanks to the new models that we have launched successfully.

So if we move through these levers, and on the next slide, you will see the net pricing improvement compared to the end of 2011, against the basket of our major competitors that we scrutinize on a segment by segment basis in each market. We have improved the net pricing by six points against the end of 2011, which has contributed to the results that you have seen. And you see that, for instance, in Europe, we have improved our net pricing by 6.2 points, 5.5 points in Eurasia, 6.6 points in Latin America, and a little bit more than 1 point in Asia-Pacific, while in Euromed we could not improve more than 0.3 points. So, overall, 6 points of a net pricing improvement against our competitors.

We still have overall a gap against Volkswagen of 5 points, and this gap of 5 points of net pricing which was a double-digit gap a few years ago is still a remaining opportunity to improve the profitability of the company. Overall, if we look at it region by region, our pricing strategy is now meeting our guidelines in terms of positioning against the basket, but against Volkswagen, we still have an opportunity.

So if we move to the next one, which is the fixed costs, I think it is fair to say that we have strictly controlled our fixed cost, but the remaining opportunity is to reduce them. And this is what the implementation of the French competitiveness agreement is all about, and we expect this trend of fixed cost reduction to accelerate during the second half and through the year of 2014.

As you see, during this storm, we have been able to stabilize the overall rate of R&D and CapEx expenses against the turnover at around 80% plus, and we have not compromised the mid and long-term future of the company.

On the next slide, you can see the Monozukuri results that we have achieved. They do not meet so far our expectations as we want to deliver this year €600 million on total Monozukuri gains, but it is fair to say that there is a strong momentum in the company. The amount of ideas to generate cost reduction is quite outstanding and meeting our expectations. And the second half will be paramount to execute and make sure that all of those ideas are translated into physical evidence and then measured at the P&L level.

If we move to the next slide, which is about the outlook, as it was mentioned, the TIV outlook is a growth of 2% over the year of 2013, Europe at minus 5% and different regions at the levels that you see here. The only overseas region where we see a TIV reduction is in Eurasia. But as you have seen, our market share growth has been so significant that it has overcome the TIV reduction and our volumes in Eurasia are still expected to grow over this year.

If we move to the next slide, this is to confirm our guidance in terms of having in 2013, unit sales above 2012; a positive automotive operating margin, which is already the case in H1; and a positive automotive operational free cash flow. And as you saw, we were marginally negative on the first half.

I would like to end my presentation here. And thank you for your attention and over back to Thierry.

Thierry Huon

Thank you, Carlos, for this presentation. So we have about 30 minutes left for the Q&A session. We'll take the first question.

Q&A

Operator

[Operator Instructions] Thank you. We have our first question from Thomas Besson from Kepler Cheuvreux. Please go ahead.

<Q - Thomas Besson>: Thank you. And it's Thomas Besson. Three quick questions please. First, could you please comment on your order intake in the different regions, particularly in Europe, and tell us whether you think there is still further deterioration to come on the retail side or whether we've seen the trough for that segment? Yes. Sorry, I'll ask them one-by-one.

<A - Carlos Tavares>: Our order intake in Europe is now stabilized against the previous year of 2012. We are 1.7 month currently, which is a reasonable number even though, of course, we would like it to be even higher, but it stabilized against last year. That's, I think, the best way to summarize it.

<Q - Thomas Besson>: Okay. And on the retail side? Do you think we've seen the trough or.

<A - Carlos Tavares>: Yes, this is retail. What I was answering to you was retail.

<Q - Thomas Besson>: Okay, great. On your exposure to emerging markets that you flag as a risk, can you tell us your outlook for H2 for Brazil and Russia, in particular, and the evolution of your market share in the two regions in H2 please?

<A - Carlos Tavares>: What we foresee in the Americas is that we'll continue to grow. We consider that we will have still in Brazil a marginal growth and overall in the Americas around 3% growth. Eurasia, we plan for minus 4%, possibly Russia at minus 5%, and India at minus 3%.

I would like to highlight the fact that despite this forecast, we consider that we will continue to grow share in Eurasia, in Russia and in India, and we are now in a catch-up mode in the Americas as we don't consider that the minus 0.5% of share in the first half is representative of our performance.

<Q - Thomas Besson>: Okay, very clear. Last question for me, please. On the one-off items, can you be slightly more explicit about Iran? Are you starting any activity there? And about the other €200 million-plus impairments, tell us whether it's related too please.

<A - Dominique Thormann>: Yes. I'll take this one, Thomas. Good morning. The provision in Iran, the booking entry in Iran is – there are two things happening simultaneously. We are deconsolidating our affiliate there. Just for a reminder, we don't have any industrial operations. We don't own any industrial assets. We don't own any distribution directly in Iran. It was purely a [indiscernible] (0:36:24) activity.

So what we are reserving today is basically financial assets, cash, receivables and equity that we had in our books that is now going to be valued at zero. So this is a precautionary measure given the new condition in Iran, with the executive order that was issued in the beginning of June. So new business is stopped and existing business, which is basically the supply chain, is winding down. So that's the best I can describe the situation in Iran as it stands today.

<Q - Thomas Besson>: Very clear. And for the other one-off, please?

<A - Dominique Thormann>: So the other items, we took in the two major buckets, one is, as I mentioned, charges that we've taken against the competitiveness agreement in France. That's the bulk of it, but there are also some remaining items for the new agreement in Spain. So that's the one that's bucketed under the restructuring charge.

In the impairment charges, we run, as you know, impairment tests every six months with our auditors, so this goes – we go through all of our different holdings, and we go through all the different vehicle lines, mechanical components and equipment. So we've made a number of decision relating to some small moving vehicle lines. Part of it is also related to the better placed situation, where we had a specific vehicle that was developed and with a quick drop exchange – a battery exchange for which we do not see sufficient future volumes to offset the existing assets on our books. They were written down in that number. So that's basically what's in – what's behind – there's a host of sundry items, but that's the one I would like to call out.

<Q - Thomas Besson>: Okay, very clear. Thank you very much.

Operator

We have a next question from Laura Lembke from Morgan Stanley. Please go ahead.

<Q - Laura I. Lembke>: Yes, good morning. I also have three questions, please. The first one is on your inventory. Put it that way, I think we've now seen a few quarters of, let's say, very active inventory management, and I'm just wondering if you can give us confidence that the inventory moves that we've seen, and by that the shift between your OEM inventory and the dealer inventory in the respective Q2 and Q4, are actually genuine and really a result of the increasing international presence. So that's my first question.

The second one is, can you give us an update on the turnaround efforts at Samsung in Korea where you are right now? Is the business already breakeven because I think that's what you were initially guiding for at some point? And then maybe the last thing on the FX side, can you just tell us what your expectation is based on today's exchange rates for the full-year burden? Thank you.

<A - Dominique Thormann>: Yes. Hi, Laura. On the FX one, I think you saw in our recent opportunity chart that Carlos showed you we're calling FX as – in our risk column. Clearly, we've seen movements in currencies that are important to us, in particularly, South America and the Russian ruble. So, right now, what we're seeing, the major moves have already occurred, but we see this given our volumes. And the growth of our business, it's a combination of our own business growing in a market where the currency is depreciating that we're calling out as a risk. It's a combination of both. I think that – we showed that on our slide.

On the inventory side, yes, first of all, as our non-European business grows, the in-transit shipment and the amount of stock that we need, and this is full inventory, so this is what's on our books and what is in the distribution chain, be it independent dealers as well as wholly-owned subsidiary dealers, importers. As that business grows, the amount of stock that we need and the number of the days that we need of supply increases. That's factor number one.

The second one is that our inventory is also a factor of our cycle plan. And when we launch vehicles in very high volume segments, such as Clio or Captur, for example, the amount of production that we need to supply the launch across, for example, Europe in the case of Captur, just fills the pipe. We also have a seasonal factor at the end of June, which is, as you know, related to the summer shutdown in August. So those are just some of the factual explanations of how inventory moves throughout the period.

But these units are sold. If they weren't sold, then they wouldn't been in our revenue numbers and they wouldn't be showing up in our financial statements, and the units have been – as a matter of fact, there's a considerable destocking and sales of vehicles in the current month.

Now, are we at the optimal level? I guess there's always room for improvement. I think that what we showed you is a sequential improvement from March. We dropped five days. We're two days above where we were at the end of December. So, clearly, there's a bit of room for improvement in terms of inventory management, but it's something that is a combination of the prediction that you have on the market and your order intake to come, and the cycle plan that we have.

So, yes, there's always room for improvement, but we do have a very tight discipline in how we manage working capital in the company. We're very aggressive on receivable management as well, so it's a package of different initiatives that we have internally to – that we manage quarter-over-quarter. And I think Carlos will take your first question on RSM.

<A - Carlos Tavares>: Yes. So related to our Korean business, to give you a little bit the perspective, the time perspective, last year, on local basis, we were already on a positive free cash flow. This year, free cash flow will be positive. The local operating profit will be positive. The consolidated operating profit will be positive next year and the marginal profit rate of our sales is now almost fixed. The remaining issue is the overall efficiency of our distribution, which is still something that we need to re-engineer to improve the overall efficiency. But I would say that the right-sizing in terms of overall fixed cost, the right-sizing of the plant capacity, cost reduction – the variable cost reduction and pricing discipline have all been established and, therefore, on local terms, we will be profitable this year, but we will need a little bit more time to see a profitable situation back to the black and that will be done by 2014.

<Q - Laura I. Lembke>: Okay. Thank you very much. It's very clear.

Operator

Our next question from Philip Watkins from Citi. Please go ahead.

<Q - Philip R. Watkins>: Hello. Yes, good morning. And thank you for taking my questions. I don't know, it's just a follow-up actually on Laura's question, but in terms of the inventory days, I don't know if it's possible to sort of articulate what the increase in terms of days might be from the internationalization of the business versus a year ago, i.e. has it been structurally at around two to three days to inventories?

<A - Dominique Thormann>: Yes, look, it's a bit difficult to measure that. Now, there is no magic when we gave – we give guidance in terms of the number of days. We've spoken about 60 days several times in the past. You see us bouncing around 65 days or 67 days. The international business just needs more volume. The chain – the supply chain is just longer. That's just the fact.

Now, roughly half of what we have on our books is outside of Europe, but it's going to be very different depending on how fast you clear customs. There are countries where clearing customs is rather a matter of routine. Others when it's much longer. So there isn't a rule of thumb that would really help you in terms of guidance.

We look – and that's why we show you the consolidated number. I think it's the best guide going forward because if we get into spreading it country by country or region by region, then as that transforms on the volume side, it's just going to be more confusing than anything else. So the supply chain runs that number, looks at it in a holistic consolidated manner.

<Q - Laura I. Lembke>: Yes, right. And actually in terms of the emerging market crisis, may I ask is there any hedging done in any significant way?

<A - Dominique Thormann>: As a matter of policy, we do not hedge. Now, occasionally, there might be something that we would look at in a particularly extreme situations, currencies or countries that get really out of line. But typically, we do not.

<Q - Laura I. Lembke>: Thank you. So might you do that now?

<A - Dominique Thormann>: Hedging is a double-edged sword. When it looks like it's the right time to do it, you lock in a hedge and the next thing you know the currency has moved against you. And you can look like a fool with currency at the wrong rate. Quite honestly, the more – the best hedge against currency fluctuations is having the right level of localized supply in the markets that we're selling into. So if you have local content – and I think you know that we've made lots of efforts in terms of increasing local content in – across our different regions, which is the best hedge against currency.

I think Carlos and I firmly believe that the financial engineering around currencies that are out of your control isn't something that really gets you anywhere. The best thing to do is to have actual, physical balance of revenue and cost in the components of your vehicles. I think that's how we approach it.

<Q - Laura I. Lembke>: That's great. Thank you.

Operator

A question from Charles Winston from Redburn. Go ahead.

<Q - Charles A. Winston>: Yes, hi. Morning. Thanks for taking my call. Just a question – a couple of points. Just on the one-time items, I was just wondering if you could perhaps give us an update as to what we might expect in the second half and also perhaps what the cash one-time items might be in the year? Obviously, we saw a little bit of those in the first half relating to Iran. What might the full-year figure be?

Secondly, can I just confirm that on Iran we've now drawn a line? There's no more costs relating to that, which could come through, which is my understanding.

And then thirdly, just on pricing, obviously, phenomenal results of pricing at the profit level. Would it be fair and right for us to extrapolate that into the second half or something of that quantum? Or do you think that perhaps we should temper that a little bit given the risks in emerging markets? Thank you.

<A - Dominique Thormann>: Okay. Let me take the special items one and I'll let Carlos handle the pricing question. The reserves that were made, they're non-cash, okay. These provisions are non-cash items. We are booking, we are deconsolidating Iran. So what was on our books, and as I said before, we have no industrial assets in Iran.

So what was on our books was cash that we had already received, but it was in Iran. And since you can't transfer it out of Iran or convert it into something else, we're just repudiating that to be worth zero. So that's the deconsolidation effect.

The second thing is that we had receivables. We're also making – we're taking a very prudent approach saying that we're booking a reserve against the fact that we're not going to get paid. And the third thing we had in Iran was just the equity, the capital that we had in the company that we own jointly with our Iranian partners.

So as we're deconsolidating all of that, it's being removed from our consolidated accounts. We had to book something against that and the €512 million covers all of those items and that's it. So they're non-cash items.

In terms of the other provisions, once again, the impairment charges and things like that, are non-cash. The reserves that we've made for the competitiveness plan in France, for example, those will flow through as cash items as people leave and that will show up in – but you'll have the offsetting savings in your labor cost line.

So these reserves, clearly, the special items are special. I don't expect anything of this magnitude in the second half. But once again, as a matter of obligation, we run impairment tests every quarter and every six months, we will make adjustments when necessary. Last year, there were very few. And, hopefully, this is going to cover what we had this year.

Now, in the second half, as the competitiveness plan is implemented, we are not charging our books with the full cost of the plan because that is not admissible under international accounting standards, so there will be progressively, as the plan is deployed through 2016, items that will be – charges that will be taken against our P&L in the relevant quarters. So that one – I know we have some items coming forward, but on the other items, I think that certainly Iran is behind us and then the others are of less significance.

I'll hand over the pricing question to Carlos.

<A - Carlos Tavares>: Thank you, Dominique. While related to the pricing, as you know, when we talk about net pricing, we are talking about the transaction price value adjusted, which means we compare different brands with the same amount of equipment, with the same content, and we only look at the final pricing paid by the customer after the rebates. And we do this through mystery shopping surveys. So this is what we look at. And I still remember that last time, or perhaps two years ago, when we were discussing this matter, and we were saying, well, we need to go after this net pricing opportunity, most of our stakeholders were quite skeptical about what we intended to do, which I completely understand. It is very normal that this skepticism was there.

Hence, the fact that we prefer not to forecast anything. We prefer to do the job and then talk about it once it is done. What has been done in the last two years is that we have corrected the problem we had against the basket – the basket being, for one market, in one segment, we compare the net pricing of our product to the competitors – the basket of competitors that represent more than 80% of the volume of that segment, and we make sure that against that basket our cars are never cheaper, and they are always between 100% and 3% more expensive in net pricing basis.

This is what we have done in the last two years all over the world, and I can share with you today that the situation is fixed against the basket all over the world, so all of our sales and marketing executives have now implemented the strategic pricing policy of the company, which means that we have fixed this issue against the major competitors. Now, once we see this, we also see who is the price leader, and we look at the best benchmarks that we can be using as levers to continue to progress. And we need to recognize that Volkswagen is one of them.

So against Volkswagen, what we are seeing is that, against the situation two years ago, which was the fact that we were at double-digit cheaper brand, we are now at 5% behind Volkswagen and, of course, because we are making better and better cars, because we have fixed the quality of our products, because we have now fixed the appeal of our products that you can see through the Renault Captur, the new Clio, as an example, there is no reason why with more appeal and a high level of quality, we could not continue to close this gap which is, of course, our intention. But I would prevent myself from making any forecasts for two reasons because, first, I would understand your skepticism, so I prefer to talk about it when it is done; and secondly, I don't want to make our IR team too nervous about this matter.

<Q - Charles A. Winston>: Very clear. Thanks a lot.

<A - Thierry Huon>: Thank you, Carlos, for that. Since we are running out of time, I would appreciate that you limit yourself to raise only one question.

Operator

The next question from Gaëtan Toulemonde from Deutsche Bank. Please go ahead.

<Q - Gaëtan Toulemonde>: Good morning. This is Gaëtan, Deutsche Bank. So one question, regarding this competitiveness plan, can you give us an idea about – I know that the amount of savings will be approximately €500 million. Can we work with something like €100 million in the second half of this year, €200 million next year, €200 million the year after? Is it the kind of order of magnitude? Then in term of the provisioning, can you help us a little bit to get an idea about what happens second half of this year next year?

<A - Dominique Thormann>: Okay, Gaëtan. Hi. Good morning. It's Dominique. It's €500 million compared to a do-nothing scenario, okay? So you can't just take a starting situation and say, okay, chop €500 million off the operating line and get to a number. So it's – because you know it's rather complicated in France. It's a plan that goes through 2016. So until it's done, you won't get the full impact of that plan.

Now, the do-nothing scenario is not a realistic option, right? So you're comparing yourself, you're comparing an end situation to something that wouldn't have happened anyway. But if you just do it on paper, the gap would be about €500 million. I think we've guided you to tell you that the cost of full implementation over the planned period is going to run somewhere around short of €400 million. And we'll be taking this as the employees sign up and are part of the plan.

So you know that under accounting rules, when you have restructuring plans that have to do with people, you cannot book these things unless you can identify and that you have certainty of the number of people, the dates and the different conditions around individuals. So that's where we stand with the plan, but you will see charges going through. We've tried to make it as front-loaded as possible, so that it's major impact will be in 2013 and 2014 and then the tail end of the plan in 2015 and early 2016. That's the best I can give you right now.

<Q - Gaëtan Toulemonde>: And the major saving in H2 this year compared to the €173 million you booked in H1, is it something we can compare or not at all?

<A - Dominique Thormann>: We'll get something flowing through in H2 because in H1, obviously, you're having more costs than any impact, obviously, because just time didn't allow that for – to happen, but you will get part of that €170 million, whatever number is back into the second half. Yes.

<Q - Gaëtan Toulemonde>: Okay. Thank you.

Operator

Our next question from Rabih Freiha from Exane. Please go ahead.

<Q - Rabih Freiha>: Yes. Good morning. Rabih Freiha from Exane. Some suppliers in the past week this earnings season have mentioned that maybe European production accelerated faster than it's supposed to. Do you agree with the statement and can you tell us a bit how Renault's European inventories have developed? If I'm not wrong, in April, you had mentioned that your inventories went up in five months in Europe. Can you please comment on that? And maybe just a confirmation, can you confirm the flat working capital swing for this year please. Thank you.

<A - Dominique Thormann>: Just one comment for Europe. First, what you need to look at is the fact that we have very successful cars that have been launched recently. I would like to highlight the new Clio and the Captur. Just to give you an example, the Captur was such a high success in the mind of our dealers that we decided to put a second shift in Valladolid even before the start of sales.

So, of course, we have to fill the pipes and meet the high expectations of our sales people. On the same time, we also have a high demand on the new Logan and the new Sandero. So all of this contributed to give our sales people the appropriate resources that they need to make the appropriate sales. And as you have seen, it has been very important that we sell the cars that are being demanded by the market or requested by the market because this is the situation where you can trigger the appropriate pricing discipline.

If the market is pulling the cars, you don't have to discount. And of course it overall improves the business in terms of efficiency, marginal profit rates and in terms of total volume, total amount of profit. So I would say that there is nothing special about the European inventories except for the fact that we have filled the pipes with the successful cars that we have launched in the last six months.

<Q - Rabih Freiha>: Okay, thanks. And on working capital?

<A - Dominique Thormann>: Yes, working capital, Rabih, is – look, I don't have any better guidance to give you than what we told you initially. That's the basic – the plan is for that to be as neutral an amount as possible.

<Q - Rabih Freiha>: Great. Thank you very much.

Operator

Our next question from Horst Schneider from HSBC. Please go ahead.

<Q - Horst Schneider>: Yes, good morning. Horst here from HSBC. Not many questions are left. I only want to clarify on volumes. Do you expect your volumes in the second half to be higher than in the first half? And maybe I have missed it, with regard to Europe, outlook is still bleak, but can we expect maybe a positive market growth already in Q3? In my view, already June was not that bad if we adjusted for the number of selling days in a few markets.

And then finally, for the guidance 2013, you now believe that the guidance is realistic, ambitious or rather conservative? Thank you.

<A - Carlos Tavares>: Let me answer the first part and I'll let Dominique answer the tough question.

For the first part, what we foresee is that the volumes in H2 will be higher than in H1. As you saw, we were at minus 1.9% and we are saying that we'll be overall higher for 2013 compared to 2012. So as a consequence, H2 should be higher than H1. That's something that we think will happen and is in the plan.

The second point regarding Europe is that what we expect for Europe is that the market share will grow. The TIV – as you saw, the TIV forecast is minus 5%. It was minus 3% at the beginning of the year. It's now minus 5% and minus 80% in France. But thanks to the new products we have, we expect the market share to grow and this will, of course, contribute to reduce the impact of the European TIV decrease which combined with the overseas sales growth should lead us to have a higher volume in 2013 compared to 2012.

<A - Dominique Thormann>: Yes. And, Horst, on the – how to qualify our guidance, I think that the best that I can say is what I said in my introductory comments, is that we're confirming guidance, provided no further material deterioration in market conditions. And I would like to stay with that statement and not qualify it as being optimistic or pessimistic or any other way than what I said.

<Q - Rabih Freiha>: Okay. Thank you.

Thierry Huon

Okay. Thank you, Dominique. Thank you, Carlos. So I guess that we are running out of time, so we're going to leave you. But I, myself, will be available also full day if you have any further questions. Have a good day. Thank you.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all very much for attending. You may now disconnect.