Company Name: Fiat
Company Ticker: F IM
Date: 2013-07-30
Event Description: Q2 2013 Earnings Call

Market Cap: 7,546.70
Current PX: 6.035
YTD Change($): +2.245
YTD Change(%): +59.235

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 0.277
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 87664.765

Q2 2013 Earnings Call

Company Participants

- Marco Auriemma
- Sergio Marchionne
- Richard Keith Palmer

Other Participants

- Martino De Ambroggi
- Massimo Vecchio
- Alberto Villa
- Richard J. Hilgert
- Philip R. Watkins
- Max E. Warburton
- Charles A. Winston
- Jochen Gehrke
- Philippe J. Houchois

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen. And welcome to today's Fiat Group 2013 Second Quarter and First half Year Results Conference Call. For your information, today's conference is being recorded.

At this time, I would like to turn the call over to, Mr. Marco Auriemma, Head of Fiat Group Investor Relations. Mr. Auriemma, please go ahead sir.

Marco Auriemma

Thank you, operator. Good afternoon or good morning to you all and welcome to Fiat Group's second quarter 2013 results webcast and conference call. The earnings release issued earlier today is available together with the conference call chart set on our website.

As usual, today's call will be hosted by the Chief Executive, Sergio Marchionne; and by Richard Palmer, the Chief Financial Officer. After introductory remarks, we will be available to answer all the questions you may have.

Before we start, just on a housekeeping note, let me remind you that any forward-looking statements we might be making during today's call are subject to the risks and uncertainties mentioned in the Safe Harbor statement on page 2 of the presentation material. As always, the call will be governed by this language.

With that, I would like to turn the call over to Mr. Sergio Marchionne.

Sergio Marchionne

Thank you, Marco. I'm going to keep my remarks really short. Richard will do all the heavy-lifting on the call, but we've had a very satisfactory quarter at Fiat.

I think I'm encouraged by couple of things. One, I think that the second quarter at Chrysler was a very good quarter considering what we accomplished in the first three months of 2013. And so – the machine is back on, I know that I mentioned during the Chrysler call earlier that the second – that the second – the second half of the year was a challenge in second half, because of the product launches and because of the profit expectations are embedded in the original target of $3.8 billion for the year.

But notwithstanding all this, I think Chrysler did well. I'm encouraged also, by what EMEA has been able to do, we have substantially reduced our losses. And I think you know there's no magic to this, we always had the view that the market was under severe stress and I think Alfredo has done all the right things to maintain a reasonable cost structure to try and weather the storm and expect while we expect this market to recover.

Latin America continues to perform well, I think, pricing pressures and I think you'll see this when Richard deals with Latin America, but it continues to perform well certainly on the volume basis. And we expect the rest of the year to be certainly in line with prior years, in terms of ultimate up. But APAC continues to do well, the house overall is in good shape. There are number of operational issues that we face including significant number of product launches in the second half of this year. But we remain on track to meet the numbers that we outlined at the beginning of the year of – €4 billion to €4.5 billion in trading profit.

And on that basis, I'll pass it on to Richard, who's going to give you the details.

Richard Keith Palmer

Thank you and hello, everybody. Turning to page 3, the group results for the second quarter showed solid progress compared to the previous quarter and to the prior year.

Briefly worldwide shipments for our mass-market brands reached 1.2 million units in the quarter, an increase of 5% year-over-year. Revenues were up to €22.3 billion, trading profit with in excess of €1 billion. Net profit before minorities was €435 million. Our net industrial debt was reduced to €6.7 billion. And total available liquidity, including undrawn credit lines was €21 billion, in line with Q1.

The group is recently successfully concluded several transactions in the debt capital markets, in particular, Chrysler Group took advantage of market conditions and improved its – and its improved credit profile to reduce the interest rate for its $3.0 billion term loan and its $1.3 billion revolving credit facility.

In addition, certain loan covenants were amended to be consistent with what is available in second lien notes. The interest rate re-pricing is expected to reduce annual interest costs by approximately $50 million. In addition, a one-time call premium of $30 million was paid to investors in June.

Also in the quarter, Fiat S.p.A. signed an agreement for a €2 billion 3-year committed revolving credit facility intended to replace the €1.95 billion 3-year revolving credit facility originally signed in July 2011.

The syndication was successfully completed with 19 banks on July 18. As a result of the positive response, the facility was increased as of that date from €2 billion to € 2.1 billion.

On July 12th, Fiat issued an €850 million bond with a fixed coupon of 6.75%, due October 2019.

Fiat notified VEBA of the exercise of its third call option to purchase a further tranche of the interest held by VEBA in Chrysler Group LLC, representing a 3.3% of Chrysler's outstanding equity, for $255 million.

Moving to slide 4, here we're talking about the recent award recognized to the Pomigliano plant in Italy which is one of the groups' plants in which the implementation of World Class Manufacturing has delivered outstanding results.

After the training period completed in 2008, the plants reached Bronze level in 2009 with further investments in refurbishment in 2011 to produce the new Panda. In 2012, the plant was awarded Silver status. In the same year, the plant received the prestigious "Automotive Lean Production 2012" award in the OEM category for international OEMs.

Last month, as the WCM implementation accelerated, the plant achieved Gold status, the first assembly plant within our group to reach this level of WCM certification. Last but not least, as a result of the WCM program, the yearly savings at the Pomigliano plant are above the group's average.

Moving to page 5, look at the financial highlights. As we mentioned group revenues increased to €22.3 billion driven by NAFTA, APAC and LATAM, while EMEA reported a 3% contraction. Luxury and Performance products also showed double-digit increase.

Please note in the financial comparisons here, the Q2 2012 numbers have been restated to the adoption of IFRS-19 revised, which resulted in a reduction in reported trading profit for the quarter of 63 million and a reduction in net profit of €119 million compared to the prior reported numbers.

Trading profit for the quarter came in €82 million higher than a year ago to €1.029 billion, increasing 9% in nominal terms and 12% at constant exchange. The improvement was mainly attributable to a further reduction in losses in EMEA and the strong year-over-year performance in APAC.

Results for both NAFTA, which was up slightly over the prior year with improved momentum from new products launched in Q1, and LATAM supported the full-year group target. Group net profit was €435 million, nearly double the prior year level. There was a profit of €142 million attributable to owners of the parent, compared with a €32 million profit for the prior year.

Net industrial debt at June 30, was reduced to €6.7 billion, from €7.1 billion at end of quarter – of Q1, mainly driven by positive operating cash flow for Fiat ex-Chrysler.

Total available liquidity, inclusive of €3 billion in undrawn committed credit lines, totaled €21 billion, with the decrease over year end Q1 driven by a negative currency translation. For Fiat excluding Chrysler, total available liquidity was €10.9 million [sic] billion (8:15) and €10.1 billion for Chrysler.

Moving to page 6, revenue and EBIT by segment. The top line for the group increased 4% with all segments growing except for EMEA. NAFTA was up 5% or 7% at constant exchange. LATAM up 8% or 15% at constant exchange. APAC grew 46%. And Luxury and Performance brands were up 14%.

The group EBIT was up 13%, excluding net unusual items, which we will review in a moment, EBIT increased 5% over the prior year, reflecting a further reduction in trading losses in EMEA, and strong performance in APAC.

Moving to page 7, we look at the P&L items below the trading profit line. Net financial expense totaled €502 million, €17 million lower than prior year. Net of the marking-to-market of the Fiat stock option-related equity swaps, there was a €13 million increase.

Income taxes totaled €120 million. Excluding Chrysler, income taxes were €90 million and related primarily to taxable income of companies operating outside of Italy.

Moving to page 8. We show the major constituents of the unusual items reported in Q2. Chrysler Group as we mentioned on the prior call, amended its U.S. and Canadian salaried defined pension plans to cease accrual of future benefits, and enhanced early retirement factors.

The amendments resulted in adjustment to prior service costs, for which the company recognized a $218 million or €166 million net reduction to pension obligation, with a corresponding benefit to income in the quarter. This was – is consistent with IFRS reporting, whereas under U.S. GAAP in Chrysler's numbers this gain was not reported in income, but went to, straight to equity.

The charge of €150 million – €115 million or $151 million represents the accrual related to the voluntary safety recall for the 1993-1998 Jeep Grand Cherokees and the 2002-2007 Jeep Libertys, as well as the customer satisfaction action for the 1999-2004 Jeep Grand Cherokees, following the agreement with NHTSA in June 2013.

Moving to page 9. Look at the net industrial debt walk. Industrial debt was reduced to €6.7 billion from €7.1 billion at March end. In the quarter, the industrial EBITDA and working capital combined exceeding the operating needs due to capital expenditures of €1.9 billion, interest, tax and pension fund contributions. Translation effects and positive mark-to-market of hedging derivatives also contributed to the overall improvement of net industrial debt.

For Fiat excluding Chrysler, net industrial debt was €5.4 billion, a €0.3 billion decrease over March-end with cash from operating activities, including a seasonally positive working capital contribution, exceeding capital expenditure of €0.9 billion for the period. Chrysler reduced net industrial debt by €0.1 billion to €1.3 billion.

Moving to page 11, we start reviewing the performance by region beginning with NAFTA. During the second quarter, trading conditions remained strong in the region with the group outpacing the growing U.S. and Canada markets.

Revenues were up 5% or 7% in U.S. dollar terms, primarily due to the higher shipment volumes. Trading profit was up 1% over the prior year to €668 million, primarily attributable to higher shipments following the key model launches in Q1 and improved pricing, partly offset by increased industrial costs related to new product launches and content enhancements.

EBIT increased €46 million mostly due to unusual items. In Q2 2013, the region recorded the accrual related to a voluntary safety campaign agreed with NHTSA in June 2013, as well as – this is more than offset by the curtailment gain, resulting from the freeze of U.S. and Canadian salaried employee defined benefit pension plans effective December 31, 2013, for the U.S. and 2014 for Canada.

In the region, volumes were up 4%, benefiting from full production of the 2014 Jeep Grand Cherokee and 2013 Ram Heavy-Duty pickups with overall shipments increasing 5% to 468 [sic] 468,000 (12:58) vehicles in the U.S. and 9% to 80,000 units in Canada. Mexico was down 11%.

Group vehicle sales increased 10% to 582,000 units, with U.S. up 10% and Canada up 9%. Days' supply of inventory at U.S. dealers as of June 30 increased slightly from the end of March to 68 days, mainly due to increased inventory for the new launches.

The walk on page 12 details the €46 million improvement in EBIT for NAFTA. The increase was driven by volume of 23,000 units, primarily related to new vehicle launches, partly offset by the lack of Jeep Liberty production compared to prior year. Also positive were mix, which mainly reflected higher retail volumes and net price driven by vehicle content enhancements on newly launched vehicles.

Industrial costs were impacted by key product launches and content enhancements. Higher cost to support business growth negatively impacted the SG&A by €46 million. The others include the unusual items discussed on the previous slide.

Page 13, we look at the industry trend and our performance during the quarter in NAFTA. The U.S. vehicle market finished Q2 up 8% to 4.2 million vehicles. Group sales were up 10% in the quarter with June being the 39th consecutive month of year-over-year sales gains with the best June sales since 2007. As a result, the group's overall market share was up 20 basis points over the prior year to 11.4%, driven by a 17% increase in retail sales.

Retail of retail market share was at 11%, up 70 basis points. The fleet mix was reduced to 22% of U.S. sales from 27% in the prior year.

Looking at performance by brand, Jeep vehicle sales totaled 128,000 for the quarter, up 1%, with increases for all currently produced vehicles, including the Grand Cherokee, up 27%; the Compass, up 30%; the Patriot, up 14%; and the Wrangler, up 12%.

Dodge, the group's number one selling brand in the region, posted sales of 159,000 vehicles, up 18% from the prior year mainly driven by the new Dart, the Durango, up 42%; the Challenger up 20%; and the Charger up 11%.

The Ram truck brand posted an increase of 31% to 96,000 vehicles, the best second quarter sales since 2007, with sales increases for both light-duty and heavy-duty pickups, which were up 41% and 12%, respectively.

Chrysler brand sales totaled 84,000 vehicles during Q2, down 5% from the same period last year primarily due to reduced sales of the Chrysler 300.

The Canadian vehicle market increased 5% year-over-year to 538,000 vehicles. The group's total market share was up 60 basis points year-over-year to 15.1%, mainly driven by strong performances of the Ram light-duty pickup, Jeep Grand Cherokee, Dodge Avenger and sales of the Dodge Dart. The month of June was the 43rd consecutive month of year-over-year sales growth. The longest streak in the company's history.

Fiat brand sales in the U.S. and Canada were stable at more than 14,000 vehicles for the quarter. The new 500L was launched in the U.S. in May, expanding the existing line-up which includes the Fiat 500 and Fiat 500 Cabrio.

Moving to page 14, we'll review the LATAM region. The industry performed strongly increasing 9% year-over-year particularly in Brazil where the market was up 7%, posting the best Q2 ever and Argentina, which was 21%.

Group revenues were increased 8% or 15% at constant exchange. Trading profit was €224 million for the quarter compared to €234 million for the prior year. Net of unfavorable currency translation impacts, trading profit was in line with prior year, with the positive impact of higher volumes and favorable mix compensating for inflationary increases in industrial costs and SG&A.

Total group shipments rose 14% in the region with Brazil up 11% to 215,000 units. Shipments in Argentina totaled 29,000 vehicles, a 46% increase over the same period in 2012. For other LATAM countries, shipments totaled approximately 14,000 units, an increase of 14% over the prior year. Sales in the quarter were up 10% year-over-year. The company & dealer inventory slightly increased in the quarter in line with the competition to support the second half seasonality.

The EBIT walk for LATAM is shown on page 15, excluding the currency translation effect, the positive impact from 32,000 higher shipments and favorable mix as well as positive pricing was offset by inflationary increases in industrial costs, mainly due to higher labor cost and the less favorable manufacturing mix, due to a shift to some production to the plant in [ph] Cordoba (18:10).

Moving on to page 16, the passenger car and LCV market in Brazil was up 7% over the prior year to 921,000 units. The group strengthened its leadership in the Brazilian market, with overall share at 22.1%, 350 basis points ahead of the nearest competitor. Group products continued to perform well, taking a combined 27% share of the A/B segment, driven by the continued success of the new Palio.

In addition, the Siena and Grand Siena posted a 44% year-over-year increase and Strada was up 29% over the prior year to close the quarter with a 53% segment share.

In April, the group launched the Ram 2500 Laramie, the only full-size truck in the market. During the quarter, Fiat brand launched special versions of the Grand Siena and Strada, both the best selling vehicles in their respective segments.

The Brazilian market is pointing to record sales in 2013 entering the second half, seasonally stronger than the first half. However, Q3 will be impacted by tough comparatives due to exceptionally strong 2012 after the IPI tax cut introduction of the prior year.

In Argentina, where the market was up 21% over Q2 2012 to 240,000 units, group sales totaled approximately 31,000 units with share up 160 basis points to 12.8%.

Page 17, deals with APAC. Regional demand rose year-over-year led by growth in China and Australia, while Japan, India and South Korea were down over the prior year. Group revenues were up 47% – 46% primarily driven by Jeep, Chrysler and Dodge, representing over 90% of total revenue.

Trading profit came in at €99 million, 1.5 times last year's level, driven by volume growth, which was partially offset by an increase in industrial and SG&A expenses to support business expansion. Trading margin was 8.9%, up 50 basis points compared to prior year.

EBIT was up 27% to €76 million with trading profit performance not fully reflected mainly due to start-up costs for the Chinese joint venture. Group retail sales, including JVs, totaled 46,000 units for the quarter, a 75% increase over the prior year compared with 6% for the industry.

By brand, Jeep sales, accounting for almost half of total group sales in the region, which were up 14% over the prior year. Fiat brand sales were more than triple than Q2 2012 level propelled by the launch, of the Chinese-produced Fiat Viaggio, the group's second best-selling nameplate in the region after the Jeep Compass.

The return of the Dodge Journey to China earlier in the year was well-received, with Q2 sales making it the group's third best-selling vehicle in the region.

The group's newly-formed sales operations in India completed the transition from the previous joint venture, allowing the group to take direct control over all commercial and marketing activities. Industrial activities continue to be managed through the JV with Tata.

Turning to page 18, the EBIT walk for APAC shows the positive impact from 12,000 higher volumes, partly offset by less favorable mix due to higher penetration of sedans and smaller-sized SUVs. Industrial cost increased by €35 million due to higher R&D and fixed manufacturing costs related to new product initiatives and increased production volume. SG&A increased due to selling expenses to support volume growth in the region and regional expansion of the local team.

On page 19, talk about the market trends and business dynamics for Asia. In China, the group sales were up 2.5 times, posting the best sales improvement in a market growing at 13% and leading to a share gain of 40 basis points, driven by the recently launched Viaggio and Dodge Journey and continued growth of the Jeep brand in the country.

In Australia, the market was up 5% with the group continuing to gain share on the back of 39% sales growth with Jeep, with Jeep growing by 18% and the strong performance of Fiat, Alfa and Abarth brands as well as the LCVs.

In Japan, the group sales were up 9%, primarily driven by robust performance of Fiat brand, despite the normalizing industry following strong recovery in 2012 after the earthquake.

In South Korea, demand was slightly down with group sales bucking the trend and positing a 3% increase driven by the Jeep brand.

Moving on to page 20, we look at the EMEA region, in EU27+EFTA, the decline in the Passenger Car segment softened in the quarter thanks to improved year-over-year trend in April, but was again down in May and June by 6%, with the later or calling the worst June since 1996 with registrations below 1.2 million mark

The LCV segment performance in Q2 in Europe reflected again the sharp decline in Italy. Group revenues in the quarter were down 3% to €4.8 billion. The trading performance improved €40 million, only 30% over the prior with a reported trading loss of €98 million for the quarter, achieved through continued discipline on cost and some better mix, which more than offset lower volumes and continued price pressure.

EBIT was negative at €74 million reflecting improvement in trading profit performance and included a €39 million positive result from investments. In the quarter, overall shipments were down 5% with passenger cars down 5% to 234,000 units, a 13,000 units decline almost fully attributable to contraction in demand in Italy and supply shortage of components for certain models.

Shipments of LCVs down 3% to 53,000 units with improved performance in several EMEA markets partly compensating for 3,000 volume decline in Italy.

Page 21 shows a detail of the EBIT improvements for EMEA, negative volumes reflecting the decline in shipments were offset by better mix, mostly attributable to the success of the Fiat 500L.

Pricing pressure in key segments continued to remain high, an impact of the year-over-year performance by €61 million. There were positive year-over-year changes in industrial costs. Thanks to the contribution from the World Class Manufacturing program and a €68 million improvement from disciplined SG&A spending.

Other includes a non-repeat of the unusual charge related to a €91 million write-down in Q2, 2012 of SevelNord, partially offset by unfavorable FX, lower result from investments and negative non-recurring items in 2013.

Turning to page 22, you can take a look at the passenger car industry in Europe, which registered a further year-over-year decline with significant decreases for all major markets except Spain plus 2%, and UK plus 13%. The market was down 8% in Italy and France, and 4% in Germany. For the rest of Europe, demand was down 9% overall.

Group brands recorded a combined 6.3% share of the market, down 50 basis points over Q2 2012, reflecting the continued reduction in Italy's overall weighting in the European market, now representing 11.2% of the total.

The 500 and Fiat Panda, posted shares of 14.3% and 13.5% of the segment. The 500L topped 18,000 units during the quarter, competing for leadership of the Small MPV segment with a 16.1% share.

The group gained share in Spain and France, and remained stable in the United Kingdom. By contrast, share in Germany was down. In Italy, group market share was 29.3%, down 190 basis points over Q2 impacted by the recovery of sales delayed from Q1 due to the car hauler strikes in 2012. Additionally, the group's performance in Europe was affected by supply shortages for components of certain models.

Page 23 deals with the LCV market in Europe, although the European market's negative trend improved compared to Q1, those decline of 3% over Q2, 2012 with overall demand as anticipated earlier, again reflecting the 22% decline in Italy.

Fiat Professional closed the quarter with a 13.5% share of the market, in line with the prior year. Excluding Italy, the group's European market share was 11.4%, representing a 60 basis points year-over-year increase on the back of 10 basis points gain in Germany, 70 basis points gain in France, 180 basis point gain in UK and 240 basis point gains in Spain.

The Fiat Ducato was the most popular model in its segment with 34,000 units sold and share up 120 basis points over Q2 2012 to 22.9%. Group market share in Italy was 43.6%, decreasing 70 basis points over Q2 2012.

Moving to page 24, we can review the Luxury and Performance brands. Ferrari's second quarter revenues totaled €626 million, representing a 6% increase over the prior year. Trading profit totaled €96 million, compared with €88 million in the prior year, reflecting both higher sales volumes and strong contributions from licensing and personalization programs. Trading margin was strong at 15.3%, up 30 basis points from a year ago.

Ferrari shipped a total of 1,969 street cars, a 2% increase over the prior year, driven by positive performance for 12-cylinder models, particularly the F12 Berlinetta. For 8-cylinder models, volumes were down 5% over the prior year.

The U.S. remained Ferrari's number one market, representing 24% of total shipments. Volumes were also higher in Europe, with gains in the UK, Germany and Switzerland more than offsetting contractions in Italy and France. Results were also positive in the Middle East, with shipments up 13% over the prior year. In Asia Pacific, shipments to the dealer network were down 9%.

Revenues from Maserati totaled €282 million for the quarter, increasing 34% over the corresponding period in 2012. Trading profit came in at €9 million, decreasing from €15 million in Q2 2012, primarily as a result of the higher costs associated with the launch of the new Quattroporte.

Maserati shipped a total of 2,291 vehicles, representing a 30% increase over the prior quarter. The continued success of the GranTurismo and GranCabrio, in addition to the commercial launch of the new Quattroporte, all contributed to the result and the brand posted significant year-over-year gains in nearly all markets.

As an update on new products the new Quattroporte is very well received and orders are coming strong with 8,000 orders received since launch. Production of high-end Ghibli will ramp up in Q3; this is a model which is expected to generate significant growth for the Maserati brand over next year for which we have already taken more than 2,000 orders.

Page 25, deals with the Components sector. For the second quarter, Magneti Marelli reported revenues of €1.6 billion, representing an 8% increase.

NAFTA, China and Brazil registered increases, while Europe was substantially unchanged over the prior year. The Lighting business line posted revenues up 16%, on the back of performance in China, as well as NAFTA where several new products were launched during the second half of 2012.

In Europe, revenues were substantially unchanged. For the Electronic Systems business line, revenues were up 15% year-over-year reflecting higher sales of telematics box and navigation systems to non-captive customers. Revenues were also higher for the Powertrain business, up 11% with sales to Chrysler making a significant contribution.

Trading profit for the quarter totaled €50 million, compared with €37 million for Q2 2012, with the benefit of higher revenues being partially offset by higher costs associated with the launch of the new high-tech products in NAFTA.

Teksid posted revenues of €189 million, a 7% decline over the same period in 2012 attributable to lower volumes for the Cast Iron business unit in Europe and NAFTA. For the Aluminum business unit, volumes were up 23% over the prior year. Teksid closed the quarter with a trading loss of €1 million, primarily reflecting the decrease in volumes and profitability for the Cast Iron business.

Comau had revenues of €358 million, substantially in line with the second quarter of 2012. Trading profit totaled €11 million, compared with €7 million in the prior year.

Moving on to page 27, take a look at the business environment by region starting with NAFTA. All our models in the region are performing well, in particular, the recently introduced 2014 Grand Cherokee refreshed with new front and rear exteriors as well as new electrical architecture and upgraded telematics, and more importantly with the new state-of-the-art 8-speed transmission, is gaining momentum. Also in Q1, we strengthened our product offerings in the truck category, with a more competitive model, the refreshed Ram Heavy-Duty pickup.

In the second half launch execution and continual running of capacity higher than 100% are the key challenges for a strong second half, underpinned by the contribution of the two new models just mentioned along with other key model launches underway such as the all-new Jeep Cherokee competing in the largest SUV segment in NAFTA, the Fiat 500L and the new Ram ProMaster, the first full-size van offering into an expanding, purpose-built segment.

Page 28 deals with the recent situation in Brazil and its economic prospects. Recent mass protests against the service standards have subsided, notwithstanding the limited impact of social unrest on economic activities, uncertainty could create a slowdown of the economy.

At the beginning of July, we had to manage a few days of production stoppages due to car haulage strikes. The government is managing the inflationary pressure through controlled monetary policy actions. And consumer confidence is currently under pressure, but it is expected to return to normality, in a relatively short period of time. The Brazilian economic scenario remains solid, and consensus estimates remain positive.

Page 29 shows the contribution by brand to the 75% sales growth in APAC, driven by the Fiat Viaggio whose sales are continuing to improve, strong performance of the Jeep brand with Q2 sales being the 15th consecutive quarter of year-over-year growth, and Dodge brand sales boosted by the recently re-introduced Journey.

The Jeep Grand Cherokee has been rolled out throughout the key markets in APAC, after its debut in Asia at the Shanghai Auto Show in April, where it was recognized as the most powerful luxury SUV in China by the trade media.

Slide 30, we take a closer look at the key model introductions in EMEA, the 500 family continued expanding its product offerings with the 500L Living and Trekking models, consistent with the brand goal of being distinctive enough in the mass-market to differentiate itself from traditional competition. As said earlier, export of the 5-seater version to NAFTA started in the current quarter.

The Living model is the most compact, 5+2 seater MPV in its category, combining the charm of a 500, the compactness of a mid-sized car, the comfort of a C-segment station wagon and the versatility of an MPV.

The Trekking model is equipped with Traction+, a smart front-wheel drive technology, which improves grip on snow and rough terrain. Both vehicles were launched in July and the full rollout in European markets is expected to be concluded by year end.

Moving to page 31, we show our interest – our industry outlook by region. The unchanged full year forecast for the U.S. market for 15.5 million vehicles is consistent with the annualized trend experienced during the first six months, which points to a 15.7 million SAAR. The Canadian market is expected to be in line with prior year levels with industry volumes to-date supporting the outlook.

Industry trend in LATAM in the first semester is supportive of a mid single-digit growth for the full year, with Brazil set to post another all-time record and Argentina expected to keep performing positively.

In APAC, the overall industry is projected to increase about 5% year-over-year with growth in China and Australia, partly offset by contracting demand in Japan and India.

In EMEA, our expectations for 2013 remain unchanged with the passenger car segment in the EU27+EFTA market expected to contract in the 3% to 5% range versus prior year. And the LCV market should post a 5% year-over-year decline.

Moving to page 32, the group is targeting shipments for 2013 in the range of 4.3 million to 4.5 million units, of which 2.2 million in NAFTA. LATAM and EMEA are expected to account for about 1 million units each and APAC is aiming to almost double last year's shipments level.

Now turning to the guidance on page 33, we confirm our 2013 guidance with revenues expected to be in the €82 billion to €92 billion range, trading profit from €4 billion to €4.5 billion, net profit expected to be in the €1.2 billion to €1.5 billion range and net industrial debt of circa €7 billion.

Marco Auriemma

Thank you, sirs. Now, we can get started with the Q&A session. Operator, please go ahead.

Q&A

Operator

Thank you. [Operator Instructions] We will now take our first question from Martino De Ambroggi of Equita. Please go ahead.

<Q - Martino De Ambroggi>: Good morning, good afternoon, everybody. Thank you for taking my questions. And two questions on EMEA region. The first one is on price, if you could comment a bit on the environment, which seems, did not improve over – also in Q2 in Europe?

<A - Sergio Marchionne>: I do you confirm that pricing is not great.

<Q - Martino De Ambroggi>: Yeah, but what do you expect going forward?

<A - Sergio Marchionne>: Similar conditions for the remainder of 2013.

<Q - Martino De Ambroggi>: Okay. Still on EMEA region, I saw the improvement mainly came from SG&A industrial costs. What do you expect going forward from this, is there any additional room that can be exploited?

<A - Sergio Marchionne>: No. Look, there's a point in time in which, you get, you start cutting bone and we're at that stage now. So...

<Q - Martino De Ambroggi>: Okay. So – and the last question always on EMEA. You are improving operating performance despite no volumes recovery, but what's the updated volumes of shipment you are confident are enough to guarantee breakeven for that region?

<A - Sergio Marchionne>: I think our view on this remains unchanged. I think the objective is to try and provide industrial, utilization of the industrial framework in EMEA. It can only happen with the support of a global market plan, which effectively uses the Italian asset base to – as an export function. And we're far removed from that, I think for the first time – I think I made that comment in my remarks that we were looking at a breakeven positions by 2015, that view is unchanged.

<Q - Martino De Ambroggi>: Thank you.

Operator

We will now take our next question from Massimo Vecchio of Mediobanca. Please go ahead.

<Q - Massimo Vecchio>: Good afternoon. On the plan about using the [ph] Italian (39:05) production footprint for Alfa Romeo, I want to know if you have an update after the recent issues with the union and with the Italian system [indiscernible] (39:14) overall, if those discussions are such to change the plan or to postpone it or to alter it in some way. This will be very interesting in front of you?

<A - Sergio Marchionne>: Okay. Let me try and kill your interest. If the investor conditions in Italy remains such that, it is impossible to properly govern the industrial operations in this country then obviously any commitment that we made for this country is up for grant. And I think that, I made it very, very clear we're still trying to understand the implications of the latest court rooming.

On – what Fiat is doing in Italy, I think we are – as I understand it now, we are in the process now of organizing a meeting with the Union, which has been at the heart of the dispute to Fiat. We'll see where it takes us. I mean we remain open-minded always to try and bridge the expectations between what we think ought to be done to get this operation running and what their thinking is.

I don't prejudge the issue. I just think it – given the lack of certainty that has been triggered by the latest round of judicial interpretation of Article 19 of the Statute. I think we're hard pressed to come up with something that can actually withstand time.

This – we've been public on this that article that has now been deemed to be unconstitutional was introduced as a result of a referendum in 1995. It's been upheld in numerous occasions by the constitutional court in previous instances and we'll now find that it is no longer valid.

So, we're looking for guidance. We have urged the government to make up for this deficiency and certainty by introducing some type of legislative measure. We're waiting for the government to intervene. And I've seen nothing yet that will suggest that that certainty has been provided.

<Q - Massimo Vecchio>: What kind of alternatives do you have to produce the new models here in the pipeline in the U.S., or is there any kind of alternative? And there is a kind of deadline...

<A - Sergio Marchionne>: There are always alternatives. I mean, a company that can produce 4.5 million cars globally has got alternatives. I mean, I wouldn't worry about that.

<Q - Massimo Vecchio>: There is a timing, deadline after which you have to kick off the plan and it's obviously inside or – in or out for day time footprint or...

<A - Sergio Marchionne>: Yeah. There's always a time and deadline, I'm not sure that a financial analyst call has the environment to have that conversation to be honest.

<Q - Massimo Vecchio>: Okay. Second question on the Ghibli, so you can expand a little bit on the mix of the orders that you have, if it's in line with your expectation, if it's better or worse...?

<A - Sergio Marchionne>: The Ghibli has just started. Give it a chance; I think the initial reaction for a car that's not even in the marketplace is outstanding, so I am delighted with the performance of both the Quattroporte and the reception of the Ghibli. And so, it will do well.

<Q - Massimo Vecchio>: Last question on the European market, you still stick with your minus 3%, minus 5%, the market is down, I guess 6.6% in the first six months of the year, so...

<A - Sergio Marchionne>: Working through a lot of averages.

<Q - Massimo Vecchio>: So basically, can you share with us the reasons behind your optimistic view in the second half?

<A - Sergio Marchionne>: I'm not sure its optimism. I think it's a reflection of where the second half was last year.

<Q - Massimo Vecchio>: So, you are expecting a flattish second half?

<A - Sergio Marchionne>: There you are.

<Q - Massimo Vecchio>: Okay. All right. Thank you very much.

Operator

We will now take our next question from Alberto Villa of Intermonte. Please go ahead.

<Q - Alberto Villa>: Hi good afternoon, a couple of questions. First one is on the trading profit target that you did not change, despite the reduction or the introduction of the range for Chrysler. I was wondering if you can kind of bridge the expectations for the main regions, especially, in light of the fact that LATAM second half to reach the €1 billion, you mentioned in the previous call as a target for trading profit, looks pretty challenging and then if you can give us an idea of what the losses in the EMEA region could be in light of the very good achievement you had in the first half this year, so if you can give us an idea on that?

And secondly on the decision of the Court of Delaware have – perhaps some statement, at least some statement saying that you were expecting a decision by the end of this month, if that true?

And secondly on this same issue you said that you are continuing to prepare for the IPO process requested by VEBA. If you can give an idea of when eventually Chrysler would be ready to IPO in the future? Thank you.

<A - Richard Keith Palmer>: In terms of second half, most of the improvement in the second half results will come from NAFTA, clearly, as we mentioned on the call – the Chrysler call, we have a significant challenge in Chrysler to increase volumes and profitability in the second half, and the most of the weight of that improvement will be on the NAFTA region. So, that accounts for most of the increase for the second half compared to the first.

We expect LATAM to be up compared to the first half. This – the market is seasonally better in the second half. We're continuing to sell a very high share and perform very well commercially and so we continue to expect LATAM to be at around the same guidance we gave you six months – three months ago.

Another contributor will be Maserati, because as we mentioned just now that Quattroporte and the Ghibli are ramping up in the second half and so that will be a positive contribution second half compared to first half.

And I think, in terms of EMEA, we're going to continue to focus on the cost equation and manage volumes and we'll see where we get to at the end of the year, I don't think we want to give any specific guidance on that, it's a month-by-month exercise.

<**Q - Alberto Villa**>: But it's fair to assume that second half losses in Europe – in EMEA would be higher than the achievement you had in the first half or not, because of the third quarter and seasonality.

<**A - Sergio Marchionne**>: Not, not.

<**Q - Alberto Villa**>: Not higher.

<**A - Sergio Marchionne**>: I don't think, you should make that assumption.

<**Q - Alberto Villa**>: Sorry, I didn't get you.

<**A - Sergio Marchionne**>: Well you made an, you suggested an assumption. I'm suggesting that you shouldn't be making the assumption.

<**Q - Alberto Villa**>: Okay. Thank you.

<**A - Richard Keith Palmer**>: In terms of the preparation for an eventual IPO on the Chrysler side, we are preparing the S-1, and so given the timing of that preparation, the review process with the SEC et cetera, the timing would be November-December timeframe, because obviously the SEC process as you're aware takes the three to four months.

<**A - Sergio Marchionne**>: Yeah, and by the way, just to caution Rich's optimism, it depends on the number of comments that we get back from the SEC and how long it takes to clear the document. So, under the best of intensions, November or December would be an ideal time, which is also the wrong time I think from a capital market standpoint to do this. But obviously, by the end of the year, we'll be in a position to move on an IPO, that's the expectation.

<**Q - Alberto Villa**>: Okay. Any update on the course of that over-timing for the decision?

<**A - Sergio Marchionne**>: I mean your guess is as good as mine. I mean, we are not in a position to whether – I have no insider information as to when the judge is going to rule. But I think commerce wisdom would've suggested, this judgment would have come down by the end of July, but it'll come when the judge is ready.

<**Q - Alberto Villa**>: Okay.

<**A - Sergio Marchionne**>: I mean, so they were clearer on these calls. The calls are – once the calls are triggered, they're binding and they're no way of being revoked. So, on our side, once we push the trigger, the call is in place and it's a time definite call, because the mechanism for pricing the option is set in the agreement subject to clarification by the court, which means that even if takes 12 months, the calculation of the actual amount can be done and it won't change subject to market conditions of changes and performance, because it's a backward looking test.

So, the important thing from our standpoint – from Fiat standpoint is to trigger those call options at the earliest possible time that we can. So, we've done three so far, there's another one that's available in January and another one in July of next year. So, as long as – and as long as – regardless even if the IPO were to be executed, the call options need to be exercised.

<**Q - Alberto Villa**>: Sure. Thank you.

Operator

We will now take our next question from Richard Hilgert of Morningstar. Please go ahead.

<**Q - Richard J. Hilgert**>: Thanks for taking my questions this morning or afternoon. Congratulations on the papal endorsement in Brazil. Any orders for any bulletproof Fiat?

<A - Sergio Marchionne>: We aim to please; if you'd like one just let me know, I'll ship one your way.

<Q - Richard J. Hilgert>: Okay.

<A - Sergio Marchionne>: We do have some connections.

<Q - Richard J. Hilgert>: Yes. There you go. That's the secret to why you're doing so well on LATAM now. I was curious to know what the reason or what the impact to the EBIT was in the quarter as a result of the shutdowns in LATAM as well as the shutdown from Selmat?

<A - Richard Keith Palmer>: In LATAM, it was not a significant number in the second quarter. We have some shutdowns in July, so we lost a few days production, but not that significant I would say for July either.

<Q - Richard J. Hilgert>: Now the cardinal rule for suppliers is never shutdown your customer, and since you've experienced some difficulties this quarter and it looks like just looking at where Selmat is located you've probably got relationship with them outside of Italy as well. Can you tell us, what's the status of the relationship there?

<A - Sergio Marchionne>: Actually, we don't. This is a matter of the subject of litigation; and to be perfectly honest, it's not something that I will like to publicly discuss. The number is sufficiently material in the context of the Fiat and Fiat Industrial, we have not highlighted the number, because it is contained in one of the variances in the charts that you're seeing, it is the subject matter of a damage claim against Selmat and I think I will stop here, because I think anything that we say here is going to be either used or misconstrued in the litigation process.

It is something which we find incredibly unsatisfactory, I think the situation has improved certainly in the last 10 days, we have seen a significant pickup in performance as a result of the summer shutdown, we have commitments to close the gap between what was promised and what is effectively being delivered. And I expect, hopefully that by the end of August, we'll be in a position to resume normal production across all the plants. But the issue of what has been suffered as losses initially has to be resolved elsewhere, and I'm sure not this call is the right place.

<Q - Richard J. Hilgert>: Okay. Very good. And last question, your competitors to the Northwest have had many talks, discussions about head count reductions. And it seems like you've taken the tack that you can use the Italian operations as a base of export. Have you decided that there should be no further discussions on potential head count reductions, or is that an avenue that you could still pursue?

<A - Sergio Marchionne>: I think that option is always available. I think we have taken the view that we can intelligently use the know-how and the established production base in this country to specifically dedicate into the production of Alfa and Maserati, which are in the process now of being, at least from an engineering standpoint, of being developed with some intensity and should be able to put us in – should allow us to be in a position to produce hopefully within 2014 and 2015.

The biggest concerns that I have to – what I've just told you is the ability to govern the plants. It's been the overriding concern that we've had. I thought that we had achieved a relatively solid agreement with Unions, I don't know whether you followed the latest sort of travel of the judiciary on this. But there's been the latest decision by one of the Italian courts that is effectively opened up the avenue to different interpretations of that contract and I think we need to see where it takes us and whether we can effectively restore normal industrial relations in this environment, if we can.

And I think we will feel comfortable, continue the investment cycle that we started. In the absence of that certainties and I think we have to sit down with the relevant parties, including the government to try and find how we move those forward. There is no guarantee. As you can see from all this – you see from the numbers and from the performance that we have revealed today. The ability to finance all these activities in this country, depend on the ability of Fiat, Chrysler globally to continue to perform. This is not a self-funding operation.

So, in order for the system, to be able to rely on extra Italian funding to try and get this done. We need to have the certainty that all these industrial projects going to be executed without disruption and that's something that's far from guaranteed today.

<Q - Richard J. Hilgert>: Okay. Very good. Thank you.

Operator

We will now take our next question from Philip Watkins of Citi. Please go ahead.

<Q - Philip R. Watkins>: Good evening and thanks for taking my question. It was more on the financing side. I had two. First of all, I was seeing FGA Capital and they seem to have lost their investment grade rating from Standard & Poor's and I was wondering if there is any – or you thought there might be any implication for that in terms of the European financing?

And the second question was actually on the – I know you've done progress in terms of the Chrysler loan – the term loan and changing the covenants. Is there any prospect to take that out completely and give you a bit more leeway over the next year, in terms of access to Chrysler cash? Thank you.

<A - Sergio Marchionne>: Maybe, you can explain the second question, again. I'm not sure that we understood it.

<Q - Philip R. Watkins>: So, you still have restricted payments within the term loan.

<A - Sergio Marchionne>: Oh, we do, yes on the bonds.

<Q - Philip R. Watkins>: And I mean could you just – why don't you just buy back all of those loans?

<A - Richard Keith Palmer>: So, the issue is that even if we wanted to, the buyback of the bonds would it be anti-economic until 2015, 2016 because of the make-whole provision until that date. So, the RP on dividend is present in the bonds and we aligned the term loan RP to the same languages of bonds, which expanded our flexibility compared to the initial terms of the term loan. So, the term loan was at €0.5 billion limit previously, now there is a builder basket same as the bonds. On FGA Capital, we're quite confident that we can continue to raise financing also given that we have the support of Crédit Agricole in the joint venture.

<Q - Philip R. Watkins>: Does that – may I ask, does that mean that you'll just finance with ABS with FGA Capital. I know you've done that, a lot of that already, but...

<A - Richard Keith Palmer>: Well, we're using ABS, we're using bonds, we're using medium-term financing from banks and from FGA and from Crédit Agricole themselves. There's a mix of instruments that we use to finance.

<Q - Philip R. Watkins>: So, no material change in your financing costs than you think?

<A - Richard Keith Palmer>: No.

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

Operator

We will now take our next question from Max Warburton of Bernstein. Please go ahead.

<Q - Max E. Warburton>: Yeah. Hi, good afternoon, everyone. Got three questions if that's okay, the first one is predictably on Brazil. Richard made some pretty optimistic comments about the outlook in Brazil, certainly relative to the way the rest of the industry sees it. In that context, are you still reasonably confident that you can do the €1 billion of profit in the region that I think you talked about at the beginning of the year? I think you said operating profit this year would match last year after €410 million in the first half. Is €1 billion still possible or is the second half actually going to come in a bit short of the first half contribution? That's the first question.

<A - Richard Keith Palmer>: Hello, Max. Given the trend we see in the market to-date and our commercial performance we believe we can get to €1 billion. Clearly, it's a function also of how the market responds in the second half of the year, following – the unrest we saw in July. As we commented, we believe the market will continue to perform well and that is obviously a condition that's necessary for us to make that number.

<Q - Max E. Warburton>: Got it. Thanks.

<A - Sergio Marchionne>: But, Max, the view today is that second half will be better than first half and we have no indication to suggest that the forecast is not achievable. And if you look at the volumes by the way in the first half of this year, I think they are historically high – on a combined basis. It's not a lack of volume. The issue that's caused – that we've encountered in Latin America in the first half is fundamentally a question of cost pass-through and that's being adjusted, as we speak.

<Q - Max E. Warburton>: Yeah. And I guess the thing that leaves people like me scratching our heads is your profitability in the region looks more and more like an outlier. I mean, I guess it's always been best-in-class, but most others, both...?

<A - Sergio Marchionne>: My answer – yeah, I know, I understand the problem, but let me tell you how I look at this. If I make 100 and yeah the other guy makes one, and I suffer a dislocation of 10, the other guy is negative.

<Q - Max E. Warburton>: Okay. So, it's basically starting point, that's all we're talking about here?

<A - Sergio Marchionne>: Look, the real problem with this is, that if anybody tries to move pricing in an adverse way in that market given our cost structure, it'll be a lot more painful for somebody else than it would be for us.

<Q - Max E. Warburton>: Okay. We'll all watch with interest. And the second question...

<A - Sergio Marchionne>: So am I, I'm actually going to try and help, but...

<Q - Max E. Warburton>: You're going to try and help with?

<A - Sergio Marchionne>: Help in managing to make sure that the 100 is preserved.

<Q - Max E. Warburton>: Okay. Second question a broader bricks question. I think all of us spend all of our time worrying about Brazil in the context of Fiat, but looking around the rest of the world, are there other places where we should be getting nervous and particularly could you remind us where you book all the profit from selling engines in India? All those engines, they got in Maruti and Tata in which volumes are falling, is that – is that something meaningful and where do we see that appear?

<A - Sergio Marchionne>: The answer is that it is not meaningful, it should be but I'm not worried about it.

<Q - Max E. Warburton>: Okay. And then my last question is turning to Europe, on the quarterly basis, at least, you don't split R&D between Chrysler and Fiat as far as I can see. If we were to see pure European or pure Fiat R&D, how is that spend developing? Is that beginning to tick up as you guys start working on Alfas or is it something where actually – when we look at this incredible cost result, particularly in Q2, where you're still managing to reduce R&D spending?

<A - Richard Keith Palmer>: To be frank, we've had a relatively low R&D for the last 18 months, probably slightly longer than that, given that we desisted from investing in the European marketplace for a relatively long period of time. The main impact on cost reduction is a reduction in commercial costs in the marketplace. Given the pricing pressures and the volume pressures, we've reduced significantly our spending on marketing.

<Q - Max E. Warburton>: All right. Okay. I mean, on R&D, when is the inflection point? When do you have to start ramping? And in terms of what your engineers in Europe are doing at the moment, I guess, I'm left wondering what exactly do all these guys do on a daily basis? There is so little in the pipeline that I guess they're going to work, but could you just describe to me the typical day in the life of a Fiat European Engineer right now.

<A - Sergio Marchionne>: They run financial forecasts and sell them to Bernstein. I'm just kidding, Max. The – no, I mean when they're idling, which is very rare, they're involved in sort of maintenance programs that relate to existing products that are in the marketplace. There's been just – and I'm not trying to correct Richard, but there has been an increased utilization of the R&D workforce here, because of the commitment that we've made in terms of the two plants that we – the plant in [indiscernible] (62:23), where we're going to be manufacturing both the B segment Jeep and a B segment Fiat CUV.

And so, these – there are a number of resources that are now being – that are being directed towards that end. The utilization of the rest which otherwise is coming through the P&L and potentially could be capitalized is totally in connection with the undertaking on the Alfa Romeo project. And that's a very limited scope activity right now. And it's non-material to the numbers that you're seeing.

<Q - Max E. Warburton>: Okay.

<A - Sergio Marchionne>: It may become – it will become material as we go forward. And I think that we'll highlight those costs as we go forward, but today they're not.

<Q - Max E. Warburton>: Okay. I've got a final question, just – I mean, this might be a bit of a strange one for an analyst call, but it's fascinating to me looking at this company. How much was saved on the 4C by not tooling up to do some headlamps, and whose decision was that?

<A - Sergio Marchionne>: It was mine. And the number is about €4 million.

<Q - Max E. Warburton>: And – I mean is the budget on that – I mean is the budget in the context of Alfa's relaunch, not sufficient to pay €4 million to have headlamps given the sort of the press response with people commenting that this thing was done on shoestring?

<A - Sergio Marchionne>: To be perfectly honest, if you're buying that car because of the quality of the headlights, you got trouble. I mean the reason why you're buying that car is for completely – it's the handling capability of the car and the way in which it functions on the track. And I actually like the current headlights better than the ones that were offered as an alternative.

<Q - Max E. Warburton>: Okay.

<A - Sergio Marchionne>: Personal choice. So, blame me, if you don't like them.

<Q - Max E. Warburton>: All right. Okay. Thanks for that. And thanks for the other answers.

Operator

We will now take our next question from Charles Winston of Redburn Partners. Please go ahead.

<Q - Charles A. Winston>: Yeah, hi, good evening. Three from me, but slightly nerdy numbers questions just very quickly. The working capital move in core Fiat, the €853 million in the quarter, looks pretty chunky relative to sort of trying to tie it back to the movements in the balance sheet, and obviously we don't get a Fiat-only balance sheet. So I'm wondering if you could just give us a little bit of an explanation as to what the key movers behind that figure was, and what your thoughts for working capital in core Fiat might be for the year?

Secondly, just the Chrysler tax rate looks pretty low, just looking on page 7 comparing Fiat ex-Chrysler with the group, it didn't look to be very much tax paid there, any weird items there I should be aware of?

And then just finally on CapEx, if you could perhaps give us an update, there's been a few market changes since you gave your initial CapEx plans back at the 3Q results last year, I guess particularly perhaps with LATAM and parts of the emerging world looking a little bit more difficult. Any changes on the CapEx guidance in terms of – perhaps towards the upper end or bottom end of the ranges you gave or perhaps just any updates on those investments plans would be useful? Thank you.

<A - Richard Keith Palmer>: So, in terms of working capital, as you mentioned we had a positive impact on Fiat ex-Chrysler, it was higher than last year's number on a seasonal basis, this is generally a positive quarter compared to Q1. And the extra performance compared to last year is driven by the growth in EMEA, LATAM and Maserati, all contributing positively to working capital and also to CapEx. As you mentioned CapEx is up, but all of that didn't go out as cash. That increased our payables as well.

So, there is a switch between the CapEx line and working capital, until we actually make those payments to suppliers. So, those are the main reasons why we had the positive working capital performance in the quarter.

In terms of tax, we didn't have any unusuals in the Chrysler tax line. As you know we are an LLC, so in the U.S. we don't pay taxes, we continue to pay taxes in China, there's slightly lower taxes in Venezuela given the market performance, but the rest is basically pretty much flat.

And in terms of CapEx, we confirmed the guidance we gave you. We are investing in the U.S. in particular, but also we started to ramp up investments in Latin America for Pernambuco and we're also starting to spend money on the Melfi plant as mentioned for, the two products that will come out of there, the Jeep and the Fiat. So, no particular comment on any changes to CapEx guidance.

<Q - Charles A. Winston>: Thanks. Can I just follow-up on thoughts of working cap in core Fiat for the year at all. Just given, obviously, it's a very difficult thing for us to model, because it can swing pretty wildly quarter-to-quarter. I was just wondering where you think it might end up for the year? Thanks.

<A - Richard Keith Palmer>: Generally, third quarter will be a negative because of the shutdown in August. And then it should come back in Q4. I don't think, net-net, we'll have a significant positive for the rest of the year; but it'll be a negative in Q3 and a positive in Q4.

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

Operator

We will now take our next question from Jochen Gehrke of Deutsche Bank. Please go ahead.

<Q - Jochen Gehrke>: Yes. Good afternoon. Just coming back to LATAM, when you look at the GDP forecast that you put yourself up on the presentation. And at the same time, you look at capacity increase that the whole industry has. Should we be fearing that there is more and more overcapacity in the coming two, three years that is grinding down or do you actually see in the market that some of your competitors are starting to scale down their ambitions to grow capacity in the market?

Secondly, just on NAFTA, what are your expectations in the pickup truck segment now that your competitors are re-launching the vehicles, is some of precaution on Chrysler for the second half or the incremental caution reflecting a potential pricing pressure on Ram or is this just a wrong assumption?

And then thirdly, just a more general question, obviously, you have your regional profitability split. And us on our side, we're very often comparing you to the ones that share this disclosure. When you look at how you allocate cost regionally in your company, how the element of royalties plays a very large role. Do you really think that it is actually right from our side to compare you in the various regions to call it a GM or a Ford, or do you actually – when you look at your own comparison just look at the group number and compare Fiat overall to what GM overall generates? Thank you.

<A - Sergio Marchionne>: Look just to deal with the last issue on the comparability of our numbers to our competitors on a regional basis. I can only make comments about our numbers, I have no idea how theirs are concocted, so you're asking me to speculate on their compilation methods.

If they are done on the same base as ours, the numbers are absolutely comparable and we don't – we do not have any what I call extraneous charges coming through from one side to the other to try and effectively either shift or realign profits in a way, in which satisfying – satisfies our preordained view of profitability of the given region. So, I mean they're as honest and as straight as we can make them, there is no, nothing else goes through there that is not operationally relevant to that region, issue number one.

On the issue about Ram, there is zero concerns built into the caution for the second half of this year about the ability of Ram to compete, I think we have a superior product line and I understand that the competition is fearsome, but it's a very desirable market for all three – for all the major three in this market, but I – there is no – there is no pessimism, there is no caution built on what I think Ram can do, I think Reid would – Reid Bigland who's now in charge of the brand would share this level of optimism about what we're doing.

And effectively, I think we're seeing a, certainly an opening up of opportunities for Ram – for Ram across the board including the extension of the Ram – the Ram brand into the sort of professional area with the introduction of the new ProMaster which is coming on stream in the third quarter.

In terms of your other question on Brazil as to whether I think our competitors are toning down their expectations. Brazil and Latin America has always been a saber-rattling environment where people come in and just threaten others with the build up of capacity and the build up of additional plants.

You need to look at this from Fiat's standpoint. Fiat has got a plant in Betim, which is the largest car plant that I'm aware of in the world and that – when it runs at peak, it's making about a car every 20 seconds. And that is a situation that cannot continue for a long period of time, because the level of congestion and excessive reliance on what I consider one production site.

The market also in our view I think is going through a structural shift and because of the increased economic conditions, one of the things that's on the chart that Richard pitched in the pack is the phenomenal increase in GDP per capita that you see between 2010 and today.

And that relatively increase in wealth, is also causing a shift in consumer demand. And I think we have now as a result of the association with Chrysler the possibility to do some more significant things in Latin America to really try and deal with that market shift beyond the Fiat brand, which has historically been the strength of Fiat in that area.

So yes, the saber-rattling has slowed down. I think we hear less now about plants being built. I'm less concerned about offsetting excess capacity in the market to try and deal with that demand function. I think we remain as confident about the prospects for Latin America as we've always been and I think it hasn't failed us certainly in the last 10 years, in terms of performance. And I think that will continue.

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

Operator

We will now take our next question from Philippe Houchois of UBS. Please go ahead.

<Q - Philippe J. Houchois>: Yes, good afternoon. I have three questions. The first one, maybe you can start with, is for Richard. On slide 37, you show us the reconciliation U.S. GAAP to IFRS for Chrysler and the number we all look for is the capitalization of development cost, but you give it to us after tax, can I ask you what tax rate do you use, because the Chrysler reported tax rate is between 6% and 7%, but the shared tax which is 22%? So, when we do that adjustment, which tax rate are you using for that particular calculation? Is it the Fiat one or the Chrysler one?

<A - Richard Keith Palmer>: There is no tax impact on that.

<Q - Philippe J. Houchois>: Well, you do a net income drive. So, it's a pre-tax number.

<A - Richard Keith Palmer>: It's a pre-tax number because the spending is basically in the U.S. where we have no tax impact.

<Q - Philippe J. Houchois>: Right. Okay. That's great.

<A - Sergio Marchionne>: And the Fiat tax rate is irrelevant to that calculation.

<**Q - Philippe J. Houchois**>: Yeah, I know. That makes sense. I just wanted to clarify that because I've just asked myself that question a couple of times before. The other question I have is on Brazil. We hear you and Renault and Michelin and a number of other players talk about offsetting the currency devaluation in Brazil et cetera with pricing. How does that work? I mean you basically – that basically consumers are accepting significant price increases...

<**A - Sergio Marchionne**>: Untrue.

<**Q - Philippe J. Houchois**>: Right. So, how does it work?

<**A - Sergio Marchionne**>: Untrue. I don't know how it works, because it's untrue.

<**Q - Philippe J. Houchois**>: All right. So, you're taking – when you report, I think in the quarter you just reported €22 million loss on currency, that's a translation impact of your business, that's all it is?

<**A - Richard Keith Palmer**>: Yeah.

<**Q - Philippe J. Houchois**>: All right. Okay. And the last question for you Mr. Marchionne if I can is, can you actually explain to me what is strategic about RCS, why is Fiat putting any cash into RCS?

<**A - Sergio Marchionne**>: Because it reflects a historical commitment to a significant asset in this country. And I think as long as we are – who we are in this country the maintenance of that position and the protection of that asset in this context is important.

<**Q - Philippe J. Houchois**>: Okay. So it's not strategic, it's the tradition.

<**A - Sergio Marchionne**>: No, no, it's...

<**Q - Philippe J. Houchois**>: I mean you're trying – you're not trying to influence the price or anything like this, you're just, you're a car maker...

<**A - Sergio Marchionne**>: No, but – I am a car maker, but tradition does have strategic value.

<**Q - Philippe J. Houchois**>: Agree. Because on the one hand you made that commitment to RCS and on the other hand you're quite harsh on what's going on in Italy, in terms of the business of running the car business. And I'm just trying to reconcile it too, and I know it's only the €100 million, but €100 million is a lot of money for Fiat?

<**A - Sergio Marchionne**>: €100 million is a lot of money for everybody, Philippe.

<**Q - Philippe J. Houchois**>: Agree.

<**A - Sergio Marchionne**>: Including UBS.

<**Q - Philippe J. Houchois**>: Absolutely.

<**A - Sergio Marchionne**>: The real question to me is, I think you need to look at this as a single event occurrence and a specifically related to an asset class. We don't have a variety of these asset classes. We are not confused, right, so there are some things that are historically relevant and need to be protected. That asset is one the required protection.

<**Q - Philippe J. Houchois**>: Appreciate it. Okay. Okay. Great. Thank you very much.

Marco Auriemma

Okay. We will – I guess that we can conclude the call now. So, we would like to thank everyone for joining us today. My team and I look forward to following up any further questions. The release of the group earnings results for the third quarter 2013 is scheduled on October 30. Bye.

Operator

That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect