Subsequent events and outlook

Subsequent events

- On January 1st, 2014, Fiat S.p.A. announced an agreement with the VEBA Trust, under which its wholly-owned subsidiary, Fiat North America LLC (“FNA”), would acquire all of the VEBA Trust’s equity membership interests in Chrysler Group LLC (“Chrysler Group”), representing 41.5% of Chrysler Group. The transaction closed on 21 January 2014. In consideration for the sale of its membership interests in Chrysler Group, the VEBA Trust received an aggregate consideration of USD 3,650 million consisting of a special distribution paid from available cash on hand by Chrysler Group to its members, in an aggregate amount of USD 1,900 million (FNA directed its portion of the special distribution to the VEBA Trust as part of the purchase consideration) and a payment from FNA for the remainder of USD 1,750 million in cash purchase consideration to the VEBA Trust. Fiat funded the USD 1,750 million in cash from available cash on hand. Contemporaneously with the transactions described above, Chrysler and the UAW entered into a memorandum of understanding under the collective bargaining agreement with the UAW in which the UAW made commitments to continue to support Chrysler industrial operations and the further implementation of the Fiat-Chrysler Alliance. In particular, the UAW has committed to use its best efforts to cooperate in the continued roll-out of World Class Manufacturing, or WCM, programs, actively participate in benchmarking efforts associated with implementation of WCM programs across all Fiat-Chrysler manufacturing sites to ensure objective performance assessments and provide for proper application of WCM principles, and to actively assist in the achievement of the Group long-term business plan. In consideration of these commitments, Chrysler agreed to make payments to the VEBA Trust totaling USD 700 million to be paid in four equal annual installments. The initial payment of USD 175 million was made on 21 January 2014 and additional payments will be payable on each of the next three anniversaries of the initial payment.

- On January 10th, Standard & Poor's Ratings Services:

  - raised its ratings on Chrysler Group LLC, including the corporate credit rating, to ‘BB-’ from ‘B+’. The outlook is stable.
  - confirmed its rating on Fiat S.p.A.’s long-term debt at ‘BB-’. The short-term rating was confirmed at ‘B’. The outlook remains stable.

- On January 29th, the Board of Directors of Fiat S.p.A. approved a corporate reorganization and the formation of Fiat Chrysler Automobiles (“FCA”) as a fully-integrated global automaker. Following Fiat’s acquisition of the minority equity interest in Chrysler Group LLC, previously held by the VEBA Trust, the Fiat Board of Directors reviewed options for the most appropriate governance and corporate structure. In order to establish a true peer to the major global automotive groups, in both scale and capital market appeal, the Board decided to establish Fiat Chrysler Automobiles N.V., organized in the Netherlands, as the parent company of the Group.

Under the proposal approved by the Fiat Board, Fiat shareholders will receive one FCA common share for each Fiat share held and the FCA common shares will be listed on the New York Stock Exchange (NYSE) with an additional listing on the Mercato Telematico Azionario (MTA) in Milan. It is intended that FCA will be resident for tax purposes in the United Kingdom, but this is not expected to affect the taxes payable by Group companies in the jurisdictions where their activities are carried out.

- On February 7th, Chrysler Group LLC closed its offering of secured senior debt securities, raising approximately USD 3.0 billion in net proceeds; and senior secured term loan facilities, raising approximately USD 2.0 billion in net proceeds. Chrysler Group applied the proceeds of the debt offering to prepay all amounts outstanding, including accrued and unpaid interest, of approximately USD 5.0 billion under the senior unsecured note issued on 10 June 2009 to the VEBA Trust with an original face amount of USD 4.587 billion (the "VEBA Trust Note").

  The secured senior debt securities, issued on top of existing bonds, consist of USD 1.375 billion aggregate principal amount of 8% Secured Senior Notes due 2019 at an issue price of 108.25% of their aggregate principal amount plus accrued interest from 15 December 2013, and USD 1.380 billion aggregate principal amount of 8¼% Secured Senior Notes due 2021 at an issue price of 110.50% of their aggregate principal amount plus accrued interest from 15 December 2013. The issue prices represent a yield to maturity of 6.165% per annum for the Notes due 2019 and 6.433% per annum for the Notes due 2021.

  In connection with the term loan facilities, Chrysler Group borrowed (1) an additional USD 250 million of term loans under its existing senior secured credit facilities maturing May 24, 2017, under which Chrysler Group borrows at 2.75% over LIBOR, subject to a LIBOR floor of 0.75%; and (2) USD 1.75 billion of term loans under a new senior secured term loan facility maturing 31 December 2018, at 2.50% over LIBOR, subject to a LIBOR floor of 0.75%.
  The refinancing transactions are expected to result in yearly interest expense savings, for the period from 2014 to 2016, of approximately USD 134 million[(1)].

- On February 11th, Moody's Investors Service lowered Fiat S.p.A.'s Corporate Family Rating from 'Ba3' to 'B1' and consequently, in accordance with their methodology, ratings on the notes issued by Fiat Finance & Trade Ltd. S.A. and Fiat Finance North America Inc. were also lowered from 'B1' to 'B2'.

[(1)] For the purposes of Chrysler Group consolidated financial statements (prepared in accordance with US GAAP) the refinancing transactions are expected to result in yearly interest expense savings, for the period from 2014 to 2016, of approximately USD 200 million including the elimination of the non-cash VEBA Trust Note discount amortization of approximately USD 65 million per annum. In addition, for the same reason, Chrysler Group expects to record a non-cash charge of approximately USD 500 million in connection with the repayment of the VEBA Trust Note.
For the purposes of its consolidated financial statements (prepared in accordance with IFRS) Fiat Group expects to record interest expense savings lower than those recorded by Chrysler Group and to report no non-cash charges in connection with the repayment of the VEBA Trust Note, which has been carried at face value as a result of the purchase accounting related to the acquisition of control and consolidation of Chrysler Group in May 2011.

Outlook

As already announced and now increasingly relevant following the acquisition of the minority stake in Chrysler previously held by the VEBA Trust, the Group will be presenting an updated business plan in early May 2014 that will give increased visibility of the Group's strategic direction and execution priorities. Notwithstanding that process, the Group indicates the following guidance for 2014:

- Revenues: ~€93 billion, representing a 7% increase over reported revenues for 2013. It is expected that the increase will be primarily driven by commercial activities in NAFTA where, as illustrated in the financial results presentation given on 29 January 2014, the market is expected to register continued growth, albeit at a lower rate than for prior years, and where the Group expects revenue growth as sales of new models introduced over the past 12 months gain increased momentum, mainly the Jeep Cherokee and also the new Chrysler 200, which will be available in the second quarter of 2014. The year-over-year revenue contribution from APAC is also expected to be higher in 2014, driven by both increased market demand and penetration in the Group's key markets in the region, particularly China and Australia. For EMEA, the Group's volumes and revenues are expected to be substantially in line with 2013, primarily due to the industry outlook that overall demand will remain flat and that competitive pricing pressures, particularly in the mass-market segments, will continue to be a key factor. In Latin America, it is expected that overall car demand will remain at 2013 levels, with the Group expecting to maintain its market position substantially unchanged despite increased competition. The Group's luxury brands are also expected to contribute to revenue growth in 2014 on the strength of volume growth for new models launched in 2013, particularly for Maserati.

- Trading profit: ~€3.6 to €4.0 billion.

- Net income: ~€0.6 to €0.8 billion, with EPS to improve from ~€0.10 (ex-unusuals) to ~€0.44-€0.60. Includes increased deferred tax charge of ~€0.5 billion due to the recognition of net deferred tax assets at year-end 2013 related to Chrysler.

- The net industrial debt target for year-end 2014 is between €9.8 and €10.3 billion. Excluding disbursements for the purchase of the VEBA interest in Chrysler, totaling €2.7 billion and the €0.3 billion negative effect from the consolidation of the debt related to joint operations due to the application of the new accounting standard IFRS 11[1] cash used in investing activities for the period is expected to exceed cash from operating activities[2] in a range between €0.1 and €0.6 billion. The targeted increase in EBITDA reflects the expectation for higher trading profit together with an increase in depreciation and amortization. Working capital is expected to generate positive cash flow for the period, although below the 2013 level. The year-over-year comparison reflects an expected increase in export activity, resulting in higher finished inventories, and exceptional seasonality in 2013, which resulted in higher sales volumes and production levels for Chrysler in the fourth quarter, primarily relating to the launch of the new Jeep Cherokee.

[1] See Notes to the Consolidated Financial Statement – "New standards and interpretations not yet effective".
[2] Cash from operating activities consists of EBITDA less interest and cash taxes expected for the year in addition to changes in working capital and provisions.