

# Fiat Chrysler profits hit by charges for diesel probe

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Fiat Chrysler Automobiles said Tuesday its third-quarter profits dropped nearly 40 percent due to a one-off charge to cover possible payments in a U.S. diesel probe involving SUVs and light-duty pickups.

The Italian-American car company reported a net profit of 564 million euros (\$641 million), compared with 910 million euros in the same period last year.

The lower profits took into account a 700-million-euro charge to deal with any future settlement over alleged illegal emissions devices in 104,000 U.S.-built Ram pickups and Jeep Grand Cherokees from 2014-2016. It also covers the costs of a software update to bring the vehicles into compliance.

The U.S. Justice Department sued Fiat Chrysler in May 2017 alleging that so-called "defeat device" software in the vehicles allowed them to emit fewer pollutants in lab tests than during normal driving.

In the lawsuit, the government sought civil fines that could total over \$4 billion, as well as court orders stopping the company from making or selling vehicles with undisclosed software.

The company has denied deliberate cheating and said the charge was not an admission of liability. Settlement talks continue.

Fiat Chrysler has said it would vigorously defend itself against claims

and said the devices are legal to protect engines from damage.

Excluding the charge, Fiat said its adjusted earnings before interest and taxes were a record 1.99 billion euros, while the profit margins in North America reached an all-time high of 10.2 percent, hitting double digits for the first time.

The higher margins reflected the company's transition from building less profitable passenger cars to trucks and SUVs in its U.S. plants.

Overall revenues rose 9 percent, to 28.7 billion euros, on higher combined shipments of 1.12 million vehicles, up from just over 1 million last year, including its joint venture in China.

North American profits counted for the lion's share of earnings, while Asia Pacific and Europe posted losses. The company said it saw lower sales and increased competition in China. In Europe, lower sales of the Fiat brand and pricing pressure due to the transition to a new emission and fuel consumption testing regime took a toll, Fiat said.

CEO Mike Manley said action had already been taken to address the weaknesses in China and Europe. He said the new chief operating officer for Europe, Middle East and Africa, Pietro Gorlier, was bringing a more disciplined approach to the region.

"We expect to see positive developments in our brand and improved margins in the coming quarters, even if this comes at the shorter-term reduction in volumes," Manley said.

Fiat Chrysler's luxury carmaker Maserati also slumped 87 percent to 15 million euros in the period on lower volumes. That was due largely to China, which is responsible for 50 percent of the brand's profits. Manley said the premium marquee brand was hurt by its alignment with Alfa

Romeo, which made it appear like a mass market brand.

"This is not a product issue, but a management and focus issue," he said, adding that they will be addressed by Maserati's new boss, Harald Wester "as we get into 2019."

The earnings took into account higher contributions by components maker Magnetti Marelli, which Fiat Chrysler announced this month would be sold to Japanese car parts maker CK Holdings Co. Ltd for 6.2 billion euros.

The deal is expected to close next year, with a portion of the proceeds going to an extraordinary dividend of 2 billion euros. That is in addition to the carmaker's first ordinary dividend of 20 percent of earnings to be paid next spring.

"We feel we have a very loyal bunch of shareholders, and they haven't been remunerated in the past," Manley said, adding that the Magnetti Marelli sale significantly improves the carmaker's balance sheet. "We will for the first time be on level with our peers."

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