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FCA US LLC EXPLANATORY NOTE ON SALES REPORTING PROCESS

July 26, 2016, Auburn Hills, Mich. - Recent press reports have raised questions about the manner in which FCA US reports vehicle unit sales data on a monthly basis. These reports have mistakenly suggested that potential inaccuracies in the monthly data somehow impact the integrity of FCA's reported revenues in its financial statements.

This note is intended to explain how FCA US's monthly sales reporting process has worked, recognizing the limitations inherent in a process that collects sales data entered by some 2,600 dealers until midnight of the last reporting day of a month and releases the aggregate data typically within 8 hours of the final data entries.

FCA US believes that its current process has been in place in more or less the same form for more than 30 years, with reporting previously being made every 10 days and eventually evolving into monthly cycles.

The vehicle unit sales data reported by FCA US is comprised of three main components: (a) sales made by dealers to retail customers; (b) sales of vehicles shipped directly by FCA US to fleet customers and (c) other retail sales including sales by dealers in Puerto Rico, limited deliveries through distributors and a small number of vehicles delivered to FCA employees and retirees and vehicles used for marketing.

Dealer Sales

Retail sales data is collected from the dealers (through a reporting system called the New Vehicle Delivery Report, or NVDR). This system is primarily designed to capture the time of a retail sale for two purposes. First, the date of sale recorded in the NVDR system begins the retail customer's warranty coverage on the vehicle. Second, the recording of the retail sale in the NVDR system triggers FCA US's obligation to make any manufacturer's incentive payments to the dealer. These incentives may be based on the particular model sold, the number of certain models sold in the period and the achievement of certain overall dealer volume objectives.

These retail sales are made by dealers out of their own inventory of vehicles. This inventory was purchased by the dealers from FCA US before any retail delivery to the customer. Consistent with other automakers' practices, it is this initial sale -- by FCA US to the dealer -- that triggers revenue recognition in FCA US, and not the ultimate sale of the vehicle by a dealer to a retail customer. It is for this reason that the process of reporting monthly retail unit sales has no impact on the revenue reported by FCA in its financial statements.

It is possible for a dealer to "unwind" a transaction recorded in the NVDR system and return the vehicle to the dealer's unsold inventory. This "unwind" results in the return by the dealer of any incentives paid by FCA US to the dealer for the sale and it cancels the beginning of the warranty period. These unwinds may, and in fact do, occur for a number of reasons including: inability of the retail customer to finalize financing for the purchase or a change in customer preferences, among others. It is admittedly also possible that a dealer may register the sale in an effort to meet a volume objective (without a specific customer supporting the transaction). There is, however, no obvious economic incentive for a dealer to do so, since FCA US's policy is to reverse all incentives due or paid to a dealer that resulted from the unwound retail sales transaction.

When reporting monthly retail sales in the morning of the first day of the following month, a manufacturer cannot know which, if any, transactions may be unwound after the data is released. Because FCA US believes that most unwinds are recorded shortly following the time the initial sale is registered in the NVDR system, FCA US has not historically reflected either unwinds or the subsequent sales of these vehicles in its sales reporting. As a safeguard against double reporting, however, FCA US blocks the vehicle identification number (VIN) in its NVDR files to ensure that a subsequent retail sale of the vehicle does not enter into any tally of reported sales in any future month (i.e. a vehicle cannot be counted twice as a retail sale by the dealer).

Fleet and Other Retail Sales

The other component of the monthly reported unit sales has been vehicles that FCA US delivers directly, principally to fleet accounts, and retail and other sales consisting of limited deliveries through distributors and a small number of vehicles for company and marketing uses. Sales by dealers in Puerto Rico have also been included in other retail sales.

It has been a matter of historical practice (going back many years before 2009 bankruptcy) for FCA US and its predecessors to maintain a “reserve” of vehicles in this category that had been shipped but not been reported as “sold” in the monthly sales reports. While the origin of this practice is unclear and is being looked into, FCA US believes that it was probably originally designed to exclude from the reported sales number vehicles that were in transit to fleet customers, as well as vehicles that were not yet deployed in the field (because, for example, they were being tailored by the fleet customer or a third party to the fleet customer’s specifications). The rationale for this exclusion, we believe, was to introduce some level of conformity in the reported monthly numbers, since the sales data was intended to reflect vehicles put in use during the month.

This “not-in-use reserve” has ranged in size from month to month, and resulted from a subjective assessment at month-end. A review of the data suggests that the reserve has always been positive, such that FCA US has always, in the aggregate, reported fewer sales than the aggregate number of shipped units on a running basis. Nevertheless, there appears to be no objective methodology for establishing and maintaining such a reserve and thus several plausible values exist for such a reserve. To the extent that the methodology historically used does not yield a unique value, the outcome is inherently arbitrary.

Our Evaluation of Past Practices and a Way Forward

Our review of industry practice has not revealed a standard reporting practice among OEMs in the U.S., although we believe that FCA US’s competitors have used broadly similar approaches in compiling monthly sales data.

The complexity of this compilation task is unique to the U.S. In Europe, for example, automakers generally report data generated by the national vehicle registration offices on the basis of the number of vehicles licensed by government agencies in a given month. The data is thus verified by a third party and is not subject to interpretation by the automakers. Due to the nature of the U.S. registration system involving 50 states with diverse recording and reporting practices, applying a registration-based system in the U.S. has never been thought to be feasible.

FCA US has seriously considered simply ceasing to report this sales data on a monthly basis, and to rely only on published quarterly financial statements as a gauge of improvement or deterioration in our U.S. activities. We understand the sales data are used by some market followers, the automotive press in particular, to opine about the state of the industry and we accept that our decision to suspend monthly reporting would impact those constituencies and possibly may impair their perception, and in turn the public perception, of FCA US.

FCA US has therefore decided to continue monthly sales reporting with a revised methodology.

- Total sales will be comprised of
    - Dealer reported sales in the U.S.;
    - Fleet sales delivered directly by FCA US; and
    - Retail other sales including sales by dealers in Puerto Rico.
- Dealer reported sales (derived from the NVDR system) will be the sum of
    - All sales recorded by dealers during that month net of all unwound transactions recorded to the end of that month (whether the original sale was recorded in the current month or any prior month); plus
    - All sales of vehicles during that month attributable to past unwinds that had previously been reversed in determining monthly sales (in the current or prior months).
- Fleet sales will be recorded as sales upon shipment by FCA US of the vehicle to the customer or end user.
- Other retail sales will either be recorded when the sale is recorded in the NVDR system (for sales by dealers in Puerto Rico and limited sales made through distributors that submit NVDRs) or upon receipt of a similar delivery notification (for vehicles for which NVDRs are not entered such as vehicles for FCA executives and employees).

The objective of this new methodology is to provide in FCA US’s judgment the best available estimate of the number of FCA US vehicles sold to end users through the end of a particular month applying a consistent and transparent methodology. It continues to include some level of estimation in respect of, for example, unwound transactions that straddle a month end and fleet deliveries, which may be placed into service at various times after shipment and delivery. FCA US believes, however, that the consistency in application and transparency of this new methodology provides the most appropriate data for the limited uses to which the monthly vehicle unit sales data should be applied.

FCA US has prepared unit sales reports going back to the beginning of 2011 using this approach, and has included the results in the attached Exhibit. The Exhibit also compares the data derived under this new methodology with previously reported US monthly sales data. This comparison yields the following results.

> 1. FCA US in March of this year last commented specifically about a “streak” of year-over-year monthly sales improvements since April of 2010. Applying this new methodology, during the periods presented below, year-over-year monthly sales would have declined in September 2013 (-3%), August 2015 (-1%) and May 2016 (-7%). The so called “sales streak” would have stopped in September 2013 (after 40 months) and would have had three additional periods of sequential year-over-year improvements of 22, 8, and 1 month(s).
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> 2. Annual sales volumes under the new methodology for each year in the 2011-2016 period are within approximately 0.7% of the annual unit sales volumes previously reported.
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> 3. The monthly adjustments to previously reported sales as a result of the adjustment to deduct sales later unwound and add back sales attributable to previously unwound sales over the period January 1, 2011 to June 30, 2016 are a mix of positive and negative numbers which did not exceed 0.5% of the reported data in any month. The maximum numerical reduction from previously reported data was 770 units (0.5% of the month’s volume) in May 2015 and the maximum numerical addition to previously reported data was 437 units (0.4%) in September 2014. The total over the 2011 to 2016 period representing unwound transactions previously reported as sold for which vehicles remain in dealer stock at June 30, 2016, is approximately 4,500 vehicles, or 0.06% of the total volume reported over the period (7.7 million cars).

FCA US will report its July 2016 sales using the new methodology.

About FCA US LLC
FCA US LLC is a North American automaker based in Auburn Hills, Michigan. It designs, manufactures, and sells or distributes vehicles under the Chrysler, Dodge, Jeep®, Ram, FIAT and Alfa Romeo brands, as well as the SRT performance designation. The Company also distributes Mopar and Alfa Romeo parts and accessories. FCA US is building upon the historic foundations of Chrysler Corp., established in 1925 by industry visionary Walter P. Chrysler and Fabbrica Italiana Automobili Torino (F.I.A.T.), founded in Italy in 1899 by pioneering entrepreneurs, including Giovanni Agnelli. FCA US is a member of the Fiat Chrysler Automobiles N.V. (FCA) family of companies. (NYSE: FCAU/ MTA: FCA).

FCA is an international automotive group listed on the New York Stock Exchange under the symbol “FCAU” and on the Mercato Telematico Azionario under the symbol “FCA.”

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