Report on Operations

Main Risks and Uncertainties to which Fiat S.p.A. and its Subsidiaries are Exposed

Following is a brief description of the main risks and uncertainties that could potentially have a significant impact on the activities of Fiat S.p.A and its subsidiaries, which include Chrysler since June 2011. Other risks and uncertainties, which are currently unforeseeable or considered to be unlikely, could also have a significant influence on the operating performance, financial position and future prospects of the Fiat Group.

Risks associated with global financial markets and general economic conditions

The Group's earnings and financial position may be influenced by various macroeconomic factors – including increases or decreases in gross domestic product, the level of consumer and business confidence, changes in interest rates on consumer and business credit, energy prices, the cost of commodities or other raw materials and the rate of unemployment – within the various countries in which it operates.

Beginning in 2008, global financial markets experienced severe disruptions, resulting in a material deterioration of the global economy. The global economic recession in 2008 and 2009, which affected essentially all regions and all business sectors, resulted in a sharp decline in demand for automobiles. Although 2010, 2011 and 2012 showed signs of a slow-paced global economic recovery, the overall global economic outlook remains uncertain.

In Europe, despite the measures taken by several governments, international and supranational organizations and monetary authorities to provide financial assistance to Euro-zone member states and to recapitalize certain European banks in economic difficulty and to prevent the possibility of default by certain European countries on their sovereign debt obligations, concerns persist regarding the debt burden of certain Euro-zone countries, including Italy, and their ability to meet future financial obligations, as well as the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual member states of the Euro-zone. These ongoing concerns could have a detrimental impact on the global economic recovery, as well as on the financial condition of European institutions, which could result in greater volatility, reduced liquidity, widening of credit spreads and lack of price transparency in credit markets. In addition, widespread austerity measures in Europe and in any other countries in which the Group operates could continue to adversely affect consumer confidence, purchasing power and spending, which could adversely affect the Group's business prospects, earnings and financial position.

In addition, the lower pace of expansion is currently seen not only in advanced economies, but also in major emerging countries, such as China, Brazil and India. In addition to weaker export business, lower domestic demand also led to a slowing economy in these countries. All these potential developments could adversely affect the businesses and operations of the Group.

Following the acquisition of control of Chrysler in 2011, more than 50% of the Group's revenues are generated in the NAFTA region. A large portion of Chrysler's vehicle sales occur in North America (the U.S. and Canada). Although Chrysler is seeking to increase the proportion of its vehicle sales outside of North America (directly or through Fiat), it is expected that its results of operations will continue to depend substantially on vehicle sales in the principal North American markets, particularly the U.S. Any significant deterioration in the economic conditions in the U.S. and/or Canada may consequently adversely affect the Fiat Group's results of operations, financial position and cash flows.

In general, the sector in which the Group operates has historically been subject to highly cyclical demand and tends to reflect the overall performance of the economy, in certain cases even amplifying the effects of economic trends. Given the difficulty in predicting the magnitude and duration of economic cycles, there can be no assurances as to future trends in the demand for products sold by the Group in any of the markets in which it operates.

Additionally, even in the absence of slow growth or recession, other economic circumstances – such as increases in energy prices, fluctuations in prices of raw materials or contractions in infrastructure spending – could have negative consequences for the industry in which the Group operates and, together with the other factors referred to previously, could have a material adverse effect on the Group's business prospects, earnings and financial position.

Risks associated with the high level of competition and cyclicality of the automobile industry

Substantially all of the Group's revenues are generated in the automobile industry, which is highly competitive and encompasses the production and distribution of passenger cars, light commercial vehicles and the related components and production systems. The Group faces competition from other international passenger car and light commercial vehicle manufacturers and distributors and components suppliers in Europe, North and Latin America and the Asia Pacific region. These markets are all highly competitive in terms of product quality, innovation, pricing, fuel economy, reliability, safety, customer service and financial services offered.

Competition, particularly in pricing, has increased significantly in the Group's industry sector in recent years. In addition, partly as a result of the contraction in demand for automobiles, global production capacity for the car industry significantly exceeds current demand. This overcapacity, combined with high levels of competition and weakness of major economies, could intensify pricing pressures.

Fiat has a relatively high proportion of fixed costs and may have significant limitations on its ability to reduce fixed costs by closing facilities and/or reducing labor expenses. Fiat's competitors may respond to these conditions by attempting to make their vehicles more attractive or less expensive to customers by adding vehicle enhancements, providing subsidized financing or leasing programs, offering option package discounts, price rebates or other sales incentives, or by reducing vehicle prices in certain markets. In addition, manufacturers in countries which have lower production costs have announced that they intend to export lower-cost automobiles to established markets. These actions have had, and could continue to have, a negative impact on Fiat's vehicle pricing, market share, and operating results. Offering desirable vehicles that appeal to customers can mitigate the risks of increased price competition, while offering vehicles that are perceived to be less desirable (whether in terms of price, quality, styling, safety, or other attributes) can exacerbate these risks.

Changes in vehicle sales volumes can have a disproportionately large effect on Fiat's profitability because of the high level of fixed costs. In addition, the Group generally receives payments from vehicle sales to dealers within a few days of shipment from the assembly plants, whereas there is a lag between the time when parts and materials are received from suppliers and when Fiat pays for such parts and materials. As a result, the Group tends to operate with working capital supported by these payment terms, and periods of decline in vehicle sales therefore have a significant negative impact on cash flow and liquidity as the Group continues to pay suppliers during a period in which it receives reduced proceeds from vehicle sales. If vehicle sales were to decline to levels significantly below expected levels due to financial crisis, renewed recessionary conditions, changes in consumer confidence, geopolitical events, limited access to financing or other factors, the Group's financial condition and results of operations would be substantially adversely affected.

In the automobiles business, sales to end customers are cyclical and subject to changes in the general condition of the economy, the readiness of end customers to buy and their ability to obtain financing and the possible introduction of measures by governments to stimulate demand. The sector is also subject to constant renewal of product offerings through frequent launches of new models. A negative trend in the automobile business or the Group's inability to adapt effectively to external market conditions could have a material adverse impact on the business prospects, earnings and financial position of the Fiat Group.

Risks associated with selling in international markets and exposure to changes in local conditions

The Group is subject to risks inherent to operating globally, including those related to:

- exposure to local economic and political conditions;
- import and/or export restrictions;
- multiple tax regimes, including regulations relating to transfer pricing and withholding and other taxes on remittances and other payments to or from subsidiaries;
- foreign investment and/or trade restrictions or requirements, foreign exchange controls and restrictions on repatriation of funds; and/or
- introduction of more stringent laws and regulations.

Unfavorable developments in any one of these areas (which may vary from country to country) could have a material adverse effect on the Group's business prospects, earnings and financial position.

Risks associated with operating in emerging markets

The Group operates in a number of emerging markets, both directly (e.g., Brazil and Argentina) and through joint ventures and other cooperation agreements (e.g., Turkey, India, China and Russia). In Brazil, the Group retains its position as the market leader, providing a key contribution to the Group's performance in terms of revenues and profitability. The Group's exposure to other emerging countries has increased in recent years, as have the number and importance of such joint ventures and cooperation agreements. Economic and political developments in Brazil and other emerging markets, including economic crises or political instability, have had and could in the future have material adverse effects on the Group's business prospects, earnings and financial position.

Risks associated with the ability to enrich the Group's product portfolio and offer innovative products

The success of the Group's businesses depends, among other things, on their ability to maintain or increase their share in existing markets and/or to expand into new markets through the development of innovative, high-quality products that provide adequate profitability. On 30 October 2012, the Group outlined its strategic direction in response to the continued crisis in the European car industry, which includes leveraging its historical premium brand heritage (Alfa Romeo and Maserati), re-aligning its product portfolio and repositioning the business for the future. In order to regain profitability in the EMEA region, the Group intends to shift a significant portion of its product portfolio towards higher margin vehicles and to utilize the EMEA production base to develop the Group's global brands (Alfa Romeo, Maserati, Jeep and the Fiat 500 Family).

A failure to develop and offer innovative products that compare favorably to those of the Group's principal competitors, with particular regard to the upper-end of the product range, in terms of price, quality, functionality and features, or delays in bringing strategic new models to the market, could impair the Group's strategy, which would have a material adverse effect on the Group's business prospects, earnings and financial position.

Risks associated with the policy of targeted industrial alliances

The Group has engaged in the past, and may engage in the future, in significant corporate transactions such as mergers, acquisitions, joint ventures and restructurings, the success of which is difficult to predict. There can be no assurance that any such significant corporate transaction which might occur in the future will not encounter administrative, technical, industrial, operational, regulatory, political, financial or other difficulties (including difficulties related to control and coordination among different shareholders or business partners) and thus fail to produce the benefits expected of it. The failure of any significant strategic alliance, joint venture, merger or similar transaction could have an adverse effect on the Group's business prospects, earnings and financial position.

Risk associated with the integration with Chrysler

The acquisition of a controlling interest in Chrysler and the related integration of the two businesses is intended to provide both Fiat and Chrysler with a number of long-term benefits, including sharing new vehicle platforms and powertrain technologies, as well as procurement benefits, management services and global distribution opportunities. The integration is also intended to facilitate both parties' penetration in several international markets where the companies' products would be attractive to consumers, but where one of the parties does not have significant market penetration.

The ability to realize the benefits of the integration is critical for Fiat and Chrysler to compete with their competitors. If the parties are unable to convert the opportunities presented by the integration into long-term commercial benefits, either by improving sales of vehicles and service parts, reducing costs or both, the Group's financial condition and results of operations may be materially adversely affected.

As a result, any adverse development for Chrysler and the related integration could have a material adverse effect on the Group's business prospects, financial condition and results of operations. Therefore, if the integration does not bring the intended benefits or changes in circumstances at Fiat or Chrysler occur, there may be a material adverse effect on the Group's business prospects, financial condition and results of operations.

Risks associated with relationships with employees and suppliers

In many countries where the Group operates, Group employees are protected by various laws and/or collective labor agreements that guarantee them, through local and national representatives, the right of consultation on specific matters, including downsizing or closure of production units and reductions in personnel. The laws and/or collective labor agreements applicable to the Group could impair its flexibility in reshaping and strategically repositioning its business activities. The Group's ability to reduce personnel or implement other permanent or temporary redundancy measures may be subject to government approvals and the agreement of the labor unions. Industrial action by employees could have an adverse impact on the Group's business activities.

Furthermore, the Group purchases raw materials and components from a large number of suppliers and relies on services and products provided by companies outside the Group. Some of these companies are highly unionized. Close collaboration between a manufacturer and its suppliers is common in the industries in which the Group operates and although this offers economic benefits in terms of cost reduction, it also means that the Group is reliant on its suppliers and is exposed to the possibility that difficulties, including those of a financial nature, experienced by those suppliers (whether caused by internal or external factors) could have a material adverse effect on the Group's business prospects, earnings and financial position.

Risk associated with increase in costs, disruption of supply or shortage of raw materials

Fiat uses a variety of raw materials in its business including steel, aluminum, lead, resin and copper, and precious metals such as platinum, palladium, rhodium and energy. The prices for these raw materials fluctuate and at times in recent periods, these commodity prices have increased significantly in response to changing market conditions. Fiat seeks to manage this exposure, but substantial increases in the prices for raw materials would increase the Group's operating costs and could reduce profitability if the increased costs cannot be offset by changes in vehicle prices. In addition, certain raw materials are sourced only from a limited number of suppliers and from a limited number of countries. The Group cannot guarantee that it will be able to maintain arrangements with these suppliers that assure access to these raw materials, and in some cases this access may be affected by factors outside the Group's control and the control of its suppliers. For instance, the earthquake and tsunami in Japan in 2011 negatively affected commodity markets, and any similar event may have severe and unpredictable effects on the price of certain raw materials in the future. As with raw materials, the Group is also at risk for supply disruption and shortages in parts and components for use in its vehicles.

Any interruption in the supply or any increase in the cost of raw materials, parts and components could negatively impact the Group's ability to achieve growth in vehicle sales and improved profitability.

Risks associated with environmental and other government regulation

The Group's products and activities are subject to numerous environmental laws and regulations (local, national and international) which are becoming increasingly stringent in many countries in which it operates (particularly in the European Union). Such regulations govern, among other things, products – with requirements relating to emissions of polluting gases, reduced fuel consumption and safety becoming increasingly strict – and industrial plants – with requirements for emissions, treatment of waste and water and prohibitions on soil contamination. In order to comply with such laws and regulations, the Group employs considerable resources and expects it will continue to incur substantial costs in the future.

In addition, government initiatives to stimulate consumer demand for products sold by the Group, such as changes in tax treatment or purchase incentives for new vehicles, can substantially influence the timing and level of revenues. The size and duration of such government measures are unpredictable and outside of the Group's control. Any adverse change in government policy relating to those measures could have material adverse effects on the Group's business prospects, earnings and financial position.

Risks associated with management

The Group's success is largely dependent on the ability of its senior executives and other members of management to effectively manage the Group and individual areas of business. The loss of any senior executive, manager or other key employees without an adequate replacement or the inability to attract, retain and incentivize senior executive managers, other key employees or new qualified personnel could therefore have a material adverse effect on the Group's business prospects, earnings and financial position.

Risks associated with financing requirements

The Group's future performance will depend on, among other things, its ability to finance debt repayment obligations and planned investments from operating cash flow, available liquidity, the renewal or refinancing of existing bank loans and facilities and possible recourse to capital markets or other sources of financing. Although the Group has measures in place that are designed to ensure levels of working capital and liquidity are maintained, further declines in sales volumes could have a negative impact on the cash-generating capacity of its operating activities. The Group could, therefore, find itself in the position of having to seek additional financing and/or having to refinance existing debt, including in unfavorable market conditions with limited availability of funding and a general increase in funding costs. Any difficulty in obtaining financing could have material adverse effects on the Group's business prospects, earnings and financial position.

Risks associated with Fiat indebtedness as a result of the acquisition of control of Chrysler

Even after the acquisition of control by Fiat, Chrysler continues to manage financial matters, including funding and cash management, separately. Additionally, Fiat has not provided guarantees or security or undertaken any other similar commitment in relation to any financial obligation of Chrysler, nor does it have any commitment to provide funding to Chrysler in the future.

In any case, certain bonds issued by Fiat include provisions that may be affected by circumstances related to Chrysler. In particular these bonds include cross-default clauses which may accelerate Fiat's obligation to repay its bonds in the event that a "material subsidiary" of Fiat fails to pay certain debt obligations on maturity or is otherwise subject to an acceleration in the maturity of any of its obligations. As a result of Fiat's acquisition of control over Chrysler, Chrysler Group LLC is a "material subsidiary" and certain of its subsidiaries may become material subsidiaries of Fiat within the meaning of those bonds. Therefore, the cross-default provision could require early repayment of the Fiat bonds in the event Chrysler's debt obligations are accelerated or are not repaid at maturity. There can be no assurance that the obligation to accelerate the repayment by Chrysler of its debts will not arise or that it will be able to pay its debt obligations when due at maturity.

Risks associated with Fiat's credit rating

The ability to access the capital markets or other forms of financing and the related costs are dependent, amongst other things, on the Group's credit ratings. Following downgrades by the major rating agencies, Fiat is currently rated below investment grade, with corporate credit ratings of Ba3 (being B1 the senior unsecured rating) with negative outlook from Moody's Deutschland GmbH ("Moody's") , BB- with a stable outlook from Standard & Poor's Credit Market Services Italy S.r.l. ("S&P"), and BB with negative outlook from Fitch Ratings España S.A.U. ("Fitch").

The rating agencies review their ratings at least annually and, as such, the assignment of new ratings to Fiat during 2013 cannot be excluded. It is not currently possible to predict the timing or outcome of any rating review. Any further downgrade may increase Fiat's cost of capital and potentially limit its access to sources of financing with a consequent material adverse effect on Fiat's business prospects, financial condition and results of operations.

Chrysler has been assigned a corporate credit rating of B1 (with a stable outlook) by Moody's Investors Service and B+ (with a stable outlook) by Standard & Poor's Ratings Services. Because Chrysler has a lower corporate credit rating than Fiat, it is possible that further integration between Fiat and Chrysler could result in a rating review of Fiat and potentially a lower credit rating.

Risks associated with restrictions arising out of Chrysler's debt instruments

In connection with the refinancing transactions finalized at the end of May 2011, Chrysler entered into a credit agreement for the senior secured credit facilities (including a revolving facility) and an indenture for two series of secured senior notes. These debt instruments include covenants that restrict Chrysler's ability to make certain distributions, prepay other debt, encumber assets, incur additional indebtedness, engage in certain business combinations, or undertake various other business activities.

The credit agreement governing the senior secured credit facility and the indenture governing the secured senior notes contain restrictive covenants that limit Chrysler's ability to, among other things:

- incur or guarantee additional secured indebtedness;
- pay dividends or make distributions or purchase or redeem capital stock;
- make certain other restricted payments;
- incur liens;
- transfer and sell assets;
- enter into sale and lease-back transactions;
- enter into transactions with affiliates (as defined in the relevant contractual documents), including Fiat; and
- effect a consolidation, amalgamation or certain merger or change of control (except for the acquisition of control by Fiat).

These restrictive covenants could have an adverse effect on Chrysler's business by limiting its ability to take advantage of financing, mergers and acquisitions, joint ventures or other corporate opportunities. In addition, the Senior Credit Facilities contain, and future indebtedness may contain, other and more restrictive covenants and also prohibit Chrysler from prepaying certain of its indebtedness. The Senior Credit Facilities require Chrysler to maintain borrowing base collateral coverage and a liquidity threshold. A breach of any of these covenants or restrictions could result in an event of default on the indebtedness and any of the other indebtedness of Chrysler or result in cross-default under certain of its indebtedness.

Furthermore, the indenture governing the VEBA Trust Note limits the ability of Chrysler's subsidiaries to incur debt.

If Chrysler is unable to comply with all of these covenants, it may be in default, which could result in the acceleration of its outstanding indebtedness and foreclosure on mortgaged properties. In this case, Chrysler may not be able to repay its debt and it is unlikely that it would be able to borrow sufficient additional funds. In any case, even if new financing is made available to Chrysler in such circumstances, it may not be available on acceptable terms.

In addition, compliance with certain of these covenants could restrict Chrysler's ability to take certain actions that its management believes are in Chrysler's best long-term interests.

Should Chrysler be unable to undertake strategic initiatives due to the covenants provided for by the above instruments, Fiat's business prospects, financial condition and results of operations could be adversely affected.

Risks associated with fluctuations in currency and interest rates and credit risk

The Group, which operates in numerous markets worldwide, is exposed to market risks stemming from fluctuations in currency and interest rates. The exposure to currency risk is mainly linked to the difference in geographic location between the Group's manufacturing activities and its commercial activities, resulting in cash flows from sales denominated in currencies that differ from those associated with purchases or production activities.

The Group uses various forms of financing to cover funding requirements for its industrial activities and for financing customers and dealers. Moreover, liquidity for industrial activities is also principally invested in variable-rate or short-term financial instruments. The Financial Services companies normally operate a matching policy to offset the impact of differences in rates of interest on the financed portfolio and related liabilities. Nevertheless, changes in interest rates can result in increases or decreases in revenues, finance costs and margins.

Consistent with its risk management policies, the Group seeks to manage risks associated with fluctuations in currency and interest rates through the use of financial hedging instruments. Despite such hedges being in place, sudden fluctuations in currency or interest rates could have a material adverse effect on the Group's business prospects, earnings and financial position.

The Group's Financial Services activities are also subject to the risk of insolvency of dealers and end customers, as well as unfavorable economic conditions in markets where these activities are carried out, which the Group seeks to mitigate through the credit approval policies applied to dealers and end customers.

Risks associated with the availability of adequate financing for Chrysler's dealers and retail customers

In the United States and Canada, Chrysler's dealers enter into wholesale financing arrangements to purchase vehicles from Chrysler and retail customers use a variety of finance and lease programs to acquire vehicles. Insufficient availability of financing to dealers and retail customers contributed to sharp declines in Chrysler's vehicle sales during 2008, and was one of the key factors leading to Chrysler's bankruptcy filing.

Chrysler's lack of a captive finance company may increase the risk that dealers and retail customers will not have access to sufficient financing on acceptable terms and may adversely affect vehicle sales in the future. Furthermore, most of Chrysler's competitors operate and control their own captive finance companies: as a result, they may be better able to implement financing programs designed principally to maximize vehicle sales in a manner that optimizes profitability for them and their captive finance companies on an aggregate basis. Since Chrysler's ability to compete also depends on access to appropriate sources of financing for dealers and retail customers, its lack of a captive finance company could adversely affect its results of operations. In addition, unless financing arrangements other than for retail purchase continue to be developed and offered by banks to retail customers in Canada, Chrysler's lack of a captive finance company could present a competitive disadvantage in Canada, since banks are restricted by law from providing retail lease financing in Canada.

In connection with the 2009 restructuring of the U.S. automotive industry, and with the assistance of the U.S. Treasury, Chrysler entered into an "Auto Finance Operating Agreement" with Ally Financial Inc. (hereafter "Ally"); the agreement with Ally extends through 30 April 2013, with automatic one year renewals unless either party elects not to renew. Ally historically was the captive finance company of General Motors Company, one of Chrysler's main competitors. On 25 April 2012, Chrysler notified Ally of its election not to renew the above-mentioned agreement.

On 6 February 2013, Chrysler signed a 10-year private-label agreement, subject to early termination in certain circumstances, with Santander Consumer USA Inc. to provide a full range of wholesale and retail financing services to Chrysler and Fiat customers and dealers which will be provided under the Chrysler Capital brand name. The new financing service is scheduled to launch 1 May 2013. Under the agreement, Santander Consumer USA Inc. has also provided Chrysler with consideration in the form of a non-refundable upfront payment which is payable prior to the launch of the new financing service, as well as on-going revenue sharing opportunities and commitments with respect to available funding, approval and penetration rates, price competitiveness and certain exclusivity rights. Santander Consumer USA Inc. will bear the risk of loss on loans contemplated by the agreement and the parties will share in any residual gains and losses in respect of consumer leases, subject to specific provisions including caps on Chrysler's participation in gains and losses contained in the Master Agreement. Ally Financial Inc. will continue to provide financial services to Chrysler and Fiat customers and dealers until 30 April 2013.

To the extent that Chrysler Capital is unable or unwilling to provide sufficient financing at competitive rates to Chrysler's and Fiat's dealers and retail customers, and dealers and retail customers do not otherwise have sufficient access to such financing, Chrysler's and Fiat's vehicle sales and market share may suffer, which would adversely affect the Group's business prospects, earnings and financial position.

Risks associated with Chrysler's pension plans

Chrysler's defined benefit pension plans are currently underfunded and its pension funding obligations may increase significantly if investment performance of plan assets does not keep pace with any increases in benefit payment obligations and Chrysler does not make additional contributions to offset these impacts. Mandatory funding obligations may increase based upon lower than anticipated returns on plan assets whether as a result of overall weak market performance or particular investment decisions, changes in the level of interest rates used to determine required funding levels, changes in the level of benefits provided for by the plans, and any changes in applicable law related to funding requirements. Chrysler's defined benefit pension plans currently hold significant investments in equity and fixed income securities, as well as investments in less liquid instruments such as private equity, real estate and certain funds. Due to the complexity and magnitude of certain investments, additional risks may exist, including significant changes in investment policy, insufficient market capacity to complete a particular investment strategy and an inherent divergence in objectives between the ability to manage risk in the short term and the ability to quickly rebalance illiquid and long-term investments. To determine the appropriate level of funding and contributions to the defined benefit pension plans, as well as the investment strategy for the plans, Chrysler is required to make various assumptions, including an expected rate of return on plan assets and a discount rate used to measure the obligations under defined benefit pension plans. Interest rate increases generally will result in a decline in the value of investments in fixed income securities while reducing the present value of the obligations. Conversely, interest rate decreases will increase the value of investments in fixed income securities, partially offsetting the related increase in the present value of the obligations.

Chrysler is required to re-measure the discount rate annually and did so at 31 December 2012, resulting in an increase in the pension obligations. Any reduction in investment returns or the value of plan assets, or any increase in the present value of obligations may increase pension expenses and required contributions, and as a result constrain liquidity and materially adversely affect the financial condition and results of operations. If Chrysler fails to make required minimum funding contributions, it could be subjected to reportable event disclosure to the Pension Benefit Guaranty Corporation, as well as interest and excise taxes calculated based upon the amount of any funding deficiency.

If Fiat's ownership in Chrysler were to exceed 80%, Fiat may become subject to certain US legal requirements making it secondarily responsible for any funding shortfall in certain of Chrysler's pension plans in the event Chrysler were to become insolvent. Chrysler's organizational documents contain certain protections designed to ensure that Fiat will not inadvertently become subject to these obligations.

Financial Review – Fiat Group

Operating Performance

(€ million)	2012 Fiat with Chrysler	2012 Chrysler	2012 Fiat excluding Chrysler	2011 (*) Fiat with Chrysler	2011 (*) Chrysler	2011 (*) Fiat excluding Chrysler
Net revenues	83,957	51,202	35,566	59,559	23,609	37,382
Cost of sales	71,474	43,187	31,098	50,704	20,003	32,133
Selling, general and administrative	6,731	3,732	2,999	5,047	1,866	3,181
Research and development	1,835	798	1,037	1,367	385	982
Other income/(expense)	(103)	(26)	(77)	(49)	(10)	(39)
TRADING PROFIT/(LOSS)	3,814	3,459	355	2,392	1,345	1,047
Result from investments	107	(3)	110	131	1	130
Gains/(losses) on disposal of investments	(91)	-	(91)	21	-	21
Restructuring costs	15	(48)	63	102	(7)	109
Other unusual income/(expense)	(138)	(31)	(107)	1,025	(152)	1,177
EBIT	3,677	3,473	204	3,467	1,201	2,266
Financial income/(expense)	(1,641)	(816)	(825)	(1,282)	(486)	(796)
PROFIT/(LOSS) BEFORE TAXES	2,036	2,657	(621)	2,185	715	1,470
Income taxes	625	205	420	534	70	464
PROFIT/(LOSS)	1,411	2,452	(1,041)	1,651	645	1,006

(*) Includes Chrysler from 1 June 2011.

For 2012, Group **revenues** totaled approximately €84 billion, increasing 12% over the prior year on a pro-forma[1] basis (+8% at constant exchange rates). Strong year-over-year increases were reported in NAFTA (+29% or 19% at constant exchange rates) and APAC (+50%). LATAM remained strong, while EMEA declined 11% on the back of a continued deterioration in European demand, particularly in Italy. Luxury and Performance brands posted a 7% increase in revenues to €2.9 billion, mainly driven by growth in North America and Asia Pacific. For Components, revenues were substantially in line with 2011 at €8.0 billion.

Trading profit totaled €3,814 million, a year-over-year increase of 18% on a pro-forma basis (+11% at constant exchange rates). For the NAFTA region, trading profit improved by €1 billion to €2,693 million, driven by strong volume growth, positive pricing and favorable currency translation. LATAM performed to expectations, posting €1,063 million of trading profit maintaining double-digit trading margin despite a 25% decrease compared to the prior year, which principally stemmed from cost inflation, pricing pressure and unfavorable currency translation impacts, only partially offset by higher volumes and efficiency gains. APAC reported €260 million, nearly double the prior year. EMEA recorded a loss of €704 million, with cost containment actions only partially mitigating the impact of reduced volumes and pricing pressures. Growth for Luxury and Performance brands continued, with trading profit improving €40 million to €392 million. Components contributed €176 million.

(1) Includes Chrysler results as if consolidated from 1 January 2011.

Income from investments totaled €107 million down from €131 million for 2011. The figure primarily relates to the Group's share of the profit or loss of investees recognized using the equity method (€94 million in 2012 vs. €146 million in 2011). The item consisted of the following: investments in EMEA €160 million (€160 million in 2011); investment in RCS MediaGroup -€68 million (-€2 million in 2011); investments in the Components sector €2 million (-€15 million in 2011); other €13 million (-€12million in 2011).

Net losses on the disposal of investments totaled €91 million (net gains of €21 million in 2011) and related to the write-down of the investment in the SevelNord joint venture.

Restructuring costs totaled €15 million for 2012 and mainly consisted of costs recognized for the EMEA region (€43 million), the Components sector (€7 million) and other companies (€13 million), net of the reversal of €48 million in restructuring charges previously recognized for the NAFTA region.

Other unusual expense totaled €138 million and primarily included provisions for disputes related to activities terminated in prior years and costs related to the resolution of the SevelNord JV and to the rationalization of relationships with certain suppliers. In 2011, the Group reported other unusual income (net) of €1,025 million. Unusual income totaled €2,100 million, of which €2,017 million related to the fair value re-measurement of the 30% ownership interest held in Chrysler prior to the acquisition of control and of the right to receive an additional 5% ownership interest following achievement by Chrysler of the third Performance Event (which occurred in early January 2012). Unusual expense totaled €1,075 million, of which €855 million excluding Chrysler was largely attributable to the impact on Fiat's businesses of the strategic realignment with Chrysler's manufacturing and commercial activities, and to one-off charges mainly related to the realignment of certain minor activities of the Group.

EBIT was €3,677 million. Net of unusual items, there was a year-over-year increase of 17% on a pro-forma basis. For mass-market brands, EBIT by region was as follows: NAFTA €2,741 million, LATAM €1,032 million, and APAC €255 million. EMEA reported a €738 million loss (€544 million net of unusual items), compared with an €897 million loss in 2011 (€353 million net of unusual items).

Net financial expense totaled €1,641 million. Excluding Chrysler, net financial expense was €825 million, compared with €796 million for 2011. Net of the impact of the mark-to-market of the Fiat stock option-related equity swaps (a €34 million gain for 2012 and €108 million loss for 2011), net financial expense increased by €171 million, mainly reflecting higher net debt levels.

Profit before taxes was €2,036 million. Excluding Chrysler, there was a loss of €621 million, compared with a profit of €1,470 million in 2011. Net of unusual items, the loss was €360 million, compared with a profit of €381 million in 2011; the €741 million reduction reflects a €692 million decrease in trading profit and a €29 million increase in net financial expense.

Income taxes totaled €625 million. Excluding Chrysler, income taxes were €420 million and related primarily to the taxable income of companies operating outside Europe and employment-related taxes in Italy.

Net profit was €1,411 million. Excluding Chrysler, there was a net loss of €1,041 million, compared with a €1,006 million profit for 2011; excluding unusual items, the loss totaled €780 million compared with a €106 million loss for 2011.

Profit attributable to owners of the parent amounted to €348 million (€1,334 million in 2011).

The components of EBIT by segment were as follows:

	Trading profit/(loss)		Result from investments		Unusual income/(expense)		EBIT	
(€ million)	2012	2011 (*)	2012	2011 (*)	2012	2011 (*)	2012	2011 (*)
NAFTA	2,693	1,008	-	4	48	75	2,741	1,087
LATAM	1,063	1,356	-	-	(31)	(25)	1,032	1,331
APAC	260	88	(5)	(25)	-	-	255	63
EMEA	(704)	(557)	160	160	(194)	(544)	(738)	(941)
Luxury and Performance Brands	392	352	-	-	-	6	392	358
Components and Production Systems	176	217	2	(15)	(11)	(312)	167	(110)
Other	(85)	(74)	(52)	5	(12)	(39)	(149)	(108)
Eliminations and adjustments	19	2	2	2	(44)	1,783 (1)	(23)	1,787
Total Fiat Group	**3,814**	**2,392**	**107**	**131**	**(244)**	**944**	**3,677**	**3,467**

(*) Includes Chrysler from 1 June 2011.
(1) Includes €2,017 million unusual income from measurement of the stake in Chrysler upon acquisition of control, net of the related revaluation of Chrysler's inventories of €220 million which was recognized in the income statement in June.

Results by Segment

Following is a summary of revenues, trading profit and EBIT by segment and a comparison with pro-forma figures for 2011 (i.e., assuming Chrysler consolidated from 1 January 2011).

NAFTA

(€ million)	2012	2011	Change	2011 pro-forma	Change
Net revenues	43,521	19,830	23,691	33,800	9,721
Trading profit	2,693	1,008	1,685	1,693	1,000
EBIT	2,741	1,087	1,654	1,770	971
Shipments (units in thousands)	2,115	1,033	1,082	1,783	332

Vehicle shipments in NAFTA totaled 2,115,000 units for 2012, representing a 19% increase over 2011, on a pro-forma basis. Vehicle shipments were 1,748,000 in the U.S. (up 20% over 2011 on a pro-forma basis), 255,000 in Canada, up 9%, and 98,000 in Mexico, up 22%.

The NAFTA region reported full-year 2012 net **revenues** of €43.5 billion, up 29% over the prior year on a pro-forma basis (+19% at constant exchange rates), due to higher volumes and positive pricing, partially offset by an unfavorable mix.

Trading profit for 2012 totaled €2,693 million, up 59% over the prior year on a pro-forma basis (+47% at constant exchange rates), with volume increases and positive net pricing partially offset by higher advertising expense and higher industrial costs, impacted by additional shifts at certain plants and higher capacity utilization. **EBIT** of €2,741 million reflected the strong trading profit performance.

LATAM

(€ million)	2012	2011	Change	2011 pro-forma	Change
Net revenues	11,062	10,562	500	11,068	-6
Trading profit	1,063	1,356	-293	1,410	-347
EBIT	1,032	1,331	-299	1,385	-353
Shipments (units in thousands)	979	910	69	929	50

Vehicles shipments in the LATAM region totaled 979,000 units for 2012, representing an increase of 5% over the prior year (on a pro-forma basis) and the Group's all-time record for the region. The Brazilian market reacted positively to government stimulus measures introduced in May which remained in place through the end of 2012. These measures will be gradually phased out during the first half of 2013.

Revenues for the region totaled €11,062 million, substantially in line with the prior year (on a pro-forma basis) with the effect of increased volumes being offset by negative currency translation impacts. At constant exchange rates, revenues were 5% higher.

Trading profit was €1,063 million, compared with €1,410 million for 2011 (on a pro-forma basis). Higher volumes and increased manufacturing efficiencies were more than offset by cost inflation (mainly labor, advertising and SG&A), pricing pressure, higher expense related to new vehicle launches and currency translation impacts. At constant exchange rates, trading profit was €1,105 million. **EBIT** totaled €1,032 million, including €31 million in unusual charges, compared to €1,385 million for 2011 (on a pro-forma basis).

APAC

(€ million)	2012	2011	Change	2011 pro-forma	Change
Net revenues	**3,128**	1,513	1,615	2,086	1,042
Trading profit	**260**	88	172	144	116
EBIT	**255**	63	192	119	136
Shipments (units in thousands)	**103**	53	50	74	29

Vehicle shipments in the APAC region (excluding JVs) totaled approximately 103,000 units for 2012, up 39% over the prior year (on a pro-forma basis).

Revenues in the APAC region totaled €3,128 million, up 50% (+39% at constant exchange rates) over 2011 on a pro-forma basis, primarily driven by the strong performance of the Jeep brand.

Trading profit was €260 million, nearly double the prior year, benefiting primarily from volume growth and a favorable currency translation impact (approximately €30 million). **EBIT**, which also reflects the contribution from joint ventures, totaled €255 million compared to €119 million in 2011 (on a pro-forma basis).

EMEA

(€ million)	2012	2011	Change	2011 pro-forma	Change
Net revenues	**17,800**	19,591	-1,791	20,078	-2,278
Trading profit/(loss)	**(704)**	(557)	-147	(512)	-192
EBIT	**(738)**	(941)	203	(897)	159
Shipments (units in thousands)	**1,012**	1,166	-154	1,180	-168

Passenger car and LCV shipments in the EMEA region totaled 1,012,000 units for the year, a decrease of 14% over 2011 (on a pro-forma basis).

EMEA closed the year with **revenues** of €17.8 billion, a decrease of 11% over 2011 (on a pro-forma basis) attributable primarily to the contraction in volumes.

There was a **trading loss** of €704 million (€512 million loss for 2011 on a pro-forma basis), with negative volume and price effects being only partially offset by industrial efficiencies, World Class Manufacturing synergies and benefits from cost containment actions. There was an **EBIT** loss of €738 million, including €194 million in unusual charges, compared to a loss of €897 million for 2011 on a pro-forma basis (including €544 million in unusual charges). Investments contributed net income of €160 million (€160 million in 2011).

Industrial Relations and Social Dialogue
As stated in the Fiat S.p.A. Code of Conduct, the Group recognizes and respects the right of its employees to be represented by trade unions or other representatives elected in accordance with local legislation and practice.

Fiat Group maintains relationships with trade unions and employee representatives that are based on mutual respect, dialog and constructive engagement with trade union organizations and employee representatives. During 2012, the dialogue continued with trade unions to achieve shared solutions to attain high standards of competitiveness and reduce the impact on workers of measures adopted in response to market conditions in Europe, which were particularly critical in Italy.

In **Italy,** Fiat Group companies applied the new contractual system (CCSL) signed at the end of 2011 with FIM-CISL, UILM-UIL, FISMIC, UGL Metalmeccanici and the Associazione Quadri e Capi Fiat. Negotiations for renewal of the contract began in October 2012.

The Fiat CCSL represents a change in the collective bargaining system in Italy with Fiat S.p.A.'s withdrawal from Confindustria opening the way for direct negotiations between the company and trade unions, effectively replacing the national collective bargaining agreement. The structure of the contract more adequately reflects the characteristics of a major multinational industrial group such as Fiat.

The Group CEO met with the signatory trade unions during the year to present the interim results. Despite the extremely challenging economic conditions in Europe which have had grave consequences for the auto market, particularly in Italy, the Group gave unions confirmation of its commitment to maintain existing production capacity in Italy and its intention not to reduce headcount, as long as there is continued availability of the temporary layoff benefits provided under law. Fiat also confirmed that it would resume investments at all Italian plants where production based on the Group's global platforms is to be allocated. At the SATA Melfi plant on December 20th, Fiat Chairman John Elkann and CEO Sergio Marchionne presented plans for the production of a Jeep brand Utility vehicle and the new Fiat 500X beginning in 2014. Following an investment program of more than €1 billion, Melfi will be one of the most advanced car assembly plants in the world equipped with the very latest technologies and managed according to World Class Manufacturing standards. Activities to ready the plant for production of the two new models have already begun.

The plan selected by Invitalia (advisor to the Ministry for Economic Development) to ensure continuation of industrial activities at the Termini Imerese plant (Italy) – where, as announced in 2009, production ceased at year-end 2011 – did not go ahead. The Ministry for Economic Development is still seeking an alternative solution. At the European level, European Works Councils (EWCs) function as a supranational representative body whose purpose is to inform and consult workers at Community-scale undertakings. The Fiat Group EWC was established in 1997, on the basis of the implementing agreement signed in 1996 and subsequently revised and amended. The latest agreement renewing Fiat S.p.A.'s EWC was signed on 28 June 2011, although the membership of the EWC has not yet been fully appointed.

Collective Bargaining

Collective bargaining at various levels resulted in major agreements being reached with trade unions on both wage and employment conditions in several countries. The principal agreements include:

- Italy: Fiat S.p.A. and the signatory trade unions of the CCSL, together with Fiat Industrial S.p.A., reached an agreement to merge the FASIFIAT and FASIQ supplementary healthcare plans for non-management employees into the new FASIF plan effective 1 January 2013. Under the agreement, the new fund guarantees free basic healthcare for all Fiat Group and Fiat Industrial Group employees, including cardiovascular check-ups and Long Term Care (LTC) coverage where assisted care is required
- France: company-level collective bargaining in 2012 resulted in pay increases in line with inflation
- Serbia: for the Fiat Automobile Serbia d.o.o. plant in Kragujevac, an agreement was signed with trade unions in November which established pay increases, as well as the Christmas bonus linked to the achievement of company targets and individual absenteeism for employees covered by the agreement. The company and trade unions also agreed a mechanism to compensate for production stoppages attributable to organizational factors
- Canada: in September 2012 Chrysler Group reached an agreement with the National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW) on a new four-year contract. Also, CpK Interior Products Inc. (a company owned by Chrysler Canada Inc.) and the CAW union negotiated a new 4-year Collective Agreement for the CpK Guelph manufacturing facility
- Mexico: Chrysler Group and the Sindicato Nacional de Trabajadores de la Industria Automotriz Integrada Similares y Conexos de la Republica Mexicana successfully completed the annual bargaining process, reaching an agreement in advance of the May 9th deadline

In 2012, the level of **labor unrest** at Fiat Group companies in **Italy** was **significantly lower than previous years**, both in terms of the number of instances and the number of employees taking part, despite appearances based on the level of public attention given to certain issues.

Outside Italy, the overall level of labor unrest was negligible with isolated incidents limited to individual plants.

Management of Production Levels

During 2012, auto markets in both North and South America showed significant signs of improvement. In Europe, by contrast, demand contracted for the fifth consecutive year with particularly negative consequences for Fiat Group manufacturing activities in Italy.

In **Brazil**, the Group made use of overtime and also reached an agreement with trade unions to establish shift rotas that were adequate to meet the needs of certain production areas.

For Chrysler Group, vehicle production continued to expand in 2012 in response to strong customer demand and in line with the 2010–2014 Business Plan announced in 2009. The increase was facilitated by the implementation of additional shifts at the Belvidere and Jefferson North assembly plants in the **U.S.**, as well as increases in production rates and overtime hours at most manufacturing facilities. Correspondingly, the Chrysler Group hourly workforce across North America also increased by more than 6,000 employees compared with the previous year.

With the exception of Italy, there was a year-over-year decrease in production stoppages – implemented through the use of temporary benefit schemes, where possible, or mechanisms established through collective bargaining or company policies – as well as in the level of restructuring and reorganizations.

In **Italy**, extensive use of temporary layoff benefit schemes enabled the Group to manage production declines and to undertake restructuring and reorganization activities related to investment in new production without resorting to permanent redundancies.

The persisting crisis in the European auto market resulted in a realignment of production levels in **Poland**. During the year, Fiat Group companies in Poland continued to use flexibility schemes initiated in 2011. The significant drop in production volumes associated with the negative trading conditions and outlook had a direct impact on the Fiat Auto Poland plant in Tychy, where in 2013 it will be necessary to scale back from three to two shifts and realign the distribution network to current demand levels. This resulted in the announcement of 1,450 redundancies and the Group reached an agreement with trade unions on December 20th that established the conditions for selecting which employees would be affected, in addition to determining incentives for voluntary redundancy that vary based on years of service.

In other European countries, there were no significant restructurings or reorganizations and no significant production stoppages were required.

Suppliers

Suppliers make an important contribution to the strategic development and competitiveness of the business. Fiat Group maintains a continuous and active dialogue with suppliers to ensure a strong, mutually beneficial partnership. The Group actively promotes responsible behavior and sustainable development throughout the supply chain and seeks to establish long-term relationships with suppliers who meet the highest standards in quality, price and reliability, as well as sharing the Group's values and approach to sustainability.

Group Purchasing, which oversees purchasing activities for the Group worldwide, managed approximately €44 billion in purchases in 2012 through a supplier base of approximately 2,700 companies.

The process for screening, selecting and managing suppliers is based on objective assessment criteria that ensure impartial treatment and equal opportunity.

To ensure the selection of suppliers is aligned with the Group's sustainability policies, the procedures also require verification that prospective suppliers conform to specific standards for environmental and social sustainability. New contracts with suppliers contain clauses requiring adherence to the Fiat Group Code of Conduct and specific Sustainability Guidelines relating to human rights and working conditions, respect for the environment and ethical business practices.

Fully aware of the impact that its activities have on local communities and suppliers, the Group endeavors, where possible, to purchase direct materials from local suppliers. This supports the development of the local economy and enhances the competitiveness of companies throughout the supply chain.

As part of the process of continuous improvement, the Group's World Class Manufacturing Purchasing function, in collaboration with the World Class Manufacturing (WCM) organization, continued to work in an advisory capacity with suppliers intending to apply WCM methods. During the year, the number of supplier plants implementing WCM, one of the highest production standards in the world, increased to 216. In NAFTA, employees from some 450 supplier plants participated in training programs with the objective of extending the WCM methodology to the entire supply chain.

Dealer and Service Network

Development of the expertise and know-how of salespeople, technicians and after-sales personnel in the dealer network is an essential element in the Group's commitment to constructing an open, interactive dialogue with customers. Dealers and their staff represent one of the most important channels for establishing and building customer trust and satisfaction. The aim of the Group's extensive and diversified training program is both to support the professional development of personnel in the sales network and enable them to play an even greater role in building the image and reputation of the Group.

As part of the process of continuous improvement in the quality of services provided by the dealer network, during 2012 Fiat Group provided over 6.2 million hours of training to more than 165,000 technicians and sales staff.

Local Communities

The Group operates with the conviction that it has a moral responsibility to contribute positively to the development and wellbeing of local communities. During 2012, the Group committed an estimated €21 million[13] in resources to local communities.

In addition to direct financial contributions and donations in kind – where permitted by company policy – Fiat Group also supports local communities by encouraging employees to participate directly in volunteer activities during working hours.

(13) Based on non-accounting data and calculation methods. Also includes estimates. Amounts in currencies other than euros were converted at the average exchange rate for the year to 30 November 2012. Excludes initiatives whose sole purpose is promoting brand image. Includes all Fiat Group companies worldwide.

The Group's Guidelines on Investment in Local Communities provide indications on how to manage activities to benefit local communities and establish commitments that are consistent with the characteristics and positioning of each brand. Each initiative is managed at plant, company or brand level, except where the level of financial commitment requires approval and management at Group level.

During 2012, the Group's local community initiatives covered a variety of areas, including: 53.1% to promote education, culture and art; 21.7% to develop social welfare projects (support for the disabled, assistance for the elderly, etc.); 5.7% for emergency relief efforts; and 19.5% for other areas, including healthcare.

By region, Group investment in local community initiatives was primarily concentrated in Latin America, which accounted for 54.2% of total resources committed, followed by North America (24%), Europe (17.3%) and Rest of World (4.5%).

Specific indicators are used to measure the benefits of all major local community initiatives and regularly assess whether the Group's activities are in line with the needs of those communities. On the basis of those assessments, programs may be further developed, extended to other areas, and even converted into a long-term commitment.

Corporate Governance

Foreword

Fiat Group adheres to the Corporate Governance Code for Italian Listed Companies issued in December 2011, with modifications that take into account the specific characteristics of the Group. During February 2012, the Board of Directors, at the proposal of the Compensation Committee, formulated a Compensation Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob that took effect on 31 December 2011. The Policy (which, in accordance with statute, forms the first section of the Compensation Report) was submitted to the non-binding vote of shareholders who voted in favor at the General Meeting of 4 April 2012.

In addition, with support from the respective Committees, the Board undertook a comparative review of the principles and criteria in the Corporate Governance Code that have been amended or revised and their effective implementation by the Group. On the basis of that review, at the General Meeting called for approval of the 2011 financial statements and election of the new Boards of Directors and Statutory Auditors, Shareholders were asked to consider the benefits of gender diversity in determining the composition of the new Board of Directors and, accordingly, they voted to elect two women, resulting in early application of the legal requirements that will apply from 2015. The Board also introduced changes to the Guidelines for the Internal Control and Risk Management System, including redefinition of the role of the Internal Control Committee (which was renamed Internal Control and Risk Committee) and other entities and individuals having an involvement.

In accordance with legal and regulatory requirements, the Company prepares an "**Annual Report on Corporate Governance**" which provides a general description of the Group's corporate governance system together with information on ownership structure and adherence to the Corporate Governance Code, including key governance practices and the principal characteristics of the system of internal control and risk management, including with reference to financial reporting. The Report, which is available in the Corporate Governance section of the Group website (www.fiatspa.com), is divided into four sections: the first contains a description of the governance structure; the second gives information on the ownership structure; the third provides an analysis of implementation of specific recommendations of the Corporate Governance Code and describes the principal characteristics of the system of internal control and risk management, including with reference to financial reporting and key governance practices; and, the fourth includes tables summarizing Fiat's ownership and Board structure, a side-by-side comparison illustrating how Fiat has applied the principles and criteria of the revised Code, as well as the principal corporate governance related documents. This section provides a summary of aspects relevant to the Report on Operations. The Corporate Governance Code is available on the website of Borsa Italiana S.p.A. (www.borsaitaliana.it).

Direction and Coordination

Fiat S.p.A. is not subject to the direction and coordination of any other company or entity and has full independence to define its strategic and operating guidelines. Fiat's direct and indirect subsidiaries in Italy have, with a few specific exceptions, named Fiat as the entity which, pursuant to Article 2497-*bis* of the Civil Code, exercises direction and coordination over them. That activity consists in setting general strategic and operating guidelines for the Group through definition and updating of the internal control and risk management system, corporate governance model and corporate structure, establishment of a group-wide Code of Conduct, in addition to definition of policies for the management of personnel and financial resources, and for the procurement of production materials, and marketing and communications services. Coordination of the Group also encompasses centralized cash management, corporate and accounting, and internal audit services, including through specialized companies.

Direction and coordination undertaken at group level enables subsidiaries, which retain full management and operating autonomy, to realize economies of scale by availing themselves of professional and specialized services with improving levels of quality and to concentrate their resources on management of their core business.

Subsidiaries headquartered outside Italy generally benefit from those activities. However, Chrysler Group LLC, which has a board of directors composed of a majority of members not affiliated with Fiat S.p.A., relies directly on capital markets funding for its operations and for those of its subsidiaries and manages its financial resources independently. The board of directors of Chrysler Group LLC, in addition to ensuring maintenance of Chrysler Group's standalone financial integrity, also reviews and approves any transactions above de minimis levels between Fiat and Chrysler Group LLC and has oversight responsibilities for Chrysler Group operations, including approval of capital expenditures above certain levels.

Board of Directors

The By-laws establish that the Company's Board of Directors may be composed of between nine and fifteen members. With due consideration given to the Company's increased focus in the automobiles sector following the demerger of the capital goods activities to Fiat Industrial and the benefits of gender diversity on the Board, on 4 April 2012 Shareholders elected a total of nine members to the Board of Directors – whose term of office expires at the General Meeting called for approval of the 2014 financial statements – including two women. Under Article 11 of the By-laws, Board members are elected through a voting list system which ensures minority shareholders the opportunity to elect a director to the Board. The minimum equity interest required for submission of a list of candidates is established by Consob with reference to the Company's market capitalization in the fourth quarter of the last financial year of the Board's mandate. Each list must indicate at least one candidate that satisfies the legal requirements for independence.

The voting list system was utilized for the first time for the election of the Board of Directors at the General Meeting of 27 March 2009 and was used for the renewal of the Boards of Directors and Statutory Auditors at the General Meeting of 4 April 2012. The Company invited shareholders who, individually or jointly with others, owned at least 1% of ordinary shares (as established by Consob with reference to Fiat's average market capitalization for the fourth quarter of 2011) to submit lists of candidates – indicated in numerical order and who satisfied the requirements of law and the Company's By-laws – to the Company at its registered office at least 25 days prior to the General Meeting. Two lists of candidates for the Board of Directors were presented: one list was presented by EXOR S.p.A., holder of 30.465% of ordinary shares, and the other by a group of Italian and international asset managers and institutional investors, holders of a combined 1.86% of ordinary shares.

Under Article 16 of the By-laws, all directors with executive responsibilities are vested, separately and individually, with the power to represent the Company and under Article 12 the Vice Chairman, if appointed, shall act as Chairman if the latter is absent or unable to carry out his duties. In application of this provision, the Board of Directors has, as in the past, adopted a model for delegation of broad operating powers to the Chairman and the Chief Executive Officer by which they are authorized, separately and individually, to perform all ordinary and extraordinary acts that are consistent with the Company's purpose and not reserved by law for, or otherwise delegated or assumed by, the Board of Directors itself. In practice, the Chairman has the role of coordination and strategic direction for the activities of the Board of Directors, while the Chief Executive Officer is responsible for the operational management of the Group. From an operational perspective, the Chief Executive Officer is supported by the Group Executive Council (GEC), a decision-making body led by the Chief Executive and composed of the heads of the operating sectors and certain central functions. As a result of the acquisition of majority ownership of Chrysler Group and consistent with the objective of enhancing the operational integration of Fiat and Chrysler, on 1 September 2011 a new Group Executive Council was formed which is composed of 4 main groupings: regional operations, brands, industrial processes, and support/corporate functions. Certain functions that are fundamental to the governance structure of individual companies (such as Legal and Internal Audit) remain independent within the ambit of the operating companies (Fiat and Chrysler Group).

Effective 1 January 2011, the Company adopted procedures for transactions with related parties to ensure full transparency and substantial and procedural fairness in transactions with related parties, as defined under IAS 24. The Procedures define "significant transactions" which require the prior approval of the Board – subject to the binding opinion of the Internal Control and Risk Committee, which is the committee responsible for related-party transactions, with the exception of those matters relating to compensation, for which the Compensation Committee is responsible – and must be publicly disclosed in the form of an information document.

Other transactions, except those falling within the residual category of minor transactions – i.e., transactions less than €200,000 in value or, for transactions with legal entities having consolidated annual revenues in excess of €200 million only, transactions less than €10 million in value – are defined as "non-significant" and may be entered into with the prior non-binding opinion of the above committee. The Procedures also establish exemptions, including: transactions taking place in the ordinary course of business and entered into at standard or market terms; transactions with or between subsidiaries and transactions with associates, provided that no other parties related to the Company have a significant interest; and transactions of minor value.

The task of implementing the Procedures and disseminating them to Group companies is assigned to the manager responsible for the Company's financial reporting, who must also ensure coordination with the administrative and accounting procedures required under Article 154-*bis* of Legislative Decree 58/1998.

As established in the "**Guidelines for Significant Transactions**" (previously the "Guidelines for Significant Transactions and Transactions with Related Parties"), transactions having a significant impact on the Company's earnings and financial position are subject to prior examination and approval by the Board.

Accordingly, the powers attributed to the executive directors specifically exclude decision-making authority for significant transactions, pursuant to the criteria for significance established by Consob. A reasonable period in advance of the Company undertaking a significant transaction, the executive directors are to provide the Board a summary report on their analysis of the strategic compatibility, economic feasibility and expected return.

As provided under Articles 70 (8) and 71 (1-*bis*) of the Consob Issuer Regulations, on 30 October 2012 the Board of Directors approved the opt-out from the obligation to publish an information document for significant transactions (e.g., significant mergers, spin-offs, share capital increases by means of in-kind contributions of assets, acquisitions and disposals).

Pursuant to Article 12 of the By-laws, after consultation with the Board of Statutory Auditors, the Board of Directors appoints **one or more managers responsible for the Company's financial reporting**. If more than one manager is attributed that responsibility, it is to be carried out jointly and with joint responsibility. It is a requirement that the individual(s) appointed have several years of accounting and financial experience within a large company. In implementation of that provision, the Board of Directors appointed the Chief Financial Officer as the manager responsible for the Company's financial reporting, vesting him with the relevant powers.

At 31 December 2012, the Board of Directors was composed of three executive directors and six non-executive directors (i.e., directors without specific executive powers or responsibilities within the Company or the Group), four of whom qualified as independent on the basis of the criteria approved by Shareholders on 4 April 2012 and adopted for past elections. All of those independent directors (Joyce Victoria Bigio, René Carron, Gian Maria Gros-Pietro and Patience Wheatcroft) also meet the independence requirements established under Legislative Decree 58/98.

The Chairman and Chief Executive Officer are **executive directors**. They also hold executive responsibilities at subsidiary companies: John Elkann is Chairman of Editrice La Stampa S.p.A. and Sergio Marchionne, in addition to being Chairman of the principal subsidiaries, is also Chief Executive Officer of Fiat Group Automobiles S.p.A. and of Chrysler Group LLC. Luca Cordero di Montezemolo also qualifies as an executive director by virtue of his position as Chairman of Ferrari S.p.A.

An adequate number of independent directors is an essential element in protecting the interests of shareholders, particularly minority shareholders, and third parties. For this reason, considering it to be significantly in the Company's interests to maintain adequate guarantees against potential conflicts of interest, in its proposal of 22 February 2012, the Board of Directors recommended that, in relation to re-election of the Board on 4 April 2012, Shareholders elect a significant number of independent directors. In consideration of the current legal requirement that at least two directors are independent and the provision of the Corporate Governance Code that at least one-third of the members of the Board of Directors are independent, Shareholders voted to elect four directors who meet the requirements of independence adopted for previous elections.

The **independence** of directors is assessed annually and is based on the absence or non-relevance, during the previous three years, of economic or shareholding relationships or other relationships, whether direct, indirect or on behalf of third parties, with the Company, its executive directors and executives with strategic responsibilities, its controlling companies or subsidiaries, or any other party related to the Company. The criteria also exclude directors as being considered independent if they were partners or directors of major competitors, rating agencies or audit firms engaged by the Company or Group companies in the previous three years, or are executive directors at other companies where the Company's directors are non-executive directors. The results of those assessments are published in the Annual Report on Corporate Governance.

On 4 April 2012, the Board of Directors verified that Joyce Victoria Bigio, René Carron, Gian Maria Gros-Pietro and Patience Wheatcroft satisfied the requirements of independence.

Some directors also hold positions at other listed companies or companies of significant interest. Excluding the positions held by the executive directors within Fiat Group, the most significant are as follows:

- Andrea Agnelli: Chairman of Juventus FC S.p.A., General Partner of Giovanni Agnelli e C. S.a.p.A., Director of EXOR S.p.A. and Vita Società Editoriale S.p.A.
- Joyce Victoria Bigio: Director of Simmel Difesa S.p.A.
- Tiberto Brandolini D'Adda: Chairman of Sequana S.A. and EXOR S.A., General Partner of Giovanni Agnelli e C. S.a.p.A., Vice Chairman of EXOR S.p.A. and Director of SGS S.A.
- Luca Cordero di Montezemolo: Chairman of Charme Management S.r.l., Vice Chairman of Unicredit S.p.A., Director of Poltrona Frau S.p.A., N.T.V. S.p.A., Tod's S.p.A., Pinault Printemps Redoute S.A., Montezemolo & Partners SGR and Delta Topco Ltd.
- John Elkann: Chairman and General Partner of Giovanni Agnelli e C. S.a.p.A., Chairman and Chief Executive Officer of EXOR S.p.A., Director of Fiat Industrial S.p.A., SGS S.A., Gruppo Banca Leonardo S.p.A. and The Economist Group
- Gian Maria Gros-Pietro: Chairman of ASTM S.p.A., Director of Edison S.p.A., Caltagirone S.p.A. and IVS Group S.A.
- Sergio Marchionne: Chairman of CNH Global N.V., Fiat Industrial S.p.A., Iveco S.p.A., FPT Industrial S.p.A. and SGS S.A., Director of EXOR S.p.A. and Philip Morris International Inc.
- Patience Wheatcroft: Member of the Advisory Board of Huawei Technologies (UK) and Director of St. James's Place PLC

Board Committees

The Board of Directors has established the following committees: the Internal Control Committee – whose role was redefined in February 2012 and was renamed the Internal Control and Risk Committee; the Nominating and Corporate Governance Committee – whose role includes selecting and proposing candidates for the Board and which, during 2009 was also assigned responsibility for sustainability-related issues and subsequently renamed the Nominating, Corporate Governance and Sustainability Committee; and, the Compensation Committee – whose role was redefined on 22 February 2012 in accordance with the provisions of the new Corporate Governance Code.

Internal Control System

In 2012, the Board approved the "Guidelines for the Internal Control and Risk Management System", which constituted a revision of the procedures established in 1999 and 2003, including adoption of changes introduced by the Corporate Governance Code in 2011.

The Internal Control and Risk Management System, based on the model provided by the COSO Report and the principles of the Corporate Governance Code, consists of a set of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the principal risks to which the Company is exposed. The system is integrated within the organizational and corporate governance framework adopted by the Company, and contributes to the protection of corporate assets, as well as ensuring the efficiency and effectiveness of business processes, reliability of financial information and compliance with laws and regulations, as well as the By-laws and internal procedures.

The system, which has been developed on the basis of international best practice, consists of the following 3 levels of control:

- Level 1: operating areas, which identify and assess risk and establish specific actions for management of that risk
- Level 2: departments responsible for risk control, which define methodologies and instruments for managing risk and monitor that risk
- Level 3: internal audit, which conducts independent evaluations of the System in its entirety. The head of Internal Audit is also assigned the role of Compliance Officer pursuant to Article 150 of Legislative Decree 58/98

The Guidelines for the System of Risk Management and Internal Control provide a detailed description of the duties and responsibilities of the principal individuals and entities involved and set out the procedures for their coordination in order to ensure the effectiveness and efficiency of the system and reduce potential duplication of activities.

The Company has developed a system of internal control and risk management in relation to financial reporting based on the model provided by the COSO Report aimed at ensuring the reliability, accuracy, completeness and timeliness of the information reported. The periodic evaluation of the system of internal control over financial reporting is designed to ensure the overall effectiveness of the components of the COSO Framework model (control environment, risk assessment, control activities, information and communication, monitoring) in achieving those objectives. As mentioned previously, the principal characteristics of the system of internal control and risk management in relation to financial reporting are provided in the Annual Report on Corporate Governance.

Fiat has administrative and accounting procedures in place that ensure a high degree of reliability in the system of internal control over financial reporting.

Documents and financial information regarding the Company are made public, including via the internet, in accordance with the provisions of the procedures for the internal management and public disclosure of confidential information adopted by the Board of Directors in 2006 and 2007.

Essential components of the Internal Control System are the **Code of Conduct**, adopted in 2002 to replace the Code of Ethics and revised in 2010, and the **Compliance Program**, adopted by the Board of Directors in implementation of regulations on the ‘Liability of Legal Persons’ pursuant to Legislative Decree 231/2001, as amended. The Code of Conduct sets out the ethics principles to which the Company adheres and which directors, statutory auditors, employees, consultants and partners are required to observe.

On 20 February 2013, the Board was presented Fiat S.p.A.’s revised Compliance Program and Guidelines for Adoption and Revision of the Compliance Program by Group companies in Italy, which incorporate new categories of offenses introduced in Italian legislation. With these amendments, new criminal offenses were included and the relevant sensitive processes were identified. Legislative Decree 109/2012 introduced as Article 25-*duodecies* of Legislative Decree 231/2001 the offense of “Employment of foreign nationals residing illegally in Italy” (Article 22 (12-*bis*) of Legislative Decree 286/98, which addresses immigration and legal status of foreign nationals). Law 190/2012 introduced the offense of being induced to give a bribe as Article 25 (3) and the offense of bribery between private individuals as Article 25-*ter* (1)(S-*bis*) with direct reference to Article 2635 (3) of the Civil Code which establishes penalties for giving or promising financial or other advantage to directors, managers, statutory auditors or employees of a company.

The Compliance Program Supervisory Body is composed of the head of Audit & Compliance, the General Counsel, and an external advisor. It has its own Internal Policies and Procedures and operates on the basis of a specific supervisory program. It meets at least once per quarter and reports to the Board of Directors (including through the Internal Control and Risk Committee) and the Board of Statutory Auditors.

In application of the Compliance Program, the Code of Conduct, and the provisions of the Sarbanes-Oxley Act (to which the Company was subject while listed on the NYSE) on whistleblowing, the **Whistleblowing Procedures** were adopted on 1 January 2005 for the management of reports and claims filed by persons inside and outside the Company in relation to suspected or presumed violations of the code of conduct, fraud involving company assets or financial reporting, oppressive behavior towards employees or third parties, reports or claims regarding accounting, internal accounting controls and independent audits.

The **Procedures for the Engagement of Independent Auditors** regulate the engagement of audit firms and other related parties, by Fiat S.p.A. and its subsidiaries, in order to ensure the independence of firms engaged to audit the financial statements. Related parties of an audit firm are considered to be entities belonging to the same network, as well as equity partners, shareholders, directors, members of management and supervisory bodies and employees of the audit firm.

With reference to the “Conditions for the listing of shares of companies having control over companies incorporated and regulated under the laws of a non-EU member State”, pursuant to Articles 36 and 39 of the Market Rules, the accounting systems in place at the Company and its subsidiaries, as discussed in the Annual Report on Corporate Governance, enable public disclosure of certain accounting information prepared by companies included in the scope of application of the Regulation and used in preparation of the consolidated financial statements and are adequate for the regular provision to management and the Parent Company’s auditors of information necessary for preparation of the consolidated financial statements. In addition, there is an effective flow of information to the Parent Company’s auditors, including regular information on the composition of corporate bodies within all subsidiary companies and the position held by each member. The Company is also responsible for systematically maintaining and updating centralized records of formal documents related to the by-laws and delegation of powers to members of the corporate bodies. The requirements of Article 36 (a) (b) and (c) of the Market Rules issued by Consob have therefore been satisfied, including in relation to the acquisition of control of Chrysler Group LLC during 2011.

Board of Statutory Auditors

In accordance with Article 17 of the By-laws, the Board of Statutory Auditors is composed of three regular auditors and three alternates, all of whom must be entered in the Register of Auditors and have at least three years of experience as a statutory account auditor. They may, within the legal limit, also hold other positions as director or statutory auditor.

In accordance with Legislative Decree 58/98, Article 17 of the Company's By-laws establishes the right for appropriately constituted **minority groups** to appoint one regular auditor, who serves as Chairman, and one alternate. The By-laws also establish that the minimum equity interest required for submission of a list of candidates for elections of the Statutory Auditors may not be lower than the percentage required by law for elections of the Board of Directors. The lists presented, together with the documentation required by law and the Company's By-laws, must be placed on record at the Company's registered office at least 25 days prior to the date set for the General Meeting on first call.

On 4 April 2012, the Board of Statutory Auditors was elected using a voting list system.

The Statutory Auditors are: Ignazio Carbone, Chairman; Lionello Jona Celesia and Piero Locatelli, regular auditors; and Lucio Pasquini, Fabrizio Mosca and Corrado Gatti, alternate auditors. The regular auditors Lionello Jona Celesia and Piero Locatelli were elected from the list presented by the majority shareholder EXOR S.p.A. and Ignazio Carbone, Chairman of the Board of Statutory Auditors, was elected from the minority list presented by a group of Italian and international asset managers and institutional investors holding 1.86% of ordinary shares (a complete list of those shareholders is provided in the Annual Report on Corporate Governance). The minimum equity interest required to submit a list of candidates was 1% of ordinary shares, as established by Consob with reference to Fiat's average market capitalization for the fourth quarter of 2011. Additional information provided to Shareholders on the candidates and lists presented are available in the Investor Relations section of the Group website (www.fiatspa.com).

The Board of Statutory Auditors' current term of office expires on the date of the General Meeting called for approval of the 2014 financial statements. Following is a list of the most significant positions held by the members of the Board of Statutory Auditors.

Ignazio Carbone is a director of Banca Popolare del Frusinate S.c.p.a. and Europrogetti & Strategie d'Impresa S.r.l.; Lionello Jona Celesia is Chairman of the Board of Statutory Auditors of Giovanni Agnelli e C. S.a.p.A., IBM Italia S.p.A., Lazard S.r.l. and Chairman of the Board of Directors of Banca del Piemonte S.p.A.; Piero Locatelli is a statutory auditor of Giovanni Agnelli e C. S.a.p.A. and Simon Fiduciaria S.p.A.

Transactions between Group Companies and with Related Parties

During the period, there were no transactions, including intragroup, with related parties which qualified as unusual or atypical. Any related-party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

Information on transactions with related parties, including specific disclosures required by the Consob Communication of 28 July 2006, is provided in Note 37 to the Consolidated Financial Statements and in Note 29 to Fiat S.p.A.'s Financial Statements.

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As part of the requirements of Legislative Decree 196/03 (the Italian data protection act), several activities, including specific audits, were performed to evaluate the system of data protection for information held by Group companies subject to this law. Those activities confirmed that legislative requirements relating to the protection of personal data processed by Group companies had been substantially complied with.

With the conversion of Law Decree 5 of 9 February 2012 through the enactment of Law 35 of 4 April 2012, the obligation to prepare and maintain an updated Program Security Document — for controllers of sensitive or judicially relevant data processed in electronic format — was abolished.

However, given that other obligations under Legislative Decree 196/03 continue to exist, Group companies prepared the Program Security Document, enabling formal attestation of compliance with the obligations of Legislative Decree 196/03 by individual data controllers.

Subsequent Events and Outlook

Subsequent Events

- On 9 January 2013, Chrysler Group announced that it had received a demand from the VEBA, pursuant to the Shareholder Agreement, seeking registration of approximately 16.6% of Chrysler Group's outstanding equity interests currently owned by VEBA.
- On 18 January 2013, Fiat Group Automobiles S.p.A. (FGA) and Mazda Motor Corporation (Mazda) signed a final agreement for the development and manufacture of a new roadster for the Mazda and Alfa Romeo brands, based on Mazda's next-generation MX-5 rear-wheel-drive architecture. Each model will be powered by proprietary engines unique to the respective brands. Both vehicles will be manufactured at the Mazda plant in Hiroshima, Japan. Production of the Alfa Romeo model is scheduled to begin in 2015.
- On 6 February 2013, Chrysler signed a 10-year private-label agreement, subject to early termination in certain circumstances, with Santander Consumer USA Inc. to provide a full range of wholesale and retail financing services to Chrysler and Fiat customers and dealers which will be provided under the Chrysler Capital brand name. The new financing service is scheduled to launch 1 May 2013. Under the agreement, Santander Consumer USA Inc. has also provided Chrysler with consideration in the form of a non-refundable upfront payment which is payable prior to the launch of the new financing service, as well as on-going revenue sharing opportunities and commitments with respect to available funding, approval and penetration rates, price competitiveness and certain exclusivity rights. Santander Consumer USA Inc. will bear the risk of loss on loans contemplated by the agreement and the parties will share in any residual gains and losses in respect of consumer leases, subject to specific provisions including caps on Chrysler's participation in gains and losses contained in the Master Agreement. Ally Financial Inc. will continue to provide financial services to Chrysler and Fiat customers and dealers until 30 April 2013.

Outlook

At the end of Q3 2012, the Group outlined its strategic direction in response to the continued crisis in the European car industry, which was brought to a head by the wider economic crisis. At the same time, the Group also gave an updated financial plan for 2013-2014. Market conditions in the NAFTA, LATAM and APAC regions continue to support the financial projections for 2013 and, while the European market still presents significant levels of uncertainty, the Group confirms its guidance for 2013 in line with the updated plan as follows:

- Revenues in the €88 - €92 billion range
- Trading profit in the €4.0 - €4.5 billion range
- Net profit in the €1.2 - €1.5 billion range
- Net industrial debt of ~€7.0 billion

Financial Review – Fiat S.p.A.

The following information is based on the 2012 financial statements prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), as adopted by the European Union, and regulations implementing Article 9 of Italian Legislative Decree 38/2005.

Operating Performance

For 2012, Fiat S.p.A. reported a loss of €152 million, compared with a profit of €99 million for 2011.

The principal components of the income statement were as follows:

(€ million)	2012	2011
Income from investments	68	560
Dividends	1,030	388
Impairment (losses)/reversals on investments	(962)	157
Gains/(losses) on disposals	-	15
Personnel and operating costs, net of other income	(35)	(70)
Financial income/(expense)	(216)	(435)
PROFIT/(LOSS) BEFORE TAXES	**(183)**	**55**
Income taxes	31	44
PROFIT/(LOSS) FOR THE YEAR	**(152)**	**99**

Income from investments totaled €68 million (€560 million for 2011) and consisted of dividends received for the year and net impairments:

- **Dividends** totaling €1,030 million were received from Fiat Gestione Partecipazioni S.p.A. (€1,000 million), Fiat Finance S.p.A. (€24 million) and Fiat Industrial S.p.A. (€6 million).

  In 2011, dividends totaling €388 million were received from Ferrari S.p.A. (€180 million), Fiat Gestione Partecipazioni S.p.A. (€180 million) and Fiat Finance S.p.A. (€28 million).

- **Net impairments on investments** of €962 million consisted of a €933 million impairment recognized on the investment in Fiat Gestione Partecipazioni S.p.A., to realign the carrying amount of the investment with the book value of its equity following the distribution of reserves to Fiat S.p.A., as well as impairment losses recognized on the investments in RCS MediaGroup S.p.A. (€35 million) and in Teksid Aluminium S.r.l. (€15 million), net of a partial reversal for Fiat Powertrain Technologies S.p.A. (€21 million).

  In 2011, net reversals on investments of €157 million consisted of a full reversal of impairment losses previously recognized on Fiat Gestione Partecipazioni S.p.A. (totaling €352 million), less impairment losses recognized on the holdings in Comau S.p.A. (€147 million) and Teksid Aluminum S.r.l. (€48 million).

- For 2012, there were no **gains/(losses) on disposals**. For 2011, gains on disposals totaled €15 million and related to gains realized on the shareholdings in Fiat Switzerland S.A. (sold to CNH International S.A.) and Fiat Finance North America Inc. (sold to Fiat Finance and Trade Ltd. S.A.).

Personnel and operating costs, net of other income totaled €35 million, compared with €70 million for 2011.

- **Personnel and operating costs** of €112 million were substantially in line with the prior year (€115 million in 2011). A reduction in costs for services and notional charges on stock options offset higher personnel costs attributable to an increase in headcount. For 2012, the Company had an average of 219 employees (104 for 2011). The increase of 115 was primarily due to the transfer of business units from the subsidiaries Fiat Revisione Interna S.c.p.A. and Fiat Finance S.p.A. at the end of 2011.

- **Other income** of €77 million (€45 million in 2011) principally related to services rendered, including by senior management personnel, to the principal Group companies. Compared to the prior year, the increase of €32 million was primarily due to the increase in services rendered to Group companies, including the activities of the business units acquired in 2011.

Net financial expense totaled €216 million, which included €250 million in financial charges, relating primarily to interest expense on debt, partially offset by income of €34 million arising from the fair value measurement of stock-option related equity swaps on Fiat and Fiat Industrial shares. For 2011, net financial expense totaled €435 million, which included €327 million in financial charges, relating primarily to interest expense on debt, in addition to a €108 million loss arising from the fair value measurement of the above equity swaps. The €219 million decrease in net financial expense over 2011 was attributable to the swing in value of the equity swaps (€142 million), as well as a reduction in costs associated with the lower average level of indebtedness (€77 million).

For **income taxes**, the Company recognized a €31 million credit for the year (€44 million in 2011), which was primarily attributable to compensation received for tax losses contributed by Fiat S.p.A. to the national tax consolidation for the Group's Italian companies.

Statement of Financial Position

The principal components of the statement of financial position were as follows:

(€ million)	31.12.2012	31.12.2011
Non-current assets	11,809	12,169
of which: Investments	11,765	12,123
Working capital	(260)	(253)
NET CAPITAL INVESTED	**11,549**	**11,916**
EQUITY	**8,902**	**9,053**
NET DEBT	**2,647**	**2,863**

Non-current assets consisted almost entirely of controlling interests in the principal Group companies.

The €358 million decrease in investments over 31 December 2011 was primarily attributable to the net effect of impairments and reversals on investments (€962 million) commented on above, net of the recapitalization of certain subsidiaries (€444 million) and acquisition of additional interests in subsidiaries (€131 million), in addition to the fair value revaluation of investments in other companies.

Working capital was a negative €260 million and consisted of trade receivables/payables, other receivables/payables (from/to tax authorities, employees, etc.), contract work in progress net of advances, and provisions for the period. The €7 million decrease over 31 December 2011 mainly reflects the receivable/payable position with subsidiaries and tax receivables for consolidated IRES income taxes.

Equity totaled €8,902 million at 31 December 2012, a reduction of €151 million over year-end 2011 primarily due to the loss for the year (€152 million) and dividends (€40 million), partially offset by the fair value revaluation of investments in other companies.

A more detailed analysis of changes in equity is provided in the statutory financial statements for Fiat S.p.A.

Net debt totaled €2,647 million at 31 December 2012, a reduction of €216 million over year-end 2011, primarily attributable to dividends received, net of recapitalization and acquisition of additional interests in subsidiaries, as commented on previously, and other cash outflows. Net debt consisted of the following:

(€ million)	31.12.2012	31.12.2011
Current financial assets, cash and cash equivalents	(59)	(375)
Current financial liabilities	1,294	1,075
Non-current financial liabilities	1,412	2,163
NET DEBT/(CASH)	**2,647**	**2,863**

Current financial assets at 31 December 2012 consisted mainly of receivables from the subsidiary Fiat Finance S.p.A. relating to the positive fair value of two equity swaps on Fiat and Fiat Industrial ordinary shares.

Current financial liabilities at 31 December 2012 consisted principally of the following items payable to the subsidiary Fiat Finance S.p.A.:

- a current account overdraft
- a short-term loan for €900 million provided at market rates
- liabilities representing the negative fair value of the remaining equity swaps on Fiat and Fiat Industrial ordinary shares

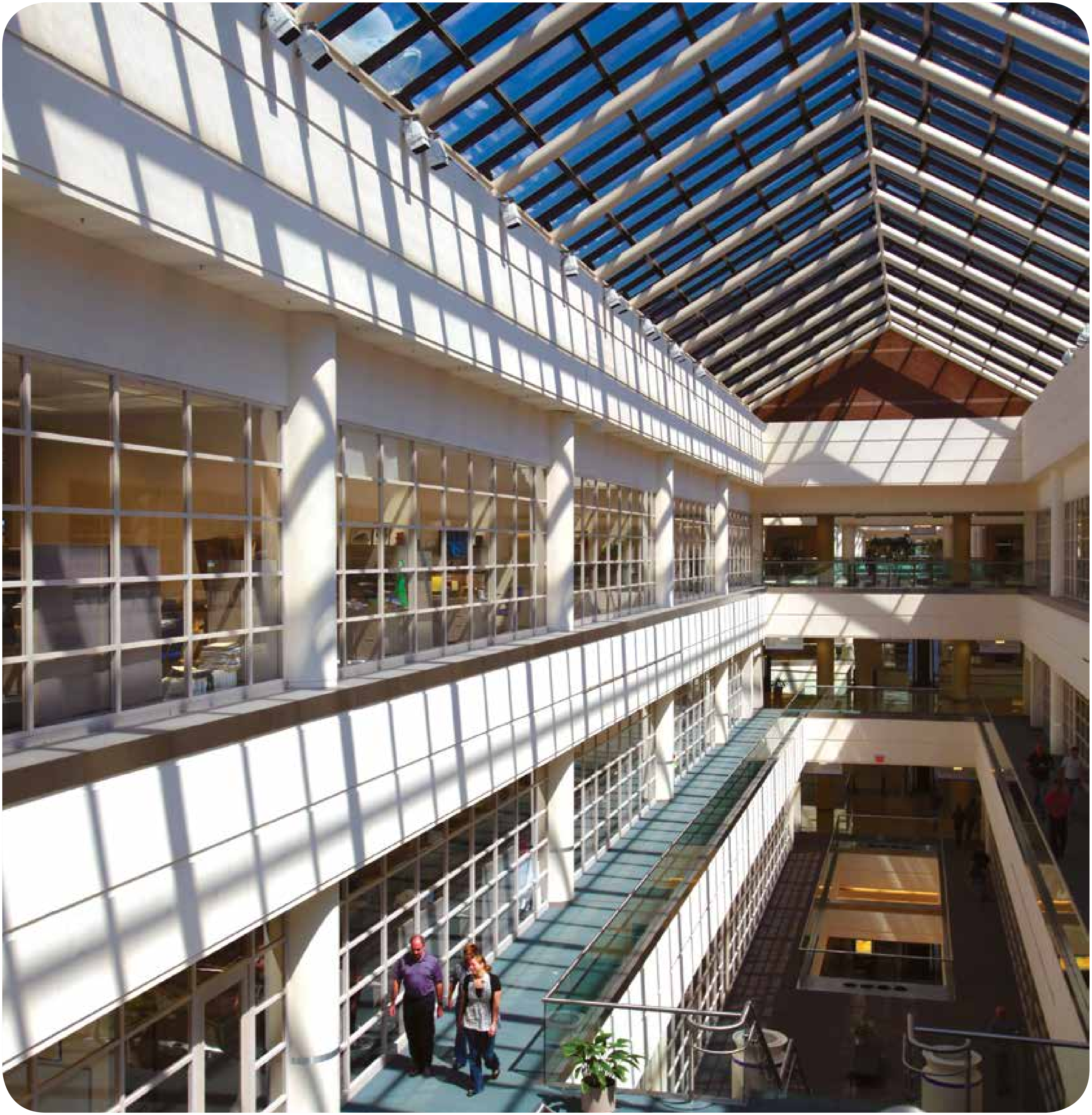
Non-current financial liabilities consisted almost entirely of loans from Fiat Finance S.p.A., at market rates of interest, which are repayable in 2013 and 2014.

A more detailed analysis of cash flows is provided in the statutory financial statements for Fiat S.p.A.

Reconciliation between equity and net profit of the Parent Company and the Group

As required by the Consob Communication of 28 July 2006, the following table provides a reconciliation between the net result and equity of Fiat S.p.A. for the years ended 31 December 2012 and 2011 and the comparable items on a consolidated basis (portion attributable to owners of Fiat S.p.A.):

(€ million)	Equity at 31.12.2012	2012 Profit/(Loss)	Equity at 31.12.2011	2011 Profit/(Loss)
FINANCIAL STATEMENTS OF FIAT S.P.A.	**8,902**	**(152)**	**9,053**	**99**
Elimination of carrying amount of interests in consolidated entities and related dividends	(11,454)	(1,024)	(11,700)	(388)
Elimination of impairment losses (net of reversals) on consolidated entities	-	962	-	(157)
Equity and profit/(loss) of consolidated entities	13,372	615	13,111	1,805
Consolidation adjustments:				
Elimination of intercompany profit/loss on inventories and fixed assets, dividends paid between subsidiaries and other adjustments	(1,761)	(53)	(1,737)	(25)
CONSOLIDATED FINANCIAL STATEMENTS (PORTION ATTRIBUTABLE TO OWNERS OF FIAT S.P.A.)	**9,059**	**348**	**8,727**	**1,334**



Motion for Approval of the Statutory Financial Statements and Allocation of 2012 Net Result

Shareholders,

We hereby submit for your approval the Statutory Financial Statements for the year ended 31 December 2012, which report a net loss of €152,349,998. We propose that the loss be allocated to the Retained Profit reserve, bringing the value of the reserve to €1,758,623,155.

20 February 2013

On behalf of the Board of Directors

/s/ John Elkann

John Elkann

CHAIRMAN