

## Application of the Principles and Criteria of the Corporate Governance Code

The Corporate Governance Code is constituted by principles and criteria. The left-hand column reports the individual principles and criteria of the Code, and the right-hand column provides a summary description of their implementation at Fiat.

### Recommendations of the 2011 Corporate Governance Code

### Implementation by Fiat S.p.A.

#### Role of the Board of Directors

**1.P.1** Listed companies are governed by a Board of Directors that meets at regular intervals, adopts an organisation and a modus operandi which enable it to perform its functions in an effective manner.

The Company's By-laws (Article 13) require that the Board of Directors meet at least once each quarter and that on those occasions the executive directors report to the Board of Directors and the Board of Statutory Auditors on activities performed in exercise of their delegated powers, on the most significant transactions carried out by the Company or its subsidiaries and on transactions where there is a potential conflict of interest. During 2012, the Board met six times. The Board has also assigned the Nominating, Corporate Governance and Sustainability Committee the task of conducting an annual evaluation of the activities of the Board and its Committees.

**1.P.2** The directors act and make decisions with full knowledge of the facts and autonomously pursuing and placing priority on the objective of creating value for the shareholders over a medium-long term period.

The objective of the Board of Directors is to create value for all of the Company's shareholders over the medium-long term. The presence of six non-executive directors out of a total of nine directors, in addition to a significant representation of independent directors, guarantees the absence of any dominating influence over the decision-making process and ensures directors have full independence to express their views, particularly in relation to potential conflicts of interest.

**1.C.1** The Board of Directors shall:

- a) examine and approve the strategic, operational and financial plans of both the issuer and the corporate group it heads, monitoring periodically the related implementation; it defines the issuer's corporate governance and the relevant group structure;

The role of the Board of Directors is described in detail in the Annual Report on Corporate Governance, of which this comparison forms part. Following are excerpts from the Report as well as applicable provisions of the By-laws.

The Board of Directors is vested with the broadest powers for the ordinary and extraordinary management of the Company. It guides the Group's activities through definition of a model of delegation and the direct delegation and revocation of powers, as well as review, approval and continuous monitoring of: strategic, industrial, and financial plans formulated by the directors with executive powers; the organizational structure of the Group; transactions

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- b) define the risk profile, both as to nature and level of risks, in a manner consistent with the issuer's strategic objectives;
- c) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer as well as of its strategically significant subsidiaries in particular with regard to the internal control system and risk management;
- d) specify the frequency, in any case no less than once every three months, with which the delegated bodies must report to the Board on the activities performed in the exercise of the powers delegated to them;
- e) evaluate the general performance of the company, paying particular attention to the information received from the delegated bodies and periodically comparing the results achieved with those planned;
- f) resolve upon transactions to be carried out by the issuer or its controlled companies having a significant impact on the issuer's strategies, profitability, assets and liabilities or financial position; to this end, the Board shall establish general criteria for identifying the material transactions;

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having a material impact on the earnings and financial position of the Group; transactions in which the executive directors have a conflict of interest; and transactions with related parties that are subject to its approval pursuant to the relevant procedures.

Based on the recommendations of the Internal Control and Risk Committee, the Board also sets and updates guidelines for the system of internal control and risk management aimed at identifying, measuring, managing and monitoring the principal risks to which the Company and its subsidiaries are exposed, determining the level of acceptable risk consistent with its strategic objectives.

Under Article 13 of the By-laws, the Board of Directors is responsible for evaluating the adequacy of the organizational, administrative, and accounting structure and the general performance of the Group on the basis of reports from the executive directors. The Board of Directors is also responsible for evaluating the adequacy of the system of internal control and risk management.

The Company's By-laws also require that the Board of Directors meet at least once each quarter and that, on those occasions, the executive directors report to the Board of Directors and the Board of Statutory Auditors on activities performed in exercise of their delegated powers, on the most significant transactions carried out by the Company or its subsidiaries and on transactions where there is a potential conflict of interest.

Under Article 12 of the By-laws, the Board of Directors shall appoint a Chairman, a Vice Chairman, where deemed appropriate, and one or more chief executive officers. Under Article 16 of the By-laws, the Chairman, Vice Chairman and Chief Executive Officer, separately and individually, shall be the Company's legal representatives in relation to the execution of resolutions adopted by the Board and in legal proceedings, as well as execution of other powers conferred on them by the Board. Finally, Article 13 requires that directors to whom powers have been delegated report, at least once each quarter, on general operating performance and expected future developments, as well

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as on the implementation of the strategic, industrial and financial plans of the Group.

As provided in Article 12 of the By-laws, compensation for Directors with specific responsibilities is to be determined by the Board of Directors, after having received the opinion of the Board of Statutory Auditors. Additionally, the Board has entrusted the Compensation Committee with the duty of presenting proposals in relation to individual compensation plans for the Chairman, the Chief Executive Officer and the other directors with specific responsibilities, as well as in relation to the establishment of performance targets for their variable compensation and annual verification of the level of achievement of those targets.

In accordance with Consob Regulation 17221 of 12 March 2010, the Company adopted procedures for transactions with related parties (the "Procedures") 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

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- g) perform at least annually an evaluation of the performance of the Board of Directors and its committees, as well as their size and composition, taking into account the professional competence, experience (including managerial experience) gender of its members and number of years as director. Where the Board of Directors avails of consultants for such a self-assessment, the Corporate Governance Report shall provide information on other services, if any, performed by such consultants to the issuer or to companies having a control relationship with the issuer;
- h) taking into account the outcome of the evaluation mentioned under the previous item g), report its view to shareholders on the professional profiles deemed appropriate for the composition of the Board of Directors, prior to its nomination;

accounting procedures required under Article 154-*bis* of Legislative Decree 58/98.

As established in the “Guidelines for Significant Transactions” (previously the “Guidelines for Significant Transactions and Transactions with Related Parties”), any transaction having a significant impact on the Company’s earnings and financial position is subject to the prior examination and approval of 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 any significant transaction being undertaken, the executive directors are required to provide the Board a summary report on their analysis of 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).

The Board of Directors has assigned the Nominating, Corporate Governance and Sustainability Committee responsibility for evaluating, on an annual basis, the activities performed by the Board and its Committees with particular emphasis on size, composition and functioning.

In its periodic evaluations of the Board’s composition, the Committee takes into account the relative mix of executive, non-executive and independent directors, as well as their specific technical abilities and professional background and experience. International experience and a solid understanding of the macro-economy and globalization are evaluated, as well as, more specifically, the level of experience in the industrial and financial sectors. An appropriate mix in terms of gender and length of time on the board are also taken into account.

With the Board’s three-year mandate due to expire on 4 April 2012, at the meeting of 22 February 2012 the Nominating, Corporate Governance and Sustainability Committee reported the positive results of the annual self-evaluation of the activities of the Board and its Committees (described in detail in Section III of this Report), providing

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an update on evaluations conducted in previous years. Those results formed part of the basis upon which the Committee formulated recommendations to Shareholders and the incoming Board of Directors. As in the past, the self-evaluation, in which all members participated, examined the size, composition, mix of professional capabilities and experience and functioning of the Board, and its Committees in particular, through a comprehensive review of their activities. One of the most positive aspects to emerge from the self-evaluation process was that the increased concentration on the automobile and automobile-related businesses resulting from the demerger of the capital goods activities to Fiat Industrial had enabled a more in-depth examination of issues specific to the industry sector in which the Group operates. It also reconfirmed as adequate the number of meetings, the effectiveness and efficiency of the work undertaken and the contribution to the decision-making process, in addition to the importance of the contribution from the independent directors and the cohesive atmosphere within the Board. Areas for improvement that were identified related substantially to increasing opportunities for greater examination of issues relative to the competitive environment.

On 22 February 2012, the Board formulated a proposal – subsequently approved by Shareholders on 4 April 2012 – to set the total number of directors at nine. It was the Board's view that a reduction in the number of members was appropriate in consideration of the Group's increased concentration in the automobiles business, and would also facilitate more effective execution of the Board's activities, while at the same time ensuring adequate diversity of membership on the Committees. The Board also emphasized the benefits of gender diversity in its membership.

On 19 February 2013, the Nominating, Corporate Governance and Sustainability Committee examined the Annual Report on Corporate Governance and the Sustainability Report.

The Board has entrusted the Nominating, Corporate Governance and Sustainability Committee with the duty of selecting and proposing, at the time of co-opting or renewal of mandates, nominees to the Board of Directors, in consideration of the number of positions they already hold, indicating the specific individual and/or the qualifications required.

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- i) provide information in the Corporate Governance Report on (1) its composition, indicating for each member the relevant role held within the Board of Directors (including by way of example, chairman or chief executive officer, as defined by article 2), the main professional characteristics as well as the duration of his/her office since the first appointment; (2) the application of article 1 of this Code and, in particular, on the number and average duration of meetings of the Board and of the executive committee, if any, held during the fiscal year, as well as the related percentage of attendance of each director; (3) how the self-assessment procedure as at previous item g) has developed;

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The Report on Corporate Governance is prepared on an annual basis and disclosed to the market. In addition to the elements required under Article 123-*bis* of Legislative Decree 58/98, the Report also includes information on application of recommendations made in the Code.

The Report, of which this comparison is a part, provides details of: the composition of the Board; the roles held and length of time in office since first election for each director; the number of meetings held by the Board and its Committees and level of attendance of each director. The curricula vitae of the Board members are available on the Company's website ([www.fiatspa.com](http://www.fiatspa.com)).

The length of Board of Directors' meetings varies according to the matters being addressed, but averages from 2 to 4 hours.

Article 12 also states that the Board of Directors shall, after consulting with the Board of Statutory Auditors, appoint a manager responsible for the Company's financial reporting. Pursuant to the applicable laws and regulations, the appointed manager is responsible, with regard to the consolidated and parent company annual and half-yearly financial statements, for certifying that the administrative and accounting procedures implemented for reporting are adequate with respect to the size and characteristics of the organization and have been effectively applied. The certification also relates to the conformity of the financial statements with international financial reporting standards, their consistency with the accounting records and supporting documentation and their suitability in providing a true and fair representation of the earnings and financial position of the issuer and consolidated entities.

The manager responsible for the Company's financial reporting is also required, in relation to the parent company and consolidated financial statements, to certify that the report on operations represents a reliable analysis of operations and operating results, in addition to the financial position of the issuer and the entities included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed. In relation to the interim financial statements, however, he certifies that the interim management report contains information on important events affecting the Company during the first six months of the financial year, including the impact of such events on the Company's financial statements, and a description of the principal risks and uncertainties for the

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- j) in order to ensure the correct handling of corporate information, adopt, upon proposal of the managing director or the chairman of the Board of Directors, internal procedures for the internal handling and disclosure to third parties of information concerning the issuer, having special regard to price sensitive information.

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remaining six months of the year along with a description of significant related-party transactions.

Finally, the abovementioned manager is also responsible for implementation and dissemination of the Procedures for Transactions with Related Parties to Group companies, ensuring coordination with the administrative and accounting procedures required under Article 154-*bis* of Legislative Decree 58/98.

Internal procedures for the management of confidential information were adopted in 2000. These procedures were implemented through the issue of a specific organizational announcement by the Chief Executive Officer.

Following implementation of European market abuse regulations, Fiat S.p.A.'s Board of Directors approved two resolutions (in 2006 and 2007) that led to adoption of the Procedures for internal management and public disclosure of confidential information. Those procedures contain the rules for establishing and managing the list of persons with access to inside or potential inside information (the "Insider List"). They define the types of "inside", "potential inside" and "confidential" information, establish different sections into which the Insider List is divided – in addition to concrete procedures for application – and the duties and responsibilities of individuals delegated management of that information. The procedures also cite the specific laws and regulations which govern the disclosure of price sensitive information and the procedures to be followed in relation to the management and disclosure of such information. In addition, the procedures – whose primary objective is to establish how information is monitored and disseminated, both inside and outside the Group, together with the requirements for management of the Insider List (also to prevent untimely, selective, incomplete or inadequate disclosure of information) – detail the sanctions applicable to employees under the Code of Conduct and the obligations of compliance and due care applicable to Directors and Statutory Auditors.

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**1.C.2** The directors shall accept the directorship when they deem that they can devote the necessary time to the diligent performance of their duties, also taking into account the commitment relating to their own work and professional activity, the number of offices held as director or statutory auditor in other companies listed on regulated markets (including foreign markets) in financial companies, banks, insurance companies or companies of a considerably large size. The Board shall record, on the basis of the information received from the directors, on a yearly basis, the offices of director or statutory auditor held by the directors in the above-mentioned companies and include them in the Corporate Governance Report.

**1.C.3** The Board shall issue guidelines regarding the maximum number of offices as director or statutory auditor for the types of companies referred to in the above paragraph that may be considered compatible with an effective performance of a director's duties, taking into account the attendance by the directors to the committees set up within the Board.

To this end, the Board identifies the general criteria, differentiating them according to the commitment entailed by each role (executive or non-executive or independent director), as well as the nature and size of the companies in which the offices are performed, plus whether or not the companies are members of the issuer's group.

**1.C.4** If the shareholders' meeting, when dealing with organisational needs, authorises, on a general, preventive basis, derogations from the rule prohibiting competition, as per Article 2390 of the Italian Civil Code, then the Board of Directors shall evaluate each such issue, reporting, at the next shareholders' meeting, the critical ones if any. To this end, each director shall inform the Board, upon accepting his/her appointment, of any activities exercised in competition with the issuer and of any effective modifications that ensue.

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The current members of the Board of Directors were elected also on the basis of recommendations made by the Nominating, Corporate Governance and Sustainability Committee and upon prior verification of the corporate positions held by each of them, as well as the commitments associated with their respective work and professional activities.

The Annual Report on Corporate Governance contains detailed information on positions held by each director and statutory auditor at other listed companies or companies of significant interest.

With regard to the maximum number of positions held, the Board has determined that one of the necessary conditions for those serving as directors and statutory auditors is the availability of adequate time to execute their duties in an effective manner. This element is taken into consideration by the Nominating, Corporate Governance and Sustainability Committee when proposing candidates and during the annual self-evaluation process.

In a resolution passed on 22 February 2012, the Board of Directors decided to resubmit a number of criteria for determining the independence of directors for approval to Shareholders that had previously been approved by Shareholders in 2005 and ratified on 3 May 2006, 27 March 2009 and 4 April 2012. Those criteria stipulate that directors who have been directors of the Group's primary competitors during the last three years cannot be considered independent, except in special cases.

That element is always taken into account by the Nominating, Corporate Governance and Sustainability Committee when proposing candidates.



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**1.C.5** The chairman of the Board of Directors shall ensure that the documentation relating to the agenda of the Board are made available to directors and statutory auditors in a timely manner prior to the Board meeting. The Board of Directors shall provide information in the Corporate Governance Report on the promptness and completeness of the pre-meeting information, providing details, *inter alia*, on the prior notice usually deemed adequate for the supply of documents and specifying whether such prior notice has been usually observed.

**1.C.6** The chairman of the Board of Directors, also upon request of one or more directors, may request to the managing directors that certain executives of the issuer or the companies belonging to its group, in charge of the pertinent management areas related to the Board agenda, attend the meetings of the Board, in order to provide appropriate supplemental information on the items on the agenda.

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Documents containing information relevant to the discussion are sent to directors and statutory auditors a few days preceding the meetings, with the exception of certain items which are particularly urgent or confidential.

To ensure directors timely and complete access to information in advance of Board meetings and to optimize their participation in the decision-making process, information channels have been put in place that provide immediate access to the relevant meeting documentation, while guaranteeing the confidentiality of the data and information provided. This saves time that would be needed to print and send the documentation by fax, post or courier, and provides the individuals concerned with speedier access to the documents. In such circumstances 2 to 3 days' notice is generally considered acceptable.

The heads of company functions that are responsible for matters to be discussed in the agenda usually also attend the Board and Committee meetings. In any event, the directors always have direct access to management.

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## Composition of the Board of Directors

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**2.P.1** The Board of Directors shall be made up of executive and non-executive directors, who should be adequately competent and professional.

The Board of Directors is currently made up of three executive directors and six non-executive directors.

**2.P.2** Non-executive directors shall bring their specific expertise to Board discussions and contribute to the adoption of fully informed decisions paying particular care to the areas where conflicts of interest may exist.

The existence of an absolute majority of non-executive directors, the high number of independent directors, and the professionalism and experience of all members of the Board of Directors assures compliance with the principle in question.

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**2.P.3** The number, competence, authority and time availability of non-executive directors shall be such as to ensure that their judgement may have a significant impact on the taking of Board's decisions.

**2.P.4** It is appropriate to avoid the concentration of corporate offices in one single individual.

**2.P.5** Where the Board of Directors has delegated management powers to the chairman, it shall disclose adequate information in the Corporate Governance Report on the reasons for such organisational choice.

**2.C.1** The following are qualified executive directors for the issuer:

- the managing directors of the issuer or a subsidiary having strategic relevance, including the relevant chairmen when these are granted individual management powers or when they play a specific role in the definition of the business strategies;
- the directors vested with management duties within the issuer or in one of its subsidiaries having strategic relevance, or in a controlling company when the office concerns also the issuer;
- the directors who are members of the executive committee of the issuer, when no managing director is appointed or when the participation in the executive committee, taking into account the frequency of the meetings and the scope of the relevant resolutions, entails, as a matter of fact, the systematic involvement of its members in the day-to-day management of the issuer.

The granting of deputy powers or powers in cases of urgency to directors, who are not provided with management powers is not enough, *per se*, to cause them to be identified as executive directors, provided however, that such powers are not actually exercised with considerable frequency.

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See the comments on points 1.C.1 (g) and 2.P.2.

Furthermore, all directors have significant past and present experience at other companies of the size and complexity of Fiat. In this regard, see the comments on principle 3.C.3.

The model for delegation of powers, which is described in detail in this Report, is based on the fact that the Chairman and Chief Executive Officer have the same powers. In practice, the Chairman provides the 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. This division of responsibilities complies with the Code principle, which states that in principle, the Chairman should not be responsible for operational management of the Company.

Accordingly, Fiat has not deemed it necessary to appoint a lead independent director.

In accordance with the definition given in the principle of the Code, the following qualify as executive directors: the Chairman, who is also Chairman of Editrice La Stampa S.p.A., and the Chief Executive Officer who, in addition to being Chairman of the principal subsidiaries, is also CEO of Fiat Group Automobiles S.p.A. and 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.

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**2.C.2** The directors shall know the duties and responsibilities relating to their office.

The chairman of the Board of Directors shall use his best efforts for causing the directors and the statutory auditors, after the election and during their mandate, to participate in initiatives aimed at providing them with an adequate knowledge of the business sector in which the issuer runs its activity, of the corporate dynamics and the relevant evolutions, as well as the relevant regulatory framework.

**2.C.3** The Board shall designate an independent director as lead independent director, in the following circumstances: (i) in the event that the chairman of the Board of Directors is the chief executive officer of the company; (ii) in the event that the office of chairman is held by the person controlling the issuer.

The Board of Directors of issuers belonging to FTSE-Mib index shall designate a lead independent director if so requested by the majority of independent directors, except in the case of a different and grounded assessment carried out by the Board to be reported in the Corporate Governance Report.

**2.C.4** The lead independent director:

- (a) represents a reference and coordination point for the requests and contributions of non-executive directors and, in particular, those who are independent pursuant to Article 3 below;
- (b) cooperates with the Chairman of the Board of Directors in order to guarantee that directors receive timely and complete information.

**2.C.5** The chief executive officer of issuer (A) shall not be appointed director of another issuer (B) not belonging to the same corporate group, in the event that the chief executive officer of issuer (B) is a director of issuer (A).

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The structure and content of the Board meetings, as well as participation at Committee meetings, guarantees that the Directors and Statutory Auditors are continuously informed about company operations and market conditions. Meetings to examine specific issues are also held periodically directly at industrial sites.

The Directors and Statutory Auditors also receive constant updates on the principal changes in laws and regulations.

Given the current model for delegation of powers adopted by Fiat S.p.A., designation of a lead independent director is not required (see the comment on principle 2.P.4).

The situation described in principle 2.C.5 is not present within Fiat.

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**3.P.1** An adequate number of non-executive directors shall be independent, in the sense that they do not maintain, directly or indirectly or on behalf of third parties, nor have recently maintained any business relationships with the issuer or persons linked to the issuer, of such a significance as to influence their autonomous judgement.

On 22 February 2012, the Board formulated a proposal – subsequently approved by Shareholders on 4 April 2012 – that the Board be composed of an appropriate number of independent directors, in line with the approval given in 2009.

**3.P.2** The directors' independence shall be assessed by the Board of Directors, after the appointment and, subsequently, on a yearly basis. The results of the assessments of the Board shall be communicated to the market.

Existence of the requirements for independence is determined at the time of election and on an annual basis. Whenever a circumstance arises that could potentially cause a director to fail the requirements of independence, directors must report that situation in writing. The results of the assessments are communicated to the market.

**3.C.1** The Board of Directors shall evaluate the independence of its non-executive members having regard more to the contents than to the form and keeping in mind that a director usually does not appear independent in the following events, to be considered merely as an example and not limited to:

Based on the proposal of the Board of Directors, on 4 April 2012 Shareholders reconfirmed the requirements for independence adopted in 2005 and 2006 and confirmed in 2009.

Those requirements (described below), whose satisfaction by independent directors has been attested to by the Board, conform to the recommendations of the Code and are in line with international best practice. In particular, directors may be considered independent where they:

- a) if he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or third parties, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons can exercise a control or dominant influence over the issuer;
- b) if he/she is, or has been in the preceding three fiscal years, a significant representative of the issuer, of a subsidiary having strategic relevance or of a company under common control with the issuer, or of a company or entity controlling the issuer or able to exercise over the same a considerable influence, also jointly with others through a shareholders agreement;
- c) if he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
  - with the issuer, one of its subsidiaries, or any of its

- a) do not directly, indirectly or on behalf of third parties, nor have they within the past three years, maintained an economic or shareholding relationship or relationship of any other nature with the individuals or entities listed below:

- the Company, its subsidiaries and associates, or companies subject to control by the same entity as the Company;
- any individual or entity which, including jointly with others, controls the Company, is a member of a shareholder agreement for the control of the Company or exercises significant influence over it;
- executive directors or executives with strategic responsibilities for those entities;

- b) are not, or have not been within the past three years, executive directors or executives with strategic

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significant representatives;

- with a subject who, also jointly with others through a shareholders' agreement, controls the issuer, or – in case of a company or an entity – with the relevant significant representatives;

or is, or has been in the preceding three fiscal years, an employee of the above-mentioned subjects;

- d) if he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer, a significant additional remuneration (compared to the "fixed" remuneration of non-executive director of the issuer and to remuneration of the membership in the committees that are recommended by the Code) also in the form of participation in incentive plans linked to the company's performance, including stock option plans;
- e) if he/she was a director of the issuer for more than nine years in the last twelve years;
- f) if he/she is vested with the executive director office in another company in which an executive director of the issuer holds the office of director;
- g) if he/she is shareholder or quotaholder or director of a legal entity belonging to the same network as the company appointed for the auditing of the issuer;
- h) if he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

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responsibilities for the entities described in point a);

- c) have not been directors of the Company for more than nine years, including non-successive terms of office;
- d) are not executive directors of companies outside the Group where one or more executive directors of the Company are non-executive directors;
- e) have not, within the past three years, been partners or directors of one of the Company's major competitors;
- f) have not been, within the past three years, partners or directors of a rating agency which is currently, or has been within the past three years, responsible for assigning a rating to the Company, a subsidiary of the Company or a company which, including jointly with others, controls the Company;
- g) are not, or have not been within the past three years, partners or directors or members of an audit team – or of an entity forming part of its network – which has been engaged within the past three years to perform audits of the Company, its subsidiaries, companies subject to control by the same entity as the Company, or any company which, including jointly with others, exercises control or significant influence over the Company;
- h) are not members of the immediate family and do not cohabit with individuals who would be ineligible under the preceding points.

Note that:

- criterion a), regarding what the Code addresses in criteria a), c), and d), also applies to associate companies of the issuer;
- criterion c), regarding what the Code addresses in criterion e), is "absolute" and not subject to any reference time period;
- criterion g) also refers to the members of the audit team;
- criterion h) also refers to persons who live in the same household as the directors.

Finally, directors who have been directors of the Company's primary competitors or worked for rating agencies during the last three years cannot be considered independent. The independence of directors is determined by the Board and where, during the course of such evaluation, it identifies the existence of a relationship included in point a), it may express a favorable view only where such relationship can be considered immaterial given its exact nature or amount.

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As required by law and the By-laws, two directors also satisfy the requirements of independence set forth in Legislative Decree 58/98.

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**3.C.2** For the purpose of the above, the chairman of the entity, the chairman of the Board of Directors, the executive directors and key management personnel of the relevant company or entity, must be considered as “significant representatives”.

This interpretative criterion is consistent with the one adopted by Fiat (see the previous comment on 3.C.1.).

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**3.C.3** The number and competences of independent directors shall be adequate in relation to the size of the Board and the activity performed by the issuer; moreover, they must be such as to enable the constitution of committees within the Board, according to the indications set out in the Code.

As for issuers belonging to FTSE-Mib index, at least one third of the Board of Directors members shall be made up of independent directors. If such a number is not an integer, it shall be rounded down.

Anyway, independent directors shall not be less than two.

The Board of Directors is currently made up of nine members, four of whom are independent.

As stated in the comment to Principle 1.C.1, in light of the Group's increased concentration in the automobiles business, on 4 April 2012 Shareholders voted, at the proposal of the Board of Directors, to set the number of members of the new Board of Directors at nine. Shareholders considered that the reduction in the members would also facilitate more effective execution of the Board's activities, while ensuring adequate diversity of membership on the Committees.

The current number also allows for the Board to continue to have an adequate mix of technical abilities, professional background and experience, both general and specific, gained in an international environment and pertaining to the dynamics of the macro-economy and globalization of markets, more generally, as well as the industrial and financial sectors, more specifically. It also allows for a mix of skills and experience that is adequate in terms of the size of the Company and the Group, as well as the complexity and specific characteristics of the sectors in which the Group operates and the geographic distribution of its businesses.

On 4 April 2012, Shareholders elected a new Board of Directors with a significant representation of independent directors. In addition to the two independent directors required by law and in consideration of the recommendation of the Corporate Governance Code that at least one-third of directors be independent, Shareholders elected a total of four directors who met the requirements of independence adopted for previous elections.

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**3.C.4** After the appointment of a director who qualifies himself/herself as independent, and subsequently, upon the occurrence of circumstances affecting the independence requirement and in any case at least once a year, the Board of Directors shall evaluate, on the basis of the information provided by the same director or available to the issuer, those relations which could be or appear to be such as to jeopardize the autonomy of judgement of such director.

The Board of Directors shall notify the result of its evaluations, after the appointment, through a press release to the market and, subsequently, within the Corporate Governance Report.

In the documents mentioned above, the Board of Directors shall:

- disclose whether they adopted criteria for assessing the independence which are different from the ones recommended by the Code, also with reference to individual directors, and if so, specifying the reasons;
- describe quantitative and/or qualitative criteria used, if any, in assessing the relevance of relationships under evaluation.

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**3.C.5** The Board of statutory auditors shall ascertain, in the framework of the duties attributed to it by the law, the correct application of the assessment criteria and procedures adopted by the Board of Directors for evaluating the independence of its members. The result of such controls is notified to the market in the Corporate Governance Report or in the report of the Board of statutory auditors to the shareholders' meeting.

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**3.C.6** The independent directors shall meet at least once a year without the presence of the other directors.

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On the basis of the information provided by the individual concerned or otherwise available to the issuer, the Board of Directors reviews annually, as well as at the time of election or where necessary due to the occurrence of a significant event, whether the requirements for independence exist. The results of these assessments are communicated to the market at the time directors are elected by Shareholders or co-opted, and are also published annually in this Report.

At the meeting held on 4 April 2012, the Board verified that Joyce Victoria Bigio, René Carron, Gian Maria Gros-Pietro and Patience Wheatcroft satisfied the independence requirements referred to above.

Satisfaction of the independence requirements is reviewed by the Board of Directors with the participation of the Board of Statutory Auditors, which can thus verify the procedures used. The Board of Statutory Auditors reports the outcome of these audits in its report to Shareholders.

The independent directors met once in early 2012 in the absence of the other directors to review, among other things, the results of the self-evaluation of the activities of the Board and Committees, as well as the evaluation process itself.

The independent directors have direct access to management.

**2011 Corporate Governance Code****Fiat S.p.A.****Establishment and functioning of internal committees of the Board of Directors**

**4.P.1** The Board of Directors shall establish among its members one or more committees with proposing and consultative functions according to what is set out in the articles below.

Fiat's Board of Directors has long since established a Nominating and Compensation Committee, which in 2007 was split into the Nominating and Corporate Governance Committee and the Compensation Committee, and the Internal Control Committee. In 2009, the Nominating and Corporate Governance Committee, which was assigned the further responsibility of evaluating proposals related to strategic guidelines on sustainability-related issues and for reviewing the annual Sustainability Report, changed its name to Nominating, Corporate Governance and Sustainability Committee. On 22 February 2012, the Board of Directors redefined the role of the Internal Control Committee, as described in more detail below, and changed its name to Internal Control and Risk Committee.

**4.C.1** The establishment and functioning of the committees governed by the Code shall meet the following criteria:

- a) committees shall be made up of at least three members. However, in those issuers whose Board of Directors is made up of no more than eight members, committees may be made up of two directors only, provided, however, that they are both independent. The committees' activities shall be coordinated by a chairman;
- b) the duties of individual committees are provided by the resolution by which they are established and may be supplemented or amended by a subsequent resolution of the Board of Directors;
- c) the functions that the Code attributes to different committees may be distributed in a different manner or demanded from a number of committees lower than the envisaged one, provided that for their composition the rules are complied with those indicated from time to time by the Code and is ensured the achievement of the underlying objectives;
- d) minutes shall be drafted of the meetings of each committee;
- e) in the performance of their duties, the committees have the right to access the necessary company's information and functions, according to the procedures established by the Board of Directors, as well as to avail themselves of external advisers. The issuer shall make available

With regard to the criteria set out in point 4.C.1:

- a) all committees set up by Fiat have three members and are presided over by a Chairman who coordinates their activities;
- b) the charters that define duties and regulate the work of each committee were approved by the Board of Directors and are periodically updated by it;
- c) the propositive and advisory functions entrusted to the Internal Control and Risk Committee, the Nominating, Corporate Governance and Sustainability Committee and the Compensation Committee are in line with the provisions of the Code and best practice;
- d) the charter of each committee envisages that minutes of each meeting be taken by the secretary;
- e) the charter of each committee envisages that the committee may avail itself of external consultants at the Company's expense and members of the Board and the Committees are ensured access to the Company's functions and information;



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to the committees adequate financial resources for the performance of their duties, within the limits of the budget approved by the Board;

- f) persons who are not members of the committee, including other Board members or persons belonging to issuer's structure, may participate in the meetings of each committee upon invitation of the same, with reference to individual items on the agenda;
- g) the issuer shall provide adequate information, in the Corporate Governance Report, on the establishment and composition of committees, the contents of the mandate entrusted to them, as well as, on the basis of the indications provided for by each committee, the activity actually performed during the fiscal year, the number of meetings held, their average duration and the relevant percentage of participation of each member.

## Fiat S.p.A.

- f) the charter of each committee envisages that other persons may be periodically invited to its meetings when their presence can help improve their work;
- g) detailed information on the activities of the committees is provided in the Annual Report on Corporate Governance.

**4.C.2** The establishment of one or more committees may be avoided and the relevant duties may be assigned to the Board of Directors, under the coordination of the Chairman and provided that: (i) independent directors are at least half of the Board of Directors members; if the number of the Board members is odd, a rounding down to the lower unit shall be carried out; (ii) adequate time is dedicated during the Board meetings to actions that the Code requires the Committees to carry out, and this circumstance is disclosed in the Corporate Governance Report; (iii) as far as the control and risk committee is concerned, the issuer is neither controlled by another listed company nor it is subject to direction and coordination.

The Board of Directors describes in detail in the Corporate Governance Report the reasons underlying the choice not to establish one or more committees; in particular, it provides adequate grounds for the choice not to establish the risks and control committee in consideration of the complexity level of the issuer and the sector in which it operates. In addition, the Board shall periodically reassess the choice made.

**2011 Corporate Governance Code****Fiat S.p.A.****Election of Directors**

**5.P.1** The Board of Directors shall establish among its members a committee to propose candidates for appointment to the position of director, made up, for the majority, of independent directors.

The Nominating and Corporate Governance Committee was established in July 2007 (following the splitting of the former Nominating and Compensation Committee). It inherited the propositive and advisory roles related to nominations, and was further given responsibility for reporting and formulating proposals on corporate governance issues.

In 2009, the Committee was also assigned responsibility for evaluating proposals related to strategic guidelines on sustainability-related issues and for reviewing the annual Sustainability Report. As a consequence of this additional role, the Committee changed its name to the Nominating, Corporate Governance and Sustainability Committee.

The Committee, as with its predecessor, is composed of a majority of independent directors.

**5.C.1** The committee to propose candidates for appointment to the position of director shall be vested with the following functions:

- a) to express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board as well with regard to the topics indicated by articles 1.C.3. and 1.C.4.;
- b) to submit the Board of Directors candidates for directors offices in case of co-optation, should the replacement of independent directors be necessary.

The Nominating, Corporate Governance and Sustainability Committee performs all functions indicated by the criteria and, in addition, conducts an annual evaluation of the activity of the Board and its committees and periodically updates the Board on changes in corporate governance rules as well as, where applicable, making proposals for modifications. It also has responsibility for evaluating proposals related to strategic guidelines on sustainability-related issues and for reviewing the annual Sustainability Report. See comments to points 1.C.3 and 1.C.4.

**5.C.2** The Board of Directors shall evaluate whether to adopt a plan for the succession of executive directors. In the event of adoption of such a plan, the issuer shall disclose it in the Corporate Governance Report. The review on the preparation of the above mentioned plan shall be carried out by the nomination committee or by another committee established within the Board of Directors in charge of this task.

Given the three-year duration of the mandate of all the Directors and consequent need to periodically re-elect them, there has been no necessity to date to adopt a succession plan for the executive directors.

**2011 Corporate Governance Code****Fiat S.p.A.****Compensation of Directors**

**6.P.1** The remuneration of directors and key management personnel shall be established in a sufficient amount to attract, retain and motivate people with the professional skills necessary to successfully manage the issuer.

The compensation of directors and executives with strategic responsibilities is in line with that of other Italian and international companies comparable to Fiat.

Detailed information on compensation and incentive plans for directors and for executives with strategic responsibilities is provided in the Compensation Report.

**6.P.2** The remuneration of executive directors and key management personnel shall be defined in such a way as to align their interests with pursuing the priority objective of the creation of value for the shareholders in a medium-long term timeframe. With regard to directors with managerial powers or performing, also *de-facto*, functions related to business management, as well as with regard to key management personnel, a significant part of the remuneration shall be linked to achieving specific performance objectives, possibly including non-economic objectives, identified in advance and determined consistently with the guidelines contained in the policy described in principle 6.P.4.

In accordance with Article 12 of the By-laws, the Compensation for Directors with specific responsibilities is determined by the Board of Directors, after having received the opinion of the Board of Statutory Auditors. On 31 July 2012, the Board of Directors passed a resolution setting gross annual compensation for directors with specific responsibilities pursuant to Article 2389 (3) of the Civil Code, as follows: €30,000 to the Chairman of the Internal Control and Risk Committee and €20,000 each to the other members of the Committee; €20,000 to the Chairmen of the Nominating, Corporate Governance and Sustainability Committee and the Compensation Committee and €15,000 each to the other members of those Committees.

The Board has also assigned the Compensation Committee the duty of making proposals to the Board in relation to individual compensation plans for the Chairman, the Chief Executive Officer and other Directors with specific responsibilities, as well as setting the objectives for variable compensation and annually assessing the level of achievement of those objectives.

Consistent with the comments provided to principle 2.P.4, the compensation of the Chief Executive Officer is composed of a fixed portion and a variable portion, which is linked to the achievement of predetermined targets. The Fiat Board has assigned the Chairman a fixed compensation.

The remuneration of non-executive directors shall be proportionate to the commitment required from each of them, also taking into account their possible participation in one or more committees.

Executives with strategic responsibilities receive a fixed and variable compensation. The payment and amount of the variable compensation depend exclusively on the financial results of the Group and/or achievement of specific targets.

Detailed information on compensation and incentive plans for directors and for executives with strategic responsibilities is provided in the Compensation Report.

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**6.P.3** The Board of Directors shall establish among its members a remuneration committee, made up of independent directors. Alternatively, the committee may be made up of non executive directors, the majority of which to be independent; in this case, the chairman of the committee is selected among the independent directors. At least one committee member shall have an adequate knowledge and experience in finance or remuneration policies, to be assessed by the Board of Directors at the time of his/her appointment.

**6.P.4** The Board of Directors shall, upon proposal of the remuneration committee, establish a policy for the remuneration of directors and key management personnel.

**6.C.1** The policy for the remuneration of executive directors and other directors covering particular offices shall define guidelines on the issues and consistently with the criteria detailed below:

- a) the non-variable component and the variable component are properly balanced according to issuer's strategic objectives and risk management policy, taking into account the business sector in which it operates and the nature of the business carried out;
- b) upper limits for variable components shall be established;

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In July 2007, following the splitting of the Nominating and Compensation Committee, the Compensation Committee was established and is entirely composed of independent, non-executive directors with a propositive and advisory role for compensation issues.

In a resolution passed on 22 February 2012, the Board of Directors, at the proposal of the Compensation Committee, established a compensation policy for directors and executives with strategic responsibilities. That policy is consistent with the content of the Corporate Governance Code issued in December 2011 and legal requirements.

In accordance with Article 123-ter of Legislative Decree 58/98, that policy, which forms the first section of the Compensation Report, was submitted for the approval of Shareholders at the General Meeting called for approval of the 2011 financial statements. The Compensation Report is available on the Company website ([www.fiatspa.com](http://www.fiatspa.com)).

So far in 2013, the Compensation Committee has met two times during which it reviewed the Compensation Policy and addressed other matters. On 20 February 2013, the Board of Directors, at the proposal of the Compensation Committee, approved revisions to the Compensation Policy consistent with the provisions of law and the Corporate Governance Code. The revised version of the Policy will be submitted to Shareholders for review at the General Meeting called for approval of the 2012 financial statements.

This principle has been observed.

For details of the Compensation Policy see the Compensation Report.

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- c) the non-variable component shall be sufficient to reward the director when the variable component was not delivered because of the failure to achieve the performance objectives specified by the Board of Directors;
- d) the performance objectives – i.e. the economic performance and any other specific objectives to which the payment of variable components (including the objectives for the share-based compensation plans) is linked – shall be predetermined, measurable and linked to the creation of value for the shareholders in the medium-long term;
- e) the payment of a significant portion of the variable component of the remuneration shall be deferred for an appropriate period of time; the amount of that portion and the length of that deferral shall be consistent with the characteristics of the issuer's business and associated risk profile;
- f) termination payments shall not exceed a fixed amount or fixed number of years of annual remuneration. Termination payments shall not be paid if the termination is due to inadequate performance.

**6.C.2** In preparing plans for share-based remuneration, the Board of Directors shall ensure that:

- a) shares, options and all other rights granted to directors to buy shares or to be remunerated on the basis of share price movements shall have an average vesting period of at least three years;
- b) the vesting referred to in paragraph a) shall be subject to predetermined and measurable performance criteria;
- c) directors shall retain a certain number of shares granted or purchased through the exercise of the rights referred to in paragraph a), until the end of their mandate.

Share-based compensation plans adopted by the Board of Directors follow guidelines recommended by the Compensation Committee, including benchmarking against international competitors and/or groups of a similar scale and include vesting periods which vary according to the objectives of the individual plan. Plans containing a performance element are based on targets that are both pre-established and measurable. Actual achievement of the targets is verified by the Compensation Committee and vesting is over a period of three years. Historically, at least 50% of the shares received by plan beneficiaries as a result of rights attributed have been held after the mandate or professional relationship has terminated.

**6.C.3** The criteria 6.C.1 and 6.C.2 shall apply, mutatis mutandis, also to the definition – by the bodies entrusted with that task – of the remuneration of key management personnel.

See comment 6.C.2

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Any incentive plan for the person in charge of internal audit and for the person responsible for the preparation of the corporate financial documents shall be consistent with their role.

**6.C.4** The remuneration of non-executive directors shall not be – other than for an insignificant portion – linked to the economic results achieved by the issuer. Non-executive directors shall not be beneficiaries of share-based compensation plans, unless it is so decided by the annual shareholders' meeting, which shall also give the relevant reasons.

**6.C.5** The remuneration committee shall:

- periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, also on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard;
- submit proposals or issues opinions to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration; it shall monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

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The incentive mechanisms applied for the head of internal audit and the manager responsible for the Company's financial reporting are consistent with their respective responsibilities.

The compensation of non-executive directors complies with the recommendations set forth in the Code and consists of a fixed fee.

There are no share-based incentive schemes for non-executive directors.

The Board has assigned the Compensation Committee responsibility for: presenting proposals to the Board in relation to compensation policies for directors and executives with strategic responsibilities; periodically evaluating the adequacy, overall coherence and concrete application of compensation policies for directors and, on the basis of information provided by the Chief Executive Officer, for executives with strategic responsibilities; presenting proposals to the Board in relation to individual compensation plans for the Chairman, Chief Executive Officer and other directors with specific responsibilities, as well as in relation to the establishment of performance targets for their variable compensation and, on an annual basis, verifying the level of achievement and reviewing the proposals of the Chief Executive Officer related to compensation and evaluation of executives with strategic responsibilities. Finally, it is responsible for examining specific issues related to compensation when requested by the Board and providing recommendations; and carrying out the functions of the committee for transactions with related parties, where related to compensation.

With the adoption of the procedures for transactions with related parties pursuant to Consob Regulation 17221 of 12 March 2010, as amended, the Compensation Committee, for matters relating to compensation only, was assigned responsibility for reviewing transactions with related parties.

Accordingly, in addition to the responsibilities listed above, the Committee is required to give an opinion on the substantial and procedural fairness of transactions with related parties of a particular significance, as defined in those procedures.

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**6.C.6** No director shall participate in meetings of the remuneration committee in which proposals are formulated to the Board of Directors relating to his/her remuneration.

This rule was strictly adhered to.

**6.C.7** When using the services of an external consultant in order to obtain information on market standards for remuneration policies, the remuneration committee shall previously verify that the consultant concerned is not in a position which might compromise its independence.

As established in its Charter, the Committee may utilize external consultants, at the Company's expense, subject to verification that no circumstances exist which would compromise the independence of that consultant.

**6.C.8** Issuers are encouraged to apply article 6, as amended in March 2010, by the end of the year that begins in 2011, and to inform the market in the Corporate Governance Report to be published during 2012.

The recommendations contained in the criteria 6.C.1, 6.C.2 and 6.C.3 shall apply without prejudice to the rights acquired from contracts or regulations adopted before March 31, 2010. The issuer shall inform the market in the Corporate Governance Report (or with the different formalities which may be provided by applicable law) of any case in which those recommendations are not applicable due to the contractual arrangements referred to above.

In a resolution passed on 22 February 2012, the Board approved the Compensation Policy of Fiat Group in accordance with the guidelines of the new Corporate Governance Code and the Consob implementing provisions that came into effect on 31 December 2011. On 4 April 2012, Shareholders passed a non-binding vote in favor of the policy.

On 20 February 2013, the Board of Directors, at the proposal of the Compensation Committee, approved revisions to the Compensation Policy, consistent with the provisions of law and the Corporate Governance Code. The revised version of the Policy will be submitted to Shareholders for review at the General Meeting called for approval of the 2012 financial statements.

The full text of the Report is available on the Company's website ([www.fiatspa.com](http://www.fiatspa.com)).

**2011 Corporate Governance Code****Fiat S.p.A.****System of Internal Control and Risk Management**

**7.P.1** Each issuer shall adopt an internal control and risk management system consisting of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the main risks. Such a system shall be integral to the organizational and corporate governance framework adopted by the issuer and shall take into consideration the reference model and the best practices that are applied both at national and international level.

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. The system is integrated within the organizational and corporate governance framework adopted by Fiat.

The Company’s System of Internal Control and Risk Management, which is based on international and national best practice, consists of the following three 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 provides independent evaluations of the entire System.

**7.P.2** An effective internal control and risk management system contributes to the management of the company in a manner consistent with the objectives defined by the Board of Directors, promoting an informed decision-making process. It contributes to ensuring the safeguarding of corporate assets, the efficiency and effectiveness of management procedures, the reliability of financial information and the compliance with laws and regulations, including the by-laws and internal procedures.

The Internal Control and Risk Management System contributes to:

- promoting the efficiency and effectiveness of business processes, thereby enabling adequate management of risks of an operating, financial, legal or other nature;
- ensuring the reliability of financial information and the quality of internal and external reporting through use of processes, procedures and systems that allow for a substantive and reliable flow of information both internally and externally;
- ensuring compliance with legal and regulatory requirements, in addition to the Company By-laws and internal procedures;
- protecting corporate assets and resources from inappropriate or fraudulent use or loss.



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**7.P.3** The internal control and risk management system involves each of the following corporate bodies depending on their related responsibilities:

- a) the Board of Directors, that shall provide strategic guidance and evaluation on the overall adequacy of the system, identifying within the Board: (i) one or more directors to be charged with the task of establishing and maintaining an effective internal control and risk management system (hereinafter, the “director in charge of the internal control and risk management system”), and (ii) a control and risk committee in line with the requirements set forth by principle 7.P.4., to be charged with the task of supporting, on the basis of an adequate control process, the evaluations and decisions to be made by the Board of Directors in relation to the internal control and risk management system, as well as to the approval of the periodical financial reports;
- b) the person in charge of internal audit, entrusted with the task to verify the functioning and adequacy of the internal control and risk management system;
- c) the other roles and business functions having specific tasks with regard to internal control and risk management, organised depending on the company’s size, complexity and risk profile;
- d) the Board of statutory auditors, also as “audit committee”, which is responsible for oversight of the internal control and risk management system.

Each issuer shall provide for coordination methods between the above mentioned bodies in order to enhance the efficiency of the internal control and risk management system and reduce activities overlapping.

To identify and manage the principal risks, since 2005 the Group has adopted its own Enterprise Risk Management (ERM) model which is continuously updated on the basis of experience gained over the years and information gathered from comparisons with best practice and other industrial groups.

The central functions responsible for risk management produce and circulate a map of risk drivers to all the operating Regions/Sectors/Companies to enable identification and assessment of risks, in addition to control measures and specific action plans.

The Guidelines for the System of Internal Control and Risk Management provide a detailed description of the duties and responsibilities of the principal individuals and entities involved:

- the Board of Directors, responsible for overseeing and assessing the adequacy of the System;
- the Director responsible for the System of Internal Control and Risk Management, who is responsible for the design, implementation and management of the System, is the Chief Executive Officer of the Company;
- the Internal Control and Risk Committee, tasked with supporting the evaluation and decision-making process of the Board of Directors in relation to the System of Internal Control and Risk Management;
- the company departments responsible for “second level” controls, aimed at ensuring the monitoring and management of corporate risk;
- the Head of Internal Audit, responsible for “third level” controls, tasked with verifying that the system of internal control and risk management is adequate and operational;
- the Board of Statutory Auditors, which monitors the effectiveness of the system of internal control and risk management.

The Guidelines also set out the procedures for coordination of those individuals and entities in order to ensure the effectiveness and efficiency of the system and reduce potential duplication of activities.

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**7.P.4** The control and risk committee is made up of independent directors. Alternatively, the committee can be made up of non executive directors, the majority of which being independent ones; in this case, the chairman of the committee is selected among the independent directors.

If the issuer is controlled by another listed company or is subject to the direction and coordination activity of another company, the committee shall be made up exclusively of independent directors.

At least one member of the committee is required to have an adequate experience in the area of accounting and finance or risk management, to be assessed by the Board of Directors at the time of appointment.

**7.C.1** The Board of Directors, with the opinion of the control and risk committee, shall:

- a) define the guidelines of the internal control and risk management system, so that the main risks concerning the issuer and its subsidiaries are correctly identified and adequately measured, managed and monitored, determining, moreover, the level of compatibility of such risks with the management of the company in a manner consistent with its strategic objectives;
- b) evaluate, at least on an annual basis, the adequacy of the internal control and risk management system taking into account the characteristics of the company and its risk profile, as well as its effectiveness;
- c) approves, at least on an annual basis, the plan drafted by the person in charge of internal audit, after hearing the Board of statutory auditors and the director in charge of the internal control system;
- d) describe, in the Corporate Governance Report, the main features of the internal control and risk management system, expressing the evaluation on its adequacy;
- e) after hearing the Board of statutory auditors, it assesses the findings reported by the external auditor in the suggestions letter, if any, and in the report on the main issues resulting from the auditing.

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The Internal Control and Risk Committee consists of three independent directors, all of whom have appropriate experience in accounting and financial matters or in risk management.

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.

In addition to the establishment of the Guidelines for the System, the Board of Directors, including through its Committees, is responsible for: (a) defining the nature and acceptable level of risk consistent with the Company's strategic objectives; (b) examining the risks identified by the Director responsible for the System of Internal Control and Risk Management; (c) evaluating, at least annually, the adequacy and effectiveness of the System of Internal Control and Risk Management in relation to the profile of the Company and the Group; (d) approving, at least annually, the work plan prepared by the Head of Internal Audit (which must also address the reliability of information systems) based on recommendations of the Statutory Auditors and the Director responsible for the System of Internal Control and Risk Management; and (e) evaluating, with input from the Board of Statutory Auditors, findings presented by the independent auditors in a letter of recommendations, if any, and in their report of significant issues arising during the audit.

In the Annual Report on Corporate Governance, the Board of Directors describes the essential elements of the System of Internal Control and Risk Management.

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The Board of Directors shall, upon proposal of the director in charge of the internal control and risk management system, subject to the favourable opinion of the control and risk committee, as well as after hearing the Board of statutory auditors:

- appoint and revoke the person in charge of the internal audit function;
- ensure that such a person is provided with the adequate resources for the fulfilment of his/her responsibilities;
- define the relevant remuneration consistently with company's policies.

**7.C.2** The control and risk committee, when assisting the Board of Directors shall:

- a) evaluate together with the person responsible for the preparation of the corporate financial documents, after hearing the external auditors and the Board of statutory auditors, the correct application of the accounting principles, as well as their consistency for the purpose of the preparation of the consolidated financial statements, in any;
- b) express opinions on specific aspects relating to the identification of the main risks for the company;
- c) review the periodic reports of the internal audit function concerning the assessment of the internal control and risk management system, as well as the other reports of the internal audit function that are particularly significant;
- d) monitor the independence, adequacy, efficiency and effectiveness of the internal audit function;
- e) request the internal audit function to carry out reviews of specific operational areas, giving simultaneous notice to the chairman of the Board of statutory auditors;

In order to properly fulfill its responsibilities, the Board of Directors has:

- appointed a Director responsible for the design, implementation and management of an effective System of Internal Control and Risk Management;
- established an Internal Control and Risk Committee, attributing it responsibility for providing advice and proposals in relation to the System of Internal Control and Risk Management, as well as periodic financial reporting.

At the recommendation of the Director responsible for the System of Internal Control and Risk Management, and following consultation with the Statutory Auditors, in addition to a favorable opinion from the Internal Control and Risk Committee, the Board of Directors: (a) appoints and dismisses the Head of Internal Audit who cannot be responsible for any operational area and reports directly to the Board; (b) ensures that person has adequate resources for the fulfillment of his/her responsibilities; and (c) sets that person's remuneration consistent with Company policy.

On the basis of the Charter approved by the Board of Directors, the role of the Internal Control and Risk Committee is to support the evaluation and decision-making process of the Board of Directors relative to the System of Internal Control and Risk Management and periodic financial reporting. In particular, the Committee is responsible for:

- assisting the Board in defining and updating guidelines for the System of Internal Control and Risk Management;
- evaluating – in collaboration with the manager responsible for the Company's financial reporting and after consultation with the independent auditors and Board of Statutory Auditors – correct application of the accounting principles adopted and consistency with the principles applied for the consolidated financial statements;
- making recommendations on specific aspects relating to identification, measurement, management and monitoring of the principal corporate risks;
- reviewing periodic reports providing an evaluation of

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f) report to the Board of Directors, at least every six months, on the occasion of the approval of the annual and half-year financial report, on the activity carried out, as well as on the adequacy of the internal control and risk management system.

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the System of Internal Control and Risk Management and other reports of particular significance from Internal Audit;

- monitoring the independence, adequacy, efficiency and effectiveness of Internal Audit, including with reference to Legislative Decree 231/01 on the liability of legal persons;
- reviewing, in consultation with the Board of Statutory Auditors, the findings submitted by the independent auditors in their report and letter of recommendations;
- reporting to the Board of Directors, at least every six months (on the occasion of the approval of the annual and half-year financial report), on the activities carried out, as well as on the adequacy of the System of Internal Control and Risk Management;
- reviewing, with the support of the Head of Internal Audit, whistleblowing reports received for the purpose of monitoring the adequacy of the System of Internal Control and Risk Management;
- reviewing the work plan prepared by the Head of Internal Audit;
- carrying out the functions of the committee for transactions with related parties, except where related to compensation.

The Committee may request that Internal Audit perform audits of specific operational areas, at the same time informing the Chairman of the Board of Statutory Auditors that such request has been made.

The Committee is entitled to access company information and functions necessary for its activities and to utilize external consultants, in accordance with the procedures established by the Board of Directors. The Company shall make adequate financial resources available to the Committee to carry out its role, within the limits approved by the Board.

The Head of Internal Audit makes available to the Committee, at its request, specialist personnel and retains, at the Company's expense and at the instruction of the Committee, independent consultants selected by the Committee to assist on matters relating to its activities.

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**7.C.3** The chairman of the Board of statutory auditors or another statutory auditor designated by this chairman shall participate in the works of the control and risk committee; the remaining statutory auditors are also allowed to participate.

**7.C.4** The director in charge of the internal control and risk management system, shall:

- a) identify the main business risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries, and submit them periodically to the review of the Board of Directors;
- b) implement the guidelines defined by the Board of Directors, taking care of the planning, realization and management of the internal control and risk system, constantly monitoring its adequacy and effectiveness;
- c) adjust such system to the dynamics of the operating conditions and the legislative and regulatory framework;
- d) request to internal audit function to carry out reviews of specific operational areas and on the compliance of business operation with rules and internal procedures, giving simultaneous notice to the chairman of the Board of Directors, the chairman of control and risk committee and the chairman of the Board of statutory auditors;
- e) promptly report to the control and risk committee (or to the Board of Directors) issues and problems that resulted from his/her activity or of which he/she became aware in order for the committee (or the Board) to take the appropriate actions.

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On the basis of the Charter approved by the Board of Directors, meetings of the Committee are called by the Chairman whenever he deems appropriate and, in any event, at least every six months.

The Chairman of the Board of Statutory Auditors, or other Statutory Auditor designated by him, attend the meetings of the Committee. The other Statutory Auditors may also attend the meetings, as may – at the invitation of the Committee Chairman and in relation to specific items on the agenda – other individuals or representatives of the independent auditors, including Directors that are not members of the Committee and company personnel.

As described in the “Guidelines for the System of Risk Management and Internal Control”, the Director responsible for the System of Internal Control and Risk Management:

- identifies and actively manages the Company’s principal risks, submitting them periodically to the Board for evaluation;
- implements guidelines for the System of Internal Control and Risk Management, reporting back to the Board in relation to significant aspects;
- proposes candidates for the position of Head of Internal Audit to the Board.

This Director may request that Internal Audit perform audits of specific operational areas.

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**7.C.5** The person in charge of internal audit shall:

- a) verify, both on a continuous basis and in relation to special needs, in conformity with international professional standards, the adequacy and effective functioning of the internal control and risk management system, through an audit plan, to be approved by the Board of Directors. Such a plan shall be based on a structured analysis and ranking of the main risks;
- b) not be responsible for any operational area and be subordinated to the Board of Directors;
- c) have direct access to all useful information for the performance of its duties;
- d) draft periodic reports containing adequate information on its own activity, and on the company's risk management process, as well as about the compliance with the management plans defined for risk mitigation. Such periodic reports contain an evaluation on the adequacy of the internal control and risk management system;
- e) prepare timely reports on particularly significant events;
- f) submit the reports indicated under items d) and e) above to the chairman of the Board of statutory auditors, the control and risk committee and the Board of Directors, as well as to the director in charge of the internal control and risk management system.

**7.C.6** The internal audit function may be entrusted, as a whole or by business segments, to a person external to the issuer, provided, however, that it is endowed with adequate professionalism, independence and organization. The adoption of such organizational choices, with a satisfactory explanation of the relevant reasons, shall be disclosed to the shareholders and the market in the Corporate Governance Report.

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The Head of Internal Audit is appointed by the Board of Directors and reports solely to the Board. He prepares periodic reports for the Chairmen of the Board of Directors, the Internal Control and Risk Committee, and the Board of Statutory Auditors, and for the Director responsible for the System of Internal Control and Risk Management. His responsibilities, set out in the guidelines for the System of Internal Control and Risk Management, include:

- verifying the adequacy and effective functioning of the System of Internal Control and Risk Management;
- preparing periodic reports containing adequate information on Internal Audit activities, and on the Company's risk management process, as well as adherence internally to plans established for risk mitigation. These periodic reports include an evaluation of the adequacy of the System of Internal Control and Risk Management;
- promptly reporting events of particular significance;
- verifying, as part of the audit plan, the reliability of information systems, including accounting systems.

Fiat's Internal Audit function is internal to the Company. The Head of the function also performs the role of Compliance Officer pursuant to Article 150 of Legislative Decree 58/98.

**2011 Corporate Governance Code****Fiat S.p.A.****Statutory Auditors**

**8.P.1** The statutory auditors shall act with autonomy and independence also vis-à-vis the shareholders, which elected them.

The rule was strictly adhered to. Fiat believes that the independence of its Board of Statutory Auditors is guaranteed by the requirements of independence and professionalism prescribed by law and the By-laws and the unquestioned professional authoritativeness that has always distinguished its members.

**8.P.2** The issuer shall adopt suitable measures to ensure an effective performance of the duties typical of the Board of statutory auditors.

Fiat provides the members of the Board of Statutory Auditors with the highest level of cooperation. This includes meetings with management, participation in meetings of the Internal Control and Risk Committee, and direct contact with the Compliance Officer/Head of Internal Audit in matters involving the Whistleblowing Procedures.

The Board of Statutory Auditors may also request that independent consultants be appointed in regard to particularly complex matters.

**8.C.1** The statutory auditors shall be chosen among people who may be qualified as independent also on the basis of the criteria provided by this Code with reference to the directors. The Board of statutory auditors shall check the compliance with said criteria after the appointment and subsequently on an annual basis, including the result of such verification in its Corporate Governance Report, according to manners complying with the ones provided with reference to directors.

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 may not be lower than the percentage required by law for submission of a list of candidates for the election of the Board of Directors.

The lists, together with documentation required by law and the Company By-laws, must be placed on record at the Company's registered office at least 25 days prior to the date of the meeting, while certifications of percentages held must be provided at least 21 days prior to the date of the meeting.

On 4 April 2012, the Board of Statutory Auditors was elected using a voting list system. 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. The minimum equity interest required to submit a list of

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candidates was 1% of ordinary shares, as established by Consob with reference to Fiat's average market capitalization for the fourth quarter of 2011. The full list of the Shareholders who submitted the list in 2012 is provided in Section III of this Report. For election of the current Board of Statutory Auditors, each candidate accepting the nomination provided a declaration stating that no basis for ineligibility or incompatibility existed and confirming that they satisfied the requirements of law and the By-laws to serve as statutory auditor of the Company.

Finally, curricula vitae containing information on the personal and professional profile of each candidate were attached, together with a list of positions of director or statutory auditor held at other companies and considered by law as significant. The most important positions are detailed in this Report. Those documents are available in the Investor Relations section of the Fiat website ([www.fiatspa.com](http://www.fiatspa.com)).

The members of the Board of Statutory Auditors satisfy the requirements of integrity, professionalism, and independence set out by law and the By-laws and possess the criteria set forth by the Code to be qualified as independent directors. The Board of Statutory Auditors annually reviews satisfaction of these requirements and the results of these assessments are provided in the Company's Financial Statements.

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**8.C.2** The statutory auditors shall accept the appointment when they believe that they can devote the necessary time to the diligent performance of their duties.

The procedure for submitting the names of candidates requires the acceptance of the candidates themselves. This assures that only those individuals who have guaranteed they will have the time necessary to discharge their duties are elected. In addition, Statutory Auditors are required to comply with regulatory restrictions as to the number of concurrent positions they may hold.

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**8.C.3** A statutory auditor who has an interest, either directly or on behalf of third parties, in a certain transaction of the issuer, shall timely and exhaustively inform the other statutory auditors and the chairman of the Board about the nature, the terms, origin and extent of his/her interest.

This rule was strictly adhered to.

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**8.C.4** In the framework of their activities, the statutory auditors may demand from the internal audit function to make assessments on specific operating areas or transactions of the company.

**8.C.5** The Board of statutory auditors and the control and risk committee shall exchange material information on a timely basis for the performance of their respective duties.

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Fiat provides the members of the Board of Statutory Auditors with the highest level of cooperation. This includes meetings with management, participation in meetings of the Internal Control and Risk Committee, and direct contact with the Head of Internal Audit.

The Board of Statutory Auditors may request that:

- Internal Audit perform audits of specific operational areas or corporate transactions;
- independent consultants be appointed for particularly complex matters.

In accordance with the Charter, the Chairman of the Board of Statutory Auditors, or other statutory auditor designated by him, attend meetings of the Committee. In addition, under the “Guidelines for the System of Internal Control and Risk Management”, the Board of Statutory Auditors promptly exchanges information with the Internal Control and Risk Committee relevant to fulfillment of their respective responsibilities.

## Relations with Shareholders

**9.P.1** The Board of Directors shall take initiatives aimed at promoting the broadest participation possible of the shareholders in the shareholders’ meetings and making easier the exercise of the shareholders’ rights.

The Company has created dedicated entities to establish and maintain a constant dialog with the market for the purpose of maintaining the confidence of investors and improving their understanding of the Company and its activities.

Throughout the year, the Investor Relations team maintains constant contact with financial analysts, individual shareholders and institutional investors, as well as organizing conference calls and public presentations to present financial results, and participating in industry conferences. Information presented and discussed on those occasions is also published on the Company’s website ([www.fiatspa.com](http://www.fiatspa.com)). Corporate information, regular and extraordinary financial information, the corporate calendar, and corporate governance documentation are also available on the website (in both Italian and English).

Shareholders can request general information or information on specific transactions by phone (toll free in Italy: 800-804027) or by e-mail ([serviziotitoli@fiatspa.com](mailto:serviziotitoli@fiatspa.com) and [investor.relations@fiatspa.com](mailto:investor.relations@fiatspa.com)).

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**9.P.2** The Board of Directors shall endeavour to develop a continuing dialogue with the shareholders based on the understanding of their reciprocal roles.

See previous comment.

**9.C.1** The Board of Directors shall ensure that a person is identified as responsible for handling the relationships with the shareholders and shall evaluate from time to time whether it would be advisable to establish a business structure responsible for such function.

Relations with shareholders are maintained by the specific structures of the Company (Investor Relations and Company Secretary).

**9.C.2** All the directors usually participate in the shareholders' meetings. The shareholders' meetings are also an opportunity for disclosing to the shareholders information concerning the issuer, in compliance with the rules governing price-sensitive information. In particular, the Board of Directors shall report to the shareholders' meeting the activity performed and planned and shall use its best efforts for ensuring that the shareholders receive adequate information about the necessary elements for them to adopt in an informed manner the resolutions that are the competence of the shareholders' meeting.

Fiat General Meetings represent an important and traditional occasion for communicating with shareholders. They typically attract intensive participation by a large number of shareholders.

**9.C.3** The Board of Directors should propose to the approval of the shareholders' meeting rules laying down the procedures to be followed in order to permit an orderly and effective conduct of the shareholders' meetings of the issuer, without prejudice, at the same time, to the right of each shareholder to express his or her opinion on the matters under discussion.

In order to ensure that General Meetings are conducted in an orderly and efficient manner, the Company, in addition to the existing legislation, has adopted Procedures for General Meetings that set out the rights and obligations of all participants and establish clear and unambiguous rules, without limiting or infringing on the right of individual shareholders to express their opinion or request explanation of items on the agenda.

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**9.C.4** In the event of significant changes in the market capitalization of the company's shares or in the composition of its shareholders, the Board of Directors shall assess whether proposals should be submitted to the shareholders' meeting to amend the by-laws in respect to the majorities required for exercising actions and rights provided for the protection of minority interests.

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In accordance with the By-laws, the minimum equity interest required for submission of a list of candidates for the appointment of a statutory auditor or a director is equivalent to that required by existing regulation based on Fiat's market capitalization for the fourth quarter of the last financial year of the term of office.

In addition, the Board of Directors constantly monitors new developments in corporate governance regulation and practice – including through the activity of the Nominating, Corporate Governance and Sustainability Committee – in order to adapt internal policies and procedures and submit amendments to the By-laws for the consideration and approval of Shareholders, as appropriate.