

# 3 – GUIDELINES FOR THE INTERNAL CONTROL SYSTEM

This document has been translated into English for the convenience of readers outside Italy.  
The original Italian document should be considered the authoritative version.

## 1. INTRODUCTION

The internal control system (the “Internal Control System”) is an essential element of the corporate governance system of Fiat S.p.A. (the “Company”) and of its subsidiaries and plays a key role in identifying, minimizing and managing risks that are significant for the Fiat Group, contributing to the safeguarding of stockholders’ investments and the Company’s assets.

The Internal Control System also facilitates the effectiveness and efficiency of company operations and helps ensure the reliability of financial information and compliance with laws and regulations. In particular, the accounting control system is an important element of the Internal Control System as it helps ensure that the Company is not exposed to excessive financial risks and that financial internal and external reporting is reliable.

The Internal Control System reduces, but cannot eliminate, the possibility of poor judgment in decision-making; human error; control processes being fraudulently violated by employees and others; and the occurrence of unforeseeable circumstances. A sound Internal Control System therefore provides reasonable, but not absolute, assurance that a company will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen.

## 2. DUTIES OF THE INTERNAL CONTROL SYSTEM

### 2.1 RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors has ultimate responsibility for the company’s Internal Control System. The Board should in particular:

- a) set and update these guidelines;
- b) examine company risks that the Executive Directors brought to the attention of the Board of Directors and assess whether said risks have been correctly identified and whether the Internal Control System is effective in managing these risks;
- c) every six months, on the occasion of the approval of the Annual Report and the First-Half Report, conduct a review of the effectiveness of the Group’s Internal Control System to ensure identification and proper handling of the principal risks faced by the company.

To properly discharge the duties assigned to its responsibility, the Board of Directors will have to rely on specific entities set up to supervise the Internal Control System. The Board of Directors therefore:

- d) establishes an Internal Control Committee which will assist the Board by providing it with advice and proposals on the Internal Control System. It appoints members of the Committee and selects its Chairman from the committee membership;
- e) appoints, upon proposal by the Executive Directors, the Internal Control Compliance Officer, assessing his independence and professional competency.

## 2.2 RESPONSIBILITIES OF THE INTERNAL CONTROL COMMITTEE

With reference to the Internal Control System, the Internal Control Committee should:

- a) assist the Board of Directors in setting and updating these guidelines;
- b) assist the Board of Directors with periodic audits of the appropriate and actual functioning of the Internal Control System to ensure identification and proper handling of the principal risks faced by the company;
- c) assess the operating plan prepared by the Internal Control Compliance Officer and receive his periodic reports;
- d) report to the Board of Directors on the adequacy of the Internal Control System once every six months, at the time the Annual Report and the First-Half Report are approved;
- e) assess the organizational position and ensure the actual independence of the Internal Control Compliance Officer in the performance of his duties in accordance with, among other things, Legislative Decree 231/2001 on the administrative liability of companies.

## 2.3 RESPONSIBILITIES OF EXECUTIVE DIRECTORS

Executive Directors are responsible for:

- a) identifying the principal risks faced by the company as regards the effectiveness and efficiency of its operations, the reliability of financial reporting, compliance with laws and regulations and the safeguarding of company assets;
- b) submitting the above risks and the measures adopted to reduce and manage them for examination and assessment to the Board of Directors, on a yearly basis on the occasion of the approval of the Annual Report by the Board of Directors, and at any other time that a significant risk emerges or that the entity of a risk already submitted to the Board of Directors changes or the likelihood of the risk materializing increases;
- c) designing, operating and monitoring the Internal Control System pursuant to these Guidelines and are accountable for it directly to the Board of Directors;
- d) proposing to the Board of Directors the appointment of an Internal Control Compliance Officer, to be chosen among those who satisfy the necessary independence and professional competency requirements;
- e) placing the Internal Control Compliance Officer in an organizational position that will ensure his independence and provide him with the appropriate resources to efficiently discharge his duties.

## 2.4 RESPONSIBILITIES OF THE INTERNAL CONTROL COMPLIANCE OFFICER

The Internal Control Compliance Officer is responsible for:

- a) assisting the Executive Directors in the design, operation and monitoring of the Internal Control System;
- b) reviewing the results of the audit activities carried out by the internal audit function to verify any weaknesses of the Internal Control System and requesting, whenever necessary, that specific checks be carried out to identify any failings and the need for improvement of internal control processes;
- c) verifying, with the aid of the internal audit function, that the rules and procedures constituting the terms of reference of the control processes are actually applied and that the various entities operate in compliance with set objectives;
- d) annually prepare a work plan and submit it to the Internal Control Committee;
- e) drawing up, once every six months, a report on the activities that he carried out and submit it to the Executive Directors, the Internal Control Committee and the Statutory Auditors.

## 2.5 RESPONSIBILITIES OF THE INTERNAL AUDIT FUNCTION

The Internal Audit function is responsible for:

- a) assisting the Group in maintaining the validity of the Internal Control System through assessment of its effectiveness and efficiency and by promoting continuous improvement;
- b) assisting the Group in identifying and assessing the greatest exposure to risk and contribute to improvements in the risk identification, reduction and management systems;
- c) implementing specifically planned oversight activities to verify any weaknesses of the Internal Control System and identify any failings and the need for improvement of the internal control processes;
- d) verifying that the rules and procedures constituting the terms of reference of the control processes are actually applied and that all those involved operate in compliance with set objectives.

## 2.6 RESPONSIBILITIES OF EMPLOYEES

All Group employees, according to the duties that they have been assigned within the company organization, have some responsibility for internal control as part of their accountability for achieving objectives.

They, collectively, should have the necessary knowledge, training and skills to operate within the Internal Control System and they must be allowed to discharge the duties in line with their role and accomplish their responsibilities. This implies that each employee has the right and the duty to understand the Company in which he works and the Group, its operating mechanisms, the objectives, the markets in which it operates and the risks to which it is exposed daily.

## 3. GUIDELINES

### 3.1 IDENTIFICATION OF RISKS

When identifying risks to be submitted to the Board of Directors, the Executive Directors will have to focus on risks with a high potential impact on the Company. The following criteria will have to be the basis for risk assessment:

- a) nature of the risk, particularly as regards financial and compliance risks, and those risks that could adversely impact the reputation of the company;
- b) high likelihood of the risks concerned materializing;
- c) Company's limited ability to reduce the incidence and impact of risks on its business;
- d) entity of the risk.

### 3.2 IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM

The Internal Control System encompasses the policies, processes and behaviors of the Group that, taken together:

- a) facilitate the effectiveness and efficiency of its operations by enabling it to respond appropriately to operational, financial, compliance and other risks that hinder the achievement of the Company's objectives;
- b) help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organization;
- c) help ensure compliance with applicable laws and regulations and internal procedures;
- d) safeguard the company's assets from inappropriate use or from loss and fraud.

To this end, the Executive Directors make sure that the Internal Control System:

- I. be embedded in the operations of the Group and form part of its culture, by implementing appropriate information, communications and training processes and rewarding and disciplinary systems that enhance the correct management of risks and discourage conduct that is contrary to the principles dictated by those processes;
- II. be capable of responding quickly to significant risks arising from factors within the Group and changes in its business environment;
- III. include procedures for reporting immediately to appropriate level of Group management, by implementing adequate organizational solutions to ensure that those functions that are directly involved in the Internal Control System have access to the necessary information and the top management;
- IV. provide for the performance of periodic control activities on the efficiency and effectiveness of the Internal Control System and the possibility of implementing specific control activities should any weaknesses in the Internal Control System be reported;
- V. facilitate the identification and timely execution of corrective measures.

### **3.3 ASSESSMENT OF THE EFFICIENCY AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM**

Full and correct efficiency and effectiveness are ensured by the periodic assessment of the adequacy and effective functioning and a potential review of the Internal Control System, which are a key element of its structure.

This periodic review is a duty entrusted to the Board of Directors, which performs it with the assistance of the Internal Control Committee.

In performing this review, the Board of Directors shall take care not only to verify the existence and the operation of an Internal Control System within the Group, but it shall also regularly review the structure of the Internal Control System, its adequacy and effective and concrete functioning.

To this end, the Board of Directors will receive and examine, once every six months, the reports of the Internal Control Compliance Officer, previously examined by the Internal Control Committee and the Executive Directors, with the aim of assessing (i) whether the structure of the Internal Control System currently in place in the Company is effective in pursuing the objectives (ii) whether any reported weaknesses call for an improvement of the System.

Every year, on the occasion of the approval of the Annual Report, the Board of Directors will also have to:

- a) examine the significant company risks that the Executive Directors submitted to their attention and assess how they have been identified, evaluated and managed. In particular, it should consider the changes since the last annual assessment in the nature and extent of significant risks and the Group's response to these changes;
- b) assess the effectiveness of the Internal Control System in managing said risks, particularly as regards any significant failings or weaknesses in internal control that have been reported;
- c) consider which actions have been taken or should be taken to promptly remedy any said failings or weaknesses;
- d) prepare any additional policies, processes and behavioral rules that will enable the Group to adequately react to new risks or to risks that have not been adequately managed.

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