

# MAIN RISKS AND UNCERTAINTIES TO WHICH FIAT S.P.A. AND THE GROUP ARE EXPOSED

## **RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS**

The Group's earnings and financial position are influenced by various macro-economic factors - including increases or decreases in gross national product, the level of consumer and business confidence, changes in interest rates on consumer credit, the cost of raw materials and the rate of unemployment - which exist in the various countries in which it operates. During 2008, the global economy entered into a period of recession which continued to impact heavily on the first half of 2009. Conditions eased in the second half of the year, due in part to significant measures put in place by major governments and monetary authorities. The significant weakness in general economic conditions resulted in a sharp contraction in demand in the first half of 2009 in the sectors and markets in which the Group operates compared with the prior year's levels. This fall in volumes eased in the second half of the year, and the automobiles business experienced a reversal in the trend, which was aided by government intervention to stimulate demand.

However, despite measures put in place by governments and monetary authorities, or as a consequence of changes in such measures which reduce or eliminate their beneficial effects, should the current global economic weakness and consequent impact on demand for the Group's products - and for the automobile sector in particular - continue in the future, the activities, strategy and future prospects of the Group could be adversely affected with consequent negative impacts on the Group's earnings and financial position.

Additionally, even in the absence of an economic recession or deterioration of credit markets, any macro-economic event - such as increases in energy prices, fluctuations in the price of commodities or other raw materials, adverse shifts in specific factors such as interest and currency rates, changes in government policy (including environmental regulation), outbreak of an epidemic or a contraction in infrastructure spending - potentially having negative consequences for the industries in which the Group operates, could have a material adverse effect on the Group's activities and future prospects, as well as its earnings and financial position. Similar risks exist by virtue of the fact that the Fiat Group operates in industries which have historically been highly cyclical and which tend to reflect the general performance of the economy, in certain cases even amplifying the effect.

## **RISKS ASSOCIATED WITH FINANCING REQUIREMENTS**

The Fiat Group's future performance will depend on, among other things, its ability to meet funding requirements related to debt repayments and planned investments with operating cash flow, available liquidity, renewal or refinancing of existing bank loans and/or facilities and possible recourse to capital markets or other sources of financing.

Although the Group has measures in place to ensure that adequate levels of working capital and liquidity are maintained, further declines in sales volumes could have a negative impact on the cash-generating capacity of operating activities. The Group could, therefore, find itself in the position of needing to seek additional financing and/or refinance existing debt, including in unfavourable market conditions with limited availability of funding and a general increase in funding costs. Difficulty obtaining financing could have a material adverse effect on the Group's activities and future prospects, as well as its earnings and financial position.

### **RISKS ASSOCIATED WITH THE GROUP'S CREDIT RATINGS**

The ability to access the capital markets or other forms of financing and the related costs are dependent, amongst other things, on the Group's credit ratings. Following downgrades by the major rating agencies in the first quarter of 2009, Fiat S.p.A. is currently rated below investment grade with ratings on its long-term debt of Ba1 (with negative outlook) from Moody's Investors Service, BB+ (with negative outlook) from Standard & Poor's Ratings Services and BB+ (with negative outlook) from Fitch Ratings Ltd. Any further downgrade by rating agencies could limit the Group's ability to access capital markets and increase its cost of funding, having an adverse effect on its earnings and financial position.

### **RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES**

The Fiat Group, which operates in numerous markets worldwide, is naturally exposed to market risks stemming from fluctuations in currency and interest rates. Its exposure to currency risk is mainly connected to the geographic distribution of its manufacturing and sales activities, which result in cash flows from its export activities being denominated in currencies different from those connected to its production activities. In particular, the Group's principal exposure is to net exports from the euro zone to other currency areas (principally the U.S. dollar and the British pound) and to exports from Poland to the euro zone.

The Fiat Group uses various forms of financing to cover the funding requirements of its industrial activities and financing offered to customers and dealers. Changes in interest rates can increase or reduce the cost of financing and/or interest margins of the financial services companies.

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

### **RISKS ASSOCIATED WITH THE POLICY OF TARGETED INDUSTRIAL ALLIANCES**

The Group has several joint ventures and industrial alliances in place for the purpose of optimising its capital commitments, reducing risk and accessing new markets and it intends to continue seeking opportunities for further such alliances.

In 2009, Fiat signed an agreement with Chrysler Group LLC to create a global strategic alliance, and subsequently launched related operating activities. Through the agreement, both partners seek to achieve the critical mass necessary to position themselves among the sector's leading operators at the global level, expanding geographically and, through the sharing of technology and know-how, offering a full range of products.

At this stage, there can be no assurance that the Group will succeed in establishing or maintaining such industrial alliances or that transactions entered into will be devoid of industrial, technical, operational, financial, regulatory or political risks. Neither can there be any assurance that such transactions will produce the synergies, expanded product offering, cost reductions or benefits expected, which could have material adverse consequences on the Group's business prospects, earnings and financial position.

### **RISKS ASSOCIATED WITH RELATIONSHIPS WITH EMPLOYEES AND SUPPLIERS**

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

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

### **RISKS ASSOCIATED WITH MANAGEMENT**

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

### **RISKS ASSOCIATED WITH THE HIGH LEVEL OF COMPETITIVENESS IN THE INDUSTRIES IN WHICH THE GROUP OPERATES**

Substantially all of the Group's revenues are generated in the automotive industry, which is highly competitive and includes the production and distribution of passenger cars, trucks and commercial vehicles, agricultural and construction equipment and automotive-related components and production systems. The Group faces competition from other international automotive and commercial vehicle manufacturers in Europe and Latin America and from global, regional and local agricultural and construction equipment manufacturers, distributors and component suppliers in Europe, North America and Latin America. These markets are highly competitive in terms of product quality, innovation, pricing, fuel economy, reliability, safety, customer service and financial services.

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

Should the Group be unable to adapt effectively to external market conditions, this could have an adverse effect on its activities and future prospects, as well as its earnings and financial position.

### **RISKS ASSOCIATED WITH SALES IN INTERNATIONAL MARKETS AND EXPOSURE TO CHANGES IN LOCAL CONDITIONS**

A significant portion of the Group's existing activities are conducted and located outside of Italy and the Group expects that revenues from sales outside Italy – and, more generally, outside of the European Union – will account for a continually increasing portion of its total revenues. The Group is subject to risks inherent to operating globally, including those related to:

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

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

### **RISKS ASSOCIATED WITH ENVIRONMENTAL AND OTHER GOVERNMENT REGULATION**

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

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

### **RISKS ASSOCIATED WITH THE ABILITY TO OFFER INNOVATIVE PRODUCTS**

The success of the Fiat Group's businesses depends on their ability to maintain or increase share in existing markets and/or to expand into new markets through the development of innovative, high-quality products that are adequately profitable. In particular, failure to develop and offer innovative products that compare favourably to those of the Group's principal competitors in terms of price, quality, functionality and features, or delays in bringing strategic new models to market, could result in reduced market share, having a significantly material adverse effect on the Group's earnings and financial position.

### **RISKS ASSOCIATED WITH OPERATING IN EMERGING MARKETS**

The Fiat Group operates in a number of emerging markets, both directly (e.g., Brazil and Argentina) and through joint ventures and other cooperation agreements (e.g., Turkey, India, China and Russia). The Group's exposure to these countries has increased in recent years. Economic and political developments in emerging markets, including economic crises or political instability, could have a material adverse effect on the Group's activities and future prospects, as well as its earnings and financial position.

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Fiat S.p.A., as Parent Company of the Group, is exposed in substance to the same risks and uncertainties as those described above for the Group.