Board Report

Introduction

About this Report

This document, referred to hereafter as the “Annual Report and Form 20-F”, constitutes both the Statutory annual report in accordance with Dutch legal requirements and the annual report on Form 20-F, applicable to Foreign Private Issuers, pursuant to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, for Fiat Chrysler Automobiles N.V. for the year ended December 31, 2019, except as noted below. A table that cross-references the content of this report to the Form 20-F requirements is set out in the *FORM 20-F CROSS REFERENCE* section included elsewhere in this report.

The *Annual Report and Form 20-F* is filed with the Netherlands Authority for Financial Markets (*Autoriteit Financiële Markten*, the “AFM”) and unless otherwise stated, all references in this document to “Annual Report” refer to the AFM filing. The following sections have been removed for our Annual Report filing with the AFM:

- *FORM 20-F cover page;*
- *REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (EY S.p.A. in respect of Internal Control over Financial Reporting for the SEC filing);*
- *REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (EY S.p.A. in respect of the PCAOB audit of the financial statements for the SEC filing); and*
- *SIGNATURES.*

The *Annual Report and Form 20-F* and related exhibits are filed with the U.S. Securities and Exchange Commission (“SEC”) and unless otherwise stated, all references in this document to “Form 20-F” refer to the SEC filing. The following sections have been removed for our Form 20-F filing with the SEC:

- *MESSAGE FROM THE CHAIRMAN AND THE CEO;*
- *CORPORATE GOVERNANCE - Responsibilities in Respect to the Annual Report;*
- *NON-FINANCIAL INFORMATION;*
- *CONTROLS AND PROCEDURES - Statement by the Board of Directors;*
- *2020 GUIDANCE;*
- *FCA N.V. COMPANY FINANCIAL STATEMENTS; and*
- *Independent auditor’s report (Ernst & Young Accountants LLP in respect of the AFM filing).*

Documents on Display

The SEC maintains an internet site at *www.sec.gov* that contains reports, information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC’s website is provided solely for information purposes and is not intended to be an active link. Reports and other information concerning our business may also be inspected at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005.

We also make our periodic reports, as well as other information filed with or furnished to the SEC, available free of charge through our website, at *www.fcagroup.com*, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. The information on our website is not incorporated by reference in this report.

Certain Defined Terms

In this report, unless otherwise specified, the terms “we”, “our”, “us”, the “Group”, the “Company” and “FCA” refer to Fiat Chrysler Automobiles N.V., together with its subsidiaries and its predecessor prior to the completion of the merger of Fiat S.p.A. with and into Fiat Investments N.V. on October 12, 2014 (the “2014 Merger”, at which time Fiat Investments N.V. was renamed Fiat Chrysler Automobiles N.V., or “FCA NV”), or any one or more of them, as the context may require. References to “Fiat” refer solely to the Fiat brand and “Fiat S.p.A.” refer to Fiat S.p.A., the predecessor of FCA NV prior to the 2014 Merger. References to “FCA US” refer to FCA US LLC, formerly known as Chrysler Group LLC, together with its direct and indirect subsidiaries.

Presentation of Financial and Other Data

This report includes the consolidated financial statements of the Group as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as well as IFRS as adopted by the European Union. There is no effect on these consolidated financial statements resulting from differences between IFRS as issued by the IASB and IFRS as adopted by the European Union. We refer to the consolidated financial statements and the notes to the consolidated financial statements collectively as the “Consolidated Financial Statements”.

All references in this report to “Euro” and “€” refer to the currency issued by the European Central Bank. The Group’s financial information is presented in Euro. All references to “U.S. Dollars”, “U.S. Dollar”, “U.S.$” and “$” refer to the currency of the United States of America (“U.S.”).

The language of this report is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Certain totals in the tables included in this report may not add due to rounding.

Except as otherwise disclosed within this report, no significant changes have occurred since the date of the audited Consolidated Financial Statements included elsewhere in this report.

Market and Industry Information

In this report, we include and refer to industry and market data, including market share, ranking and other data, derived from or based upon a variety of official, non-official and internal sources, such as internal surveys and management estimates, market research, publicly available information and industry publications. Market share, ranking and other data contained in this report may also be based on our good faith estimates, our own knowledge and experience and such other sources as may be available. Market share data may change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data-gathering process, different methods used by different sources to collect, assemble, analyze or compute market data, including different definitions of vehicle segments and descriptions and other limitations and uncertainties inherent in any statistical survey of market shares or size. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although we believe that this information is reliable, we have not independently verified the data from third-party sources. In addition, we typically estimate our market share for automobiles and commercial vehicles based on registration data.

In markets where registration data are not available, we calculate our market share based on estimates relating to sales to final customers. Such data may differ from data relating to shipments to our dealers and distributors. While we believe our internal estimates with respect to our industry are reliable, our internal company surveys and management estimates have not been verified by an independent expert, and we cannot guarantee that a third party using different methods to assemble, analyze or compute market data would obtain or generate the same result. The market share data presented in this report represents the best estimates available from the sources indicated as of the date hereof but, in particular as they relate to market share and our future expectations, involve risks and uncertainties and are subject to change based on various factors, including those discussed in the section *Risk Factors* in this report.

Forward-Looking Statements

Statements contained in this report, particularly those regarding possible or assumed future performance, competitive strengths, costs, dividends, reserves and growth of FCA, industry growth and other trends and projections and estimated company earnings are “forward-looking statements” that contain risks and uncertainties. In some cases, words such as “may”, “will”, “expect”, “could”, “should”, “intend”, “estimate”, “anticipate”, “believe”, “remain”, “on track”, “design”, “target”, “objective”, “goal”, “forecast”, “projection”, “outlook”, “prospects”, “plan”, or similar terms are used to identify forward-looking statements. These forward-looking statements reflect the respective current views of the Group with respect to future events and involve significant risks and uncertainties that could cause actual results to differ materially.

These factors include, without limitation:

- our ability to launch products successfully and to maintain vehicle shipment volumes;
- changes in the global financial markets, general economic environment and changes in demand for automotive products, which is subject to cyclicality;
- changes in local economic and political conditions, changes in trade policy and the imposition of global and regional tariffs or tariffs targeted to the automotive industry, the enactment of tax reforms or other changes in tax laws and regulations;
- our ability to expand certain of our brands globally;
- our ability to offer innovative, attractive products;
- our ability to develop, manufacture and sell vehicles with advanced features, including enhanced electrification, connectivity and automated-driving characteristics;
- various types of claims, lawsuits, governmental investigations and other contingencies affecting us, including product liability and warranty claims and environmental claims, investigations and lawsuits;
- material operating expenditures in relation to compliance with environmental, health and safety regulations;
- the intense level of competition in the automotive industry, which may increase due to consolidation;
- our ability to complete, and realize expected synergies following completion of, our proposed merger with Peugeot S.A., including the expected cumulative implementation costs;
- exposure to shortfalls in the funding of our defined benefit pension plans;
- our ability to provide or arrange for access to adequate financing for our dealers and retail customers, and associated risks related to the establishment and operations of financial services companies, including capital required to be deployed to financial services;
- our ability to access funding to execute our business plan and improve our business, financial condition and results of operations;
- a significant malfunction, disruption or security breach compromising our information technology systems or the electronic control systems contained in our vehicles;
- our ability to realize anticipated benefits from joint venture arrangements in certain emerging markets;
- our ability to successfully implement and execute strategic initiatives and transactions, including our plans to separate certain businesses;
- disruptions arising from political, social and economic instability;
- risks associated with our relationships with employees, dealers and suppliers;
- increases in costs, disruptions of supply or shortages of raw materials;
- developments in labor and industrial relations, including any work stoppages, and developments in applicable labor laws;

- exchange rate fluctuations, interest rate changes, credit risk and other market risks;
- political and civil unrest;
- earthquakes or other disasters; and
- other factors discussed elsewhere in this report.

Furthermore, in light of the inherent difficulty in forecasting future results, any estimates or forecasts of particular periods that are provided in this report are uncertain. We expressly disclaim and do not assume any liability in connection with any inaccuracies in any of the forward-looking statements in this report or in connection with any use by any third party of such forward-looking statements. Actual results could differ materially from those anticipated in such forward-looking statements. We do not undertake an obligation to update or revise publicly any forward-looking statements.

Additional factors which could cause actual results and developments to differ from those expressed or implied by the forward-looking statements are included in the section *Risk Factors* in this report.

Management Report

Selected Financial Data

The following tables set forth selected historical consolidated financial and other data of FCA and have been derived, in part, from:

- the Consolidated Financial Statements of FCA as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, included elsewhere in this report; and
- the Consolidated Financial Statements of FCA as of December 31, 2017, 2016 and 2015, for the years ended December 31, 2016 and 2015, except for the classification of Magneti Marelli as a discontinued operation as noted below, which are not included in this report.

This data should be read in conjunction with *Presentation of Financial and Other Data*, *Risk Factors*, the *FINANCIAL OVERVIEW* section and the Consolidated Financial Statements and related notes included elsewhere in this report.

CONSOLIDATED INCOME STATEMENT DATA

	Years ended December 31,									
	2019[1]		2018[1]		2017[1]		2016[1]		2015[1,2]	
	(€ million, except per share amounts)									
Net revenues	€	**108,187**	€	110,412	€	105,730	€	105,798	€	105,859
Profit before taxes	€	**4,021**	€	4,108	€	5,879	€	2,950	€	99
Net profit/(loss) from continuing operations	€	**2,700**	€	3,330	€	3,291	€	1,713	€	(15)
Profit from discontinued operations, net of tax	€	**3,930**	€	302	€	219	€	101	€	392
Net profit	€	**6,630**	€	3,632	€	3,510	€	1,814	€	377
Net profit attributable to:										
Owners of the parent	€	***6,622***	€	*3,608*	€	*3,491*	€	*1,803*	€	*334*
Non-controlling interests	€	***8***	€	*24*	€	*19*	€	*11*	€	*43*
Earnings/(Loss) per share from continuing operations										
Basic earnings/(loss) per share	€	**1.72**	€	2.15	€	2.14	€	1.13	€	(0.01)
Diluted earnings/(loss) per share	€	**1.71**	€	2.12	€	2.11	€	1.12	€	(0.01)
Earnings per share from discontinued operations										
Basic earnings per share	€	**2.51**	€	0.18	€	0.14	€	0.06	€	0.23
Diluted earnings per share	€	**2.50**	€	0.18	€	0.13	€	0.06	€	0.23
Earnings per share from continuing and discontinued operations										
Basic earnings per share	€	**4.23**	€	2.33	€	2.27	€	1.19	€	0.22
Diluted earnings per share	€	**4.22**	€	2.30	€	2.24	€	1.18	€	0.22

Other Statistical Information (unaudited):

	2019	2018	2017	2016	2015
Combined shipments (in thousands of units)[3]	**4,418**	4,842	4,740	4,720	4,738
Consolidated shipments (in thousands of units)[4]	**4,272**	4,655	4,423	4,482	4,602

(1) *The operating results of FCA for the years ended December 31, 2019, 2018, 2017, 2016 and 2015 exclude Magneti Marelli following the classification of Magneti Marelli as a discontinued operation for the year ended December 31, 2018, and until its deconsolidation on completion of the sale transaction on May 2, 2019; Magneti Marelli operating results were excluded from the Group's continuing operations and are presented as a single line within the Consolidated Income Statement data for the years ended December 31, 2019, 2018, 2017, 2016, and 2015 presented above, and until its deconsolidation on completion of the sale transaction on May 2, 2019.*

(2) *The operating results of FCA for the year ended December 31, 2015 exclude Ferrari following the classification of Ferrari as a discontinued operation for the year ended December 31, 2015; Ferrari operating results were excluded from the Group's continuing operations and are presented as a single line item within the Consolidated Income Statements for the year ended December 31, 2015.*

(3) *Combined shipments include shipments by the Group's consolidated subsidiaries and unconsolidated joint ventures.*

(4) *Consolidated shipments only include shipments by the Group's consolidated subsidiaries.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	At December 31,				
	2019[(1),(2)]	2018[(1)]	2017[(1)]	2016[(1)]	2015[(1,3)]
	(€ million, except shares issued data)				
Cash and cash equivalents	**€ 15,014**	€ 12,450	€ 12,638	€ 17,318	€ 20,662
Total assets[(4)]	**€ 98,044**	€ 96,873	€ 96,299	€ 104,343	€ 105,753
Debt[(4)]	**€ 12,901**	€ 14,528	€ 17,971	€ 24,048	€ 27,786
Total equity	**€ 28,675**	€ 24,903	€ 20,987	€ 19,353	€ 16,968
Equity attributable to owners of the parent	***€ 28,537***	*€ 24,702*	*€ 20,819*	*€ 19,168*	*€ 16,805*
Non-controlling interests	***€ 138***	*€ 201*	*€ 168*	*€ 185*	*€ 163*
Share capital	**€ 20**	€ 19	€ 19	€ 19	€ 17
Shares issued (in thousands)					
Common[(5)]	***1,567,519***	*1,550,618*	*1,540,090*	*1,527,966*	*1,288,956*
Special Voting[(5)]	***408,942***	*408,942*	*408,942*	*408,942*	*408,942*
Dividends paid, per share[(6)]					
Ordinary dividends paid, per share	**€ 0.65**	€ —	€ —	€ —	€ —
Extraordinary dividends paid, per share	**€ 1.30**	€ —	€ —	€ —	€ —

(1) The assets and liabilities of Magneti Marelli were classified as Assets held for sale and Liabilities held for sale within the Consolidated Statement of Financial Position at December 31, 2018, while the assets and liabilities of Magneti Marelli have not been classified as such within the comparative Consolidated Statements of Financial Position at December 31, 2017, 2016, and 2015.

(2) The assets and liabilities of the cast iron automotive components business of Teksid were classified as Assets held for sale and Liabilities held for sale within the Consolidated Statement of Financial Position at December 31, 2019, while the assets and liabilities of the cast iron automotive components business of Teksid have not been classified as such within the comparative Consolidated Statements of Financial Position at December 31, 2018, 2017, 2016, and 2015. Refer to Note 3, Scope of consolidation within our Consolidated Financial Statements included elsewhere in this report.

(3) The assets and liabilities of Ferrari were classified as Assets held for distribution and Liabilities held for distribution within the Consolidated Statement of Financial Position at December 31, 2015.

(4) Refer to Note 2, Basis of preparation within our Consolidated Financial Statements included elsewhere in this report for detail on the adoption of IFRS 16, Leases.

(5) Refer to Note 26, Equity, within our Consolidated Financial Statements included elsewhere in this report.

(6) The Board of Directors intend to recommend to the Annual General Meeting of Shareholders an annual ordinary dividend distribution to holders of FCA common shares of €0.70 (approximately US$0.79, based on the closing spot rate at December 31, 2019) per common share. The distribution, from the Company's 2019 profits, will be subject to the approval by the Annual General Meeting of Shareholders, which is scheduled to be held on April 16, 2020. Refer to Note 26, Equity, within our Consolidated Financial Statements included elsewhere in this report, for further details.

Group Overview

We are a global automotive group engaged in designing, engineering, manufacturing, distributing and selling vehicles, components and production systems worldwide through over a hundred manufacturing facilities and over forty research and development centers. We have operations in more than forty countries and sell our vehicles directly or through distributors and dealers in more than a hundred and thirty countries. We design, engineer, manufacture, distribute and sell vehicles for the mass-market under the Abarth, Alfa Romeo, Chrysler, Dodge, Fiat, Fiat Professional, Jeep, Lancia and Ram brands and the SRT performance vehicle designation. For our mass-market vehicle brands, we have centralized design, engineering, development and manufacturing operations, which allow us to efficiently operate on a global scale. We support our vehicle shipments with the sale of related service parts and accessories, as well as service contracts, worldwide under the Mopar brand name for mass-market vehicles. In addition, we design, engineer, manufacture, distribute and sell luxury vehicles under the Maserati brand. We make available retail and dealer financing, leasing and rental services through our subsidiaries, joint ventures and commercial arrangements with third party financial institutions. In addition, we operate in the components and production systems sectors under the Teksid and Comau brands. Refer to Note 3, *Scope of consolidation* in the Consolidated Financial Statements included elsewhere in this report for detail on the announced sale of Teksid's cast iron automotive components business. As announced in December 2019, FCA will continue work on the separation of its holding in Comau, which will be separated promptly following closing of the proposed merger with Groupe PSA.

In 2019, we shipped 4.4 million vehicles (including the group's unconsolidated joint ventures), resulting in Net revenues of €108.2 billion and Net profit of €6.6 billion, of which €2.7 billion was attributable to continuing operations, and generated €2.1 billion of Industrial free cash flows (See *Non-GAAP Financial Measures*). At December 31, 2019 our available liquidity was €23.1 billion (including €7.6 billion available under undrawn committed credit lines).

History of FCA

Fiat Chrysler Automobiles N.V. was incorporated as a public limited liability company (*naamloze vennootschap*) under the laws of the Netherlands on April 1, 2014 and became the parent company of the Group on October 12, 2014. Its principal office is located at 25 St. James's Street, London SW1A 1HA, United Kingdom (telephone number: +44 (0) 20 7766 0311). Its agent for U.S. federal securities law purposes is Christopher J. Pardi, c/o FCA US LLC, 1000 Chrysler Drive, Auburn Hills, Michigan 48326.

Fiat S.p.A., the predecessor to FCA, was founded as *Fabbrica Italiana Automobili Torino* on July 11, 1899 in Turin, Italy as an automobile manufacturer. In 1902, Giovanni Agnelli, Fiat S.p.A.'s founder, became the Managing Director of the company.

FCA US LLC, then known as Chrysler Group LLC, ("FCA US") acquired the principal operating assets of the former Chrysler LLC in 2009 as part of a government-sponsored restructuring of the North American automotive industry. Between 2009 and 2014, Fiat S.p.A. expanded its initial 20 percent ownership interest to 100 percent of the ownership of FCA US and on October 12, 2014, Fiat S.p.A. completed a corporate reorganization resulting in the establishment of FCA NV as the parent company of the Group, with its principal executive offices in the United Kingdom. FCA common shares commenced trading on the Milan Mercato Telematico Azionario ("MTA") and the New York Stock Exchange ("NYSE") on October 13, 2014. As a result, FCA NV, as successor of Fiat S.p.A., is the parent company of the Group.

In January 2011, the separation of Fiat S.p.A.'s non-automotive capital goods business was completed with the creation of Fiat Industrial, now known as CNH Industrial N.V.

The spin-off of Ferrari N.V. from the Group was completed in January 2016. The assets and liabilities of the Ferrari segment were distributed to holders of FCA shares and mandatory convertible securities.

Magneti Marelli Sale

On October, 22, 2018, we announced a definitive agreement to sell our Magneti Marelli business to CK Holdings Co., Ltd, completing the sale on May 2, 2019. Refer to Note 3, *Scope of consolidation* within the Consolidated Financial Statements included elsewhere within this report for additional information.

FCA-PSA Merger

On December 17, 2019, FCA and PSA entered into a combination agreement (the "combination agreement") providing for a merger of their businesses (the "merger"). In addition, certain shareholders of FCA and PSA have made undertakings to support the merger and, among other things, vote their shares in favor of the merger at their respective extraordinary general meetings of shareholders. Below is a summary of the transaction and the main provisions of the combination agreement and the shareholders' undertakings.

The following summary is qualified in all respects by reference to the complete text of the combination agreement and the shareholders' undertakings, attached hereto as exhibits. You should read the combination agreement and the shareholders' undertakings carefully as they are the legal documents that govern the terms of the merger.

Transaction Structure and Merger Consideration

If the merger is approved by the requisite votes of the FCA shareholders and the PSA shareholders and the other conditions precedent to the merger are satisfied or, to the extent permitted under the combination agreement and by applicable law, waived, PSA will be merged with and into FCA. The combined company ("DutchCo") will be named by mutual agreement of FCA and PSA with effect from the day immediately following completion of the merger.

The closing of the merger shall take place on the second Friday after satisfaction or (to the extent permitted under the combination agreement and by applicable law) waiver of the closing conditions and the merger shall be effective at midnight (Central European Time) following the signing of the merger deed (the "Effective Time"), at which time, the separate corporate existence of PSA shall cease, and DutchCo shall continue as the sole surviving corporation, and, by operation of law, DutchCo, as successor, shall succeed to and assume all of the rights and obligations, as well as the assets and liabilities, of PSA in accordance with Dutch law and French law.

At the Effective Time, by virtue of the merger and without any action on the part of any holder of PSA ordinary shares or FCA common shares, PSA shareholders will have the right to receive 1.742 DutchCo common shares for each PSA ordinary share that they hold and each issued and outstanding common share of FCA shall remain unchanged as one (1) common share in DutchCo. There will be no carryover of the existing double voting rights currently held by Exor in FCA pursuant to the existing FCA loyalty voting structure. To that end, the combination agreement provides that at the Effective Time all special voting shares of FCA held by Exor will be reacquired by DutchCo for no consideration.

Governance of DutchCo

The combination agreement provides for certain arrangements relating to the governance of DutchCo, including causing DutchCo to adopt, immediately following the Effective Date, new articles of association, board regulations and a loyalty voting program in the agreed form. The principal terms of such governance arrangements are summarized below.

DutchCo Board Composition

The combination agreement provides that after closing of the merger the board of directors of DutchCo (the "DutchCo Board") shall be a single tier board initially composed of 11 members, including the following initial directors:

- the CEO of DutchCo;
- two (2) Independent Directors nominated by FCA;
- two (2) Independent Directors nominated by PSA;
- two (2) directors nominated by Exor;

- one (1) director nominated by Bpifrance (Bpifrance shall include jointly Bpifrance Participations S.A. and its wholly-owned subsidiary Lion Participations SAS. (or EPF/FFP, as further described below));
- one (1) director nominated by EPF/FFP; and
- two (2) employee representatives.

For these purposes, "Independent Director" means a director meeting the independence requirements under the Dutch Corporate Governance Code and, with respect to members of the Audit Committee, also meeting the independence requirements of Rule 10A-3 under the Exchange Act, and the NYSE listing requirements.

Nomination Rights

The rights of Exor, EPF/FFP and Bpifrance to nominate the number of directors mentioned above also apply to future terms of office of the DutchCo Board; provided that:

- if the number of DutchCo common shares held by Bpifrance, and/or any of its affiliates, or EPF/FFP, and/or any of its affiliates, falls below 5% of the issued and outstanding DutchCo common shares, such shareholder shall no longer be entitled to nominate a director (in which case, any director nominated by Bpifrance or EPF/FFP, as the case may be, shall be required to promptly resign); and
- if, at the Effective Time, at any time within the six (6) years following the closing of the merger or on the sixth (6^{th}) anniversary of the closing of the merger, both (i) the number of DutchCo common shares held by EPF/FFP and/or their affiliates increases to 8% or more of the issued and outstanding DutchCo common shares and (ii) the number of DutchCo common shares held by Bpifrance and/or its affiliates falls below 5% of the issued and outstanding DutchCo common shares, then EPF/FFP shall be entitled to nominate a second director to the DutchCo Board to replace the Bpifrance nominee (the "EPF/FFP Additional Director"),

As an exception to the foregoing, if, at the Effective Time or within six (6) years of the Effective Time:

- the number of DutchCo common shares held by Bpifrance and its affiliates, on the one hand, or EPF/FFP and its affiliates, on the other hand, represents between 4% and 5% of the issued and outstanding DutchCo common shares (the "Threshold Stake");
- either Bpifrance or EPF/FFP has not lost its right to nominate a director in accordance with the preceding paragraph; and
- the number of DutchCo common shares held by Bpifrance, EPF/FFP and their respective affiliates represents, in aggregate, 8% or more of the issued and outstanding DutchCo common shares,

the shareholder which holds the Threshold Stake will maintain its right to nominate a director to the DutchCo Board until the sixth (6^{th}) anniversary of the closing of the merger (it being understood that while Bpifrance is entitled to nominate a director pursuant to this proviso, EPF/FFP shall not be entitled to nominate the EPF/FFP Additional Director).

Additionally, Exor's right to nominate directors will decrease in the event Exor and/or its affiliates reduce their equity ownership in DutchCo as follows:

- if the number of shares held by Exor and/or its affiliates falls below the number of shares corresponding to 8% of the issued and outstanding DutchCo common shares, Exor will be entitled to nominate one (1) director instead of two (2); and
- if the number of shares held by Exor and/or its affiliates falls below the number of shares corresponding to 5% of the issued and outstanding DutchCo common shares, Exor will no longer be entitled to nominate a director;

In such cases, the director designated by Exor for resignation from among the directors nominated by Exor shall be required to resign as promptly as reasonably practicable after the number of DutchCo common shares held by Exor and/or its affiliates falls below the applicable threshold.

Any event or series of events (including any issue of new shares) other than a transfer (including transfer under universal title) of PSA shares or DutchCo shares shall be disregarded for the purpose of determining whether the applicable shareholder reaches the relevant threshold(s).

Initial Management of DutchCo

The combination agreement provides that the following positions shall be filled by the following individuals from the day immediately after the closing of the merger:

- Chairman: John Elkann;
- CEO: Carlos Tavares;
- Vice Chairman: a director nominated by EPF/FFP; and
- Senior Independent Director: an Independent Director nominated by PSA.

The initial term of office of each of the Chairman, CEO, Senior Independent Director and Vice Chairman shall be five (5) years, in each case beginning at the day immediately after the closing of the merger. The initial term of office for each of the other directors shall be four (4) years. Mr. Elkann and Mr. Tavares will be the only executive directors.

The board regulations provide that in addition to the Chairman's other powers set out in the board regulations, if the Chairman is an executive director, he or she will be consulted and work together with the CEO on that basis on important strategic matters affecting DutchCo as set forth in the board regulations.

In addition to his/her powers set out in the DutchCo Articles of Association and board regulations, the CEO will be responsible for the management of DutchCo in accordance with the Dutch Civil Code and will be vested with full authority to represent DutchCo individually.

The Senior Independent Director (acting as the *voorzitter* under Dutch Law) shall preside over the meetings of the DutchCo Board and shall be vested with the powers to convene the board and the general meetings of shareholders of DutchCo.

Voting Limitations

The combination agreement provides that under the DutchCo articles of association no shareholder, acting alone or in concert, together with votes exercised by affiliates of such shareholder or pursuant to proxies or other arrangements conferring the right to vote, may cast 30% (the "Voting Threshold") or more of the votes cast at any general meeting of shareholders of DutchCo, including after giving effect to any voting rights exercisable through DutchCo special voting shares. Any voting right in excess of the Voting Threshold will be suspended. Furthermore, the DutchCo articles of association will provide that, before each shareholders' meeting, any shareholder holding voting rights in excess of the Voting Threshold shall notify DutchCo of its shareholding and total voting rights in DutchCo and provide, upon request by DutchCo, any information necessary to ascertain the composition, nature and size of the equity interest of that person and any other person acting in concert with it. This restriction (i) may be removed by the affirmative vote of the holders of two-thirds of the issued and outstanding DutchCo common shares (for the avoidance of doubt, without giving effect to any voting rights exercisable through DutchCo special voting shares, and subject to the aforementioned 30% voting cap) and (ii) shall lapse upon any person holding more than 50% of the issued and outstanding DutchCo common shares (other than DutchCo special voting shares) as a result of a tender offer for DutchCo common shares.

Shareholders Matters

Each of Exor, Bpifrance, EPF/FFP and Dongfeng (the "Reference Shareholders"), in its capacity as shareholder of PSA or FCA, as applicable, has entered into a letter agreement (a "Letter Agreement") with PSA or FCA, as applicable, setting forth, among other things, the following undertakings relating to the merger and the future governance of DutchCo:

- *Support of the merger* - Each Reference Shareholder has undertaken to vote or cause to be voted all shares owned or controlled by it or as to which it has the power to vote in favor of any decision in furtherance of the approval of the transactions contemplated by the combination agreement that is submitted to the shareholders;

- *Standstill* - Each Reference Shareholder shall be restricted from buying shares to increase its interest in PSA, FCA (before the merger) or DutchCo for a period ending seven years following the Effective Time, except that EPF/FFP may increase its shareholding by up to a maximum of 2.5% in DutchCo (or 5% in PSA) by acquiring shares from Bpifrance and/or Dongfeng and/or on the market, provided that market acquisitions may not represent more than 1% of the DutchCo common shares or 2% of the PSA ordinary shares plus, if applicable, the percentage of DutchCo common shares (or PSA ordinary shares) sold by Bpifrance to buyers other than EPF/FFP or any of its affiliates;
- *Lock-up* - From the date of the combination agreement until 3 years after closing of the merger Exor, Bpifrance and EPF/FFP will be subject to a lock-up in respect of their shareholdings in the relevant company before closing of the merger and in DutchCo thereafter, except that Bpifrance will be permitted to reduce its shareholdings by 5% in PSA or 2.5% in DutchCo; and
- *Dongfeng Buy-back* - Dongfeng has agreed to sell, and PSA has agreed to buy, 30.7 million PSA ordinary shares prior to closing of the merger (the ordinary shares repurchased by PSA will be cancelled). Notwithstanding the above, Dongfeng may sell all or or part of such shares to third parties prior to the closing of the merger, in which case the purchase by PSA described in the prior sentence will apply to the balance of such 30.7 million PSA ordinary shares not otherwise sold by Dongfeng. Dongfeng is subject to a lock up until the Effective Time for the balance of its participation in PSA, resulting in an ownership of 4.5% in DutchCo immediately after the Effective Time.

Certain Covenants

In addition to making reciprocal customary representation and warranties and agreeing to customary restrictions on their respective operations as from the time of the combination agreement until the Effective Time, FCA and PSA each have agreed to take certain actions between the date of the combination agreement and the Effective Time, such as the seeking of competition law and other regulatory approvals, the making of stock exchange and securities filings, and the application for listing of the DutchCo common shares issued in connection with the merger on the NYSE, Euronext Paris and the MTA prior to the closing date of the merger.

Pre-merger Distributions

Prior to the Effective Time (i) an extraordinary cash distribution of €5.5 billion may be paid by FCA to its shareholders, (ii) an ordinary dividend for an amount of €1.1 billion in respect of the fiscal year ending December 31, 2019 may be paid by each of FCA and PSA and (iii) if the closing of the merger has not occurred before the 2021 annual general meetings of PSA and FCA, an ordinary dividend in respect of the fiscal year ending December 31, 2020 for an amount to be agreed by FCA and PSA on the basis of their respective distributable amounts shall be paid by each of PSA and FCA, in the case of (ii) and (iii) subject to the availability of sufficient distributable amounts.

Faurecia Distribution

PSA is permitted to distribute to its shareholders by special or interim dividend all of the shares held by PSA in Faurecia prior to the Effective Time with no material changes in any currently existing commercial arrangements between PSA and Faurecia, other than amendments in the ordinary course.

Comau Separation

Promptly following the Effective Time, DutchCo is permitted to allocate to its shareholders through a demerger or similar transaction all the shares held by DutchCo in Comau or implement other value-creating alternative structures, including the sale of all the shares held by DutchCo in Comau (each of such transactions, the "Comau Separation"). FCA shall, prior to the closing of the merger, work diligently to prepare for the Comau Separation to enable the Comau Separation to be completed promptly following the closing of the merger, including by establishing the perimeter, capital structure and governance of Comau in consultation with PSA and, if applicable, preparing all necessary documentation for the listing of Comau shares on the appropriate securities exchange.

Other Provisions

The combination agreement contains customary exclusivity provisions requiring the parties to refrain from soliciting any acquisition proposal from third-parties as well as covenants requiring the board of directors of each of FCA and PSA to recommend that their respective shareholders approve the transaction, subject to limited exceptions to ensure compliance with the directors' fiduciary duties in connection with a superior proposal.

The obligation of each party to effect the merger is subject to customary closing conditions, including the absence of a material adverse effect with respect to the other party, regulatory clearances and approval by the shareholders of PSA and FCA.

Major Shareholders

Exor N.V. is the largest shareholder of FCA through its 28.66 percent shareholding interest in our issued common shares (as of February 25, 2020). As a result of the loyalty voting mechanism, Exor N.V.'s voting power is 41.74 percent.

Consequently, Exor N.V. could strongly influence all matters submitted to a vote of our shareholders, including approval of annual dividends, election and removal of directors and approval of extraordinary business combinations.

Exor N.V. is controlled by Giovanni Agnelli B.V. ("GA"), which holds 52.99 percent of its share capital. GA is a private limited liability company under Dutch law with its capital divided in shares and currently held by members of the Agnelli and Nasi families, descendants of Giovanni Agnelli, the founder of Fiat S.p.A. Its present principal business activity is to purchase, administer and dispose of equity interests in public and private entities and, in particular, to ensure the cohesion and continuity of the administration of its controlling equity interests. The directors of GA are John Elkann, Tiberto Brandolini d'Adda, Alessandro Nasi, Andrea Agnelli, Eduardo Teodorani-Fabbri, Luca Ferrero de' Gubernatis Ventimiglia, Jeroen Preller and Florence Hinnen.

Based on the information in FCA's shareholder register, regulatory filings with the AFM and the SEC and other sources available to FCA, the following persons owned, directly or indirectly, in excess of three percent of FCA's capital and/or voting interest as of February 25, 2020:

FCA Shareholders	Number of Issued Common Shares	Percentage Owned
Exor N.V.(1)	449,410,092	28.66
BlackRock, Inc.(2)	62,912,116	4.01

(1) *In addition, Exor N.V. holds 375,803,870 special voting shares; Exor N.V.'s beneficial ownership in FCA is 41.74 percent, calculated as the ratio of (i) the aggregate number of common and special voting shares owned by Exor N.V. and (ii) the aggregate number of outstanding common shares and issued special voting shares.*

(2) *BlackRock, Inc. beneficially owns 62,912,116 common shares (3.18 percent of total issued shares, which is the aggregate number of outstanding common shares and issued special voting shares) and 77,228,433 voting rights (4.92 percent of outstanding common shares and 3.91 percent of total issued shares).*

Based on the information in FCA's shareholder register and other sources available to us, as of January 31, 2020, approximately 450 million FCA common shares, or approximately 29 percent of the FCA common shares, were held in the United States. As of the same date, approximately 840 record holders had registered addresses in the United States.

OUR BUSINESS PLAN

On June 1, 2018, our former Chief Executive Officer ("CEO") Sergio Marchionne, together with members of the Group's executive management, presented the Group's 2018-2022 business plan. During 2019, current CEO Mike Manley highlighted additional measures to improve operating results: in APAC with specific focus on China; Maserati; and in EMEA, including the rationalization of product portfolio plans, primarily for the A-segment and Alfa Romeo, while capitalizing on the market shift from A- to B-segments.

The business plan and the additional measures mentioned above build upon the strategic actions taken in the prior plan to generate volume growth and margin expansion through the following:

- Continued emphasis on building strong brands by leveraging renewals of key products and portfolio expansion;
- New white-space products with particular focus on the Jeep, Maserati and Alfa Romeo brands;
- Improve positioning of Maserati as a luxury brand, bridging product gap with specialty models, improving cadence of new model introduction, including a fully-electrified line-up, with new leadership team in place, new COO and other key appointments;
- Refocus marketing in China to recently launched products, offer more efficient powertrain combinations along with continued product quality improvements, as well as changes in the leadership team;
- Continue to focus on industrial rationalization to deliver cost savings through manufacturing and purchasing efficiencies and implement actions to increase capacity utilization, including local production of certain Jeep products, in EMEA;
- Implementation of various electrified powertrain applications throughout the portfolio, supplemented with third-party agreements for the purchase of regulatory credits, as part of our regulatory compliance strategy;
- Continue to explore opportunities to develop partnerships to share technologies and platforms, enhance skill set related to autonomous driving technologies, preserve full optionality and ensure speed to market; and
- Maintain a disciplined approach to the deployment of capital and re-establish consistent shareholder remuneration actions.

We continue to assess the potential impacts of operationalizing and implementing the strategic targets set out in the business plan, including re-allocation of our resources. The recoverability of certain of our assets or cash-generating units may be impacted in future periods. For example, our product development strategies may be affected by regulatory changes as well as changes in the expected costs of implementing electrification, including the cost of batteries, or in relation to any future business plans or strategies developed as part of partnerships and collaborations. As relevant circumstances change, we expect to adjust our product plans which may result in changes to the expected use of certain of the Group's vehicle platforms. These uncertainties could result in either impairments of, or reductions to the expected useful lives of, these platforms, or both.

Refer to Note 26, *Equity* within the Consolidated Financial Statements included elsewhere in this report for additional detail on the proposed annual ordinary dividend distribution to holders of FCA common shares.

OVERVIEW OF OUR BUSINESS

Our activities are carried out through the following five reportable segments:

(i) North America: our operations to support distribution and sale of mass-market vehicles in the United States, Canada, Mexico and Caribbean islands, primarily under the Jeep, Ram, Dodge, Chrysler, Fiat, Alfa Romeo and Abarth brands.

(ii) LATAM: our operations to support the distribution and sale of mass-market vehicles in South and Central America, primarily under the Fiat, Jeep, Dodge and Ram brands, with the largest focus of our business in Brazil and Argentina.

(iii) APAC: our operations to support the distribution and sale of mass-market vehicles in the Asia Pacific region (mostly in China, Japan, India, Australia and South Korea) carried out in the region through both subsidiaries and joint ventures, primarily under the Jeep, Fiat, Alfa Romeo, Abarth, Fiat Professional, Ram and Chrysler brands.

(iv) EMEA: our operations to support the distribution and sale of mass-market vehicles in Europe (which includes the 27 members of the European Union, the UK and the members of the European Free Trade Association), the Middle East and Africa, primarily under the Fiat, Fiat Professional, Jeep, Alfa Romeo, Lancia, Abarth, Ram and Dodge brands.

(v) Maserati: the design, engineering, development, manufacturing, worldwide distribution and sale of luxury vehicles under the Maserati brand.

During 2019, our previously reported “NAFTA” segment was renamed “North America” in response to the expected ratification of the United States-Mexico-Canada Agreement (“USMCA”). Other than the change of name, no other changes were made to the segment.

We also own or hold interests in companies operating in other activities and businesses. These activities are grouped under “Other Activities”, which primarily consists of our industrial automation systems design and production business, under the Comau brand name, and our cast iron and aluminum business, which produces cast iron components for engines, gearboxes, transmissions and suspension systems, and aluminum cylinder heads and engine blocks, under the Teksid brand name, as well as companies that provide services, including accounting, payroll, tax, insurance, purchasing, information technology, facility management and security for the Group, and manage central treasury activities. Refer to Note 3, *Scope of consolidation* in the Consolidated Financial Statements included elsewhere in this report for detail on the announced sale of Teksid’s cast iron automotive components business.

Definitions and abbreviations

Passenger cars include sedans, station wagons and three- and five-door hatchbacks, that may range in size from “micro” or “A-segment” vehicles of less than 3.7 meters in length to “large” or “F-segment” cars that are greater than 5.1 meters in length.

Utility vehicles (“UVs”) include sport utility vehicles (“SUVs”), which are available with four-wheel drive systems that provide true off-road capabilities, and crossover utility vehicles, (“CUVs”), which are not designed for heavy off-road use. UVs can be divided among six main groups, ranging from “micro” or “A-segment”, defined as UVs that are less than 3.9 meters in length, to “large” or “F-segment”, defined as UVs that are greater than 5.2 meters in length.

Light trucks may be divided between vans (also known as light commercial vehicles, or “LCVs”), which typically are used for the transportation of goods or groups of people, and pickup trucks, which are light motor vehicles with an open-top rear cargo area. Minivans, also known as multi-purpose vehicles (“MPVs”) typically have seating for up to eight passengers.

A vehicle is characterized as “all-new” if its vehicle platform is significantly different from the platform used in the prior model year and/or it has had a full exterior renewal.

A vehicle is characterized as “significantly refreshed” if it continues its previous vehicle platform but has extensive changes or upgrades from the prior model year.

Design and Manufacturing

We sell mass-market vehicles in the SUV, passenger car, truck and LCV markets. Our SUV and CUV portfolio includes the all-new Jeep Gladiator, all-new Jeep Commander PHEV, Jeep Grand Cherokee, Jeep Cherokee, Jeep Wrangler, Jeep Renegade, Jeep Compass, Maserati Levante, Dodge Durango, Dodge Journey and Alfa Romeo Stelvio. Our passenger car product portfolio includes vehicles such as the Fiat 500, Alfa Romeo Giulia, Maserati Quattroporte, Dodge Challenger and Charger, Chrysler 300 and Lancia Ypsilon and minivans such as the Chrysler Pacifica. We sell light duty and heavy duty pickup trucks such as the Ram 1500, all-new Ram 2500/3500, the Fiat Toro and Fiat Fullback, and chassis cabs such as the all-new Ram 3500/4500/5500. Our LCVs include vans such as the Fiat Professional Doblò, Fiat Professional Ducato and Ram ProMaster.

We have deployed World Class Manufacturing ("WCM") principles throughout our manufacturing operations. WCM principles were developed by the WCM Association, a non-profit organization dedicated to developing superior manufacturing standards. We are the only Original Equipment Manufacturer ("OEM") that is a member of the WCM Association. WCM fosters a manufacturing culture that targets improved safety, quality and efficiency, as well as the elimination of all types of waste. Unlike some other advanced manufacturing programs, WCM is designed to prioritize issues, focus on those initiatives believed likely to yield the most significant savings and improvements, and direct resources to those initiatives. We also offer several types of WCM programs to our suppliers whereby they can learn and incorporate WCM principles into their own operations.

Research and Development

We engage in research and development activities aimed at improving the design, performance, safety, fuel efficiency, reliability, consumer perception and sustainability of our products and services. As of December 31, 2019, we operated 46 research and development centers worldwide with a combined headcount of approximately 18 thousand employees supporting our research and development efforts.

We concentrate the majority of our efficiency research efforts in two areas: reducing vehicle energy demand and reducing fuel consumption and emissions. Fuel consumption and emissions reduction activities have been primarily focused on powertrain technologies including: engines, transmissions and drivelines, hybrid and electric propulsion and alternative fuels. In recent years, we have increased our research and development efforts on automated driving and connectivity technologies.

Vehicle Energy Demand

Our research and development focuses on reducing weight, aerodynamic drag, tire rolling resistance, brake drag torque, driveline parasitic losses, heating and air conditioning, and electrical loads. We also continue to develop both conventional and hybrid vehicle technologies aimed at improving kinetic energy recovery and re-use of thermal energy to reduce total energy consumption and CO_2 emissions.

We have introduced active aerodynamic devices, which activate automatically under certain operating conditions. These active aerodynamic devices include active grille shutters, active front air dams and adjustable height suspension. Further, we have introduced smart actuators, such as variable speed fuel pumps, variable displacement air conditioning compressors and high efficiency brushless electric motors for cooling fans, to reduce fuel consumption. Such smart actuators only require the energy needed for each specific working condition, avoiding electric energy waste. In 2019, high strength steel was put to extensive use in the frame of the all-new Ram Heavy Duty pickup truck and the all-new Jeep Gladiator to reduce weight. The all-new Ram Heavy Duty pickup truck also utilizes active grille shutters and a highly tuned air dam to reduce drag.

Powertrain Technologies

Engines

We have developed global small and global medium displacement gasoline engine families to improve fuel economy and emissions. These engine families include three and four cylinder turbocharged versions (the global small engine family also has three and four cylinder naturally aspirated variants). Each engine family features a modular approach using a shared cylinder design (allowing for different engine configuration, displacements, efficiency and power outputs). Each is based on a specific cylinder configuration which provides important synergies for the engine development (common combustion development and common design layout) and for manufacturing (common machining, assembly features and components and subsystems). These engine families are fully deployed and cover a large range of vehicle applications and include features and technologies such as direct fuel injection, downsizing, integrated exhaust manifold, MultiAir variable valve lift, turbocharging, and cooled exhaust gas recirculation. All of these features enable the engine families to be competitive among small and medium displacement engines with respect to fuel consumption, performance, weight and noise, vibration and harshness behavior.

In 2019, a locally-produced plug-in hybrid version of the global medium displacement turbocharged engine with dual overhead camshaft was launched in the all-new Jeep Commander in China. Additionally, in 2019, a 1.3L direct-injection turbocharged engine with engine stop/start technology was newly paired with a nine-speed automatic transmission in the Jeep Renegade to increase fuel efficiency and reduce emissions. Future evolution of the two engine families is expected to include advanced technologies and electrification to further reduce CO_2 emissions.

Transmissions and Driveline

Our automatic transmission portfolio includes 8- and 9-speed units developed in an effort to provide our customers with improved efficiency, performance and drive comfort. Long travel damper and pendulum damper technologies are used to allow the engine to operate at a lower speed and higher torque - where the engine is more efficient at converting the fuel energy to mechanical energy.

Other improvements are used to reduce the power consumption of the transmission. The second generation TorqueFlite 8-speed improves transmission efficiency via improved line pressure control and reduced clutch drag. The addition of transmission oil heaters allows the transmission to quickly warm up to operating temperatures and improve transmission efficiency. We are investigating many other technologies to increase transmission system efficiency such as selectable one-way clutches and reduced oil viscosity.

In support of global fuel consumption and CO_2 requirements, we have developed our first dedicated hybrid transmission (the eFlite), used in the Chrysler Pacifica plug-in hybrid and in the Jeep Commander plug-in hybrid produced by GAC Fiat Chrysler Automobiles Co., our joint venture with Guangzhou Automobiles Group Co., Ltd. in China. The new eFlite hybrid transmission architecture is an electrically variable front wheel drive transaxle with a split input configuration and incorporates two electric motors, both capable of driving in full electric mode. The lubrication and cooling system makes use of two pumps, one electrically operated and one mechanically driven.

The 6-speed manual transmission for rear-wheel drive applications, introduced on the Jeep Wrangler and all-new Jeep Gladiator, offers optimized ratio spread to allow the engine to operate more efficiently. Industrialization began in 2019 for enhanced and updated variants of our small and midsize front-wheel drive manual transmissions and high efficiency bearings have been incorporated in updates to our midsize front-wheel drive manual transmissions.

Our axle and driveline portfolio updates increase capability and reduce power consumption on the Ram 1500, Jeep Wrangler and all-new Jeep Gladiator. The Ram 1500 also offers an axle heating system and lubrication optimization for improved efficiency.

Electric and Hybrid Technologies

We have confirmed plans to make significant investments in vehicle electrification development, and manufacturing facilities in North America and Italy, to support the growing demand for electrified vehicles. By 2022, we expect to offer more than 30 nameplates with electrified powertrains.

We have developed a suite of electrification technologies, including: 12 volt engine stop/start, 48 volt mild hybrid, high voltage plug-in hybrid, and full battery electric vehicles. These developments have occurred at our technical centers primarily in Auburn Hills (Michigan, USA), Modena and Turin (Italy). However, substantial work has also been performed with suppliers and universities located around the globe.

The 12 volt stop/start system turns off the engine and fuel flow automatically when the vehicle comes to a halt and re-starts the engine upon the driver disengaging the brake. Phase-in of this technology began in 2013 model year and in 2019 was used in approximately 49 percent of our global production volume.

In 2018, we launched three applications of mild hybrids using belt starter generator ("BSG") technology. BSG technology offers improvements in fuel economy and a reduction in CO_2 emissions. This new 48 volt mild hybrid technology is marketed as "eTorque" in the 2020 Jeep Wrangler equipped with the 2.0L turbo engine or 3.6L engine, and the 2019 Ram 1500 5.7L and 3.6L applications. The system offers faster and smoother stop/start functionality, a real-time powertrain efficiency optimization manager which balances motor and engine torque, enhanced and extended fuel shut-off during certain maneuvers, and regenerative braking to recharge the 48 volt battery. The system also delivers significant gains in fuel economy. In 2020, a new BSG 12V 1.0L naturally-aspirated engine is expected to be launched in the Fiat Panda, Fiat 500 and Lancia Ypsilon for Europe.

The Chrysler Pacifica plug-in hybrid achieves an efficiency rating of 82 miles per gallon equivalent ("MPGe"), based on U.S. Environmental Protection Agency testing standards and has an approximately 72 percent reduction in CO_2 compared to the non-hybrid Chrysler Pacifica. Power to the wheels is supplied via a 16 kWh battery through the hybrid electric drive system which is comprised of a specially adapted new version of the award winning Pentastar 3.6L engine and the new eFlite hybrid transmission.

At the 2019 Geneva International Motor Show, we presented plug-in hybrid variants of Jeep Renegade and Jeep Compass. The electric units are integrated into the new 1.3L turbo gasoline engine to increase efficiency and overall power. For the Jeep Renegade and Jeep Compass, the simultaneous action of the internal combustion engine and the electric motor delivers up to 240 hp. The fully-electric Fiat Centoventi, a concept conceived for sustainable and affordable urban mobility, was also displayed at the 2019 Geneva International Motor Show.

In addition, a fully electric variant of the Fiat 500 was announced in 2019, which will be manufactured for the European market at the Mirafiori plant in Turin, Italy beginning in 2020. The Ducato Electric was also unveiled in 2019 and is expected to be launched in 2020 in Europe.

In 2019, we also announced the development of a Battery Hub in Turin, Italy at the Mirafiori plant beginning in 2020. The Battery Hub is expected to be dedicated to battery assembly and also host prototyping and experimentation activities, as well as training courses.

Our internal research and development activities are also supplemented via collaboration with academic partners. One such example is a project in partnership with McMaster University (Canada), which focuses on developing next-generation, energy efficient, high performance, cost effective electrified powertrain components and control systems suitable for a range of vehicle applications.

Compressed Natural Gas

We are among the EU-market leaders in compressed natural gas ("CNG") propulsion. From 1997 to 2019, the Company's output of CNG-powered vehicles in Europe exceeded 770,000 vehicles.

Automated Driving Technology

We are collaborating with Waymo (formerly the Google self-driving car project) to integrate its self-driving technology into the Chrysler Pacifica Hybrid, including the production of Chrysler Pacifica Hybrid minivans built specifically to enable fully self-driving operations.

In 2019, we announced a memorandum of understanding with Aurora, laying the groundwork for a partnership to develop and deploy self-driving commercial vehicles.

We have launched Highway Assist "partial automation" vehicle technology on several Maserati models. This system includes Mobileye vision technology to enable SAE Level 2 automated driving on designated highways.

In 2018, we began working with Aptiv to develop an SAE Level 2+ (hands-off the wheel) automated driving system for our next generation vehicles planned to launch in 2021.

We are also continuing the development of an SAE Level 3 capable automated driving platform. To that end, a team of FCA engineers is integrated in an autonomous vehicle development team with BMW in Munich, Germany.

Connectivity

We continue to work with our suppliers to develop our cloud-based global connectivity solution that connects vehicles to the Internet and allows the driver and passengers to interact with the car and the outside world. The solution is scalable, increases safety and security and provides real time availability of services and information. A first release of this connectivity system has been launched in EMEA and China and we intend to extend the roll-out to all regions by the end of 2020, while also adding new user features.

Compliance-focused Initiatives by Region

The regulatory environment outlook across our four major regions shows continued CO_2 reductions, ranging from 25-30 percent between 2019 and 2024. This anticipated regulatory stringency balanced with customer preferences guides research and development for future products and is highlighted below by region and key product segment.

North America

The U.S. policy is complex with three separate CO_2 regulations, but it also contains a flexible array of new technology incentives to encourage industry movement toward an electrified future. For instance, U.S. regulation includes a tax credit to purchasers of up to U.S.$7,500 to incentivize demand and help to offset relatively low fuel prices and increasing consumer preference for SUVs and pickup trucks. This incentive is available on the first 200,000 qualifying electrified vehicles sold by each OEM and then begins to phase-out.

U.S. consumers tend to have long commutes and ready access to charging capability at home. We plan, by 2022, for 5 percent of our overall fleet (including commercial vehicles) to be high voltage electrified powertrain versions, with a focus on plug-in systems, 17 percent of the fleet to be equipped with mild hybrid systems and the remaining 78 percent to retain conventional internal combustion engines.

Canadian CO_2 policy largely mirrors U.S. requirements without the separate Corporate Average Fuel Economy ("CAFE") rules. Our technology plan and mix rates in Canada are consistent with our U.S. plans. Within Canada, the Quebec province has a separate zero emission vehicle ("ZEV") mandate which we expect to meet with a combination of ZEV vehicle sales and purchased credits.

LATAM

With its ability to grow sugar cane in high volume, Brazil is able to address CO_2 reduction with a different approach. Today about 30 percent of vehicle fuel usage in Brazil consists of sugar cane produced ethanol. Sugar cane ethanol is 80 percent renewable from “well” (or field) to wheels and provides approximately 12.5 percent CO_2 reduction on an equivalent 30/70 fuel mix E100/E22 basis. The Brazilian government recently launched a plan (RenovaBio) to improve quality and productiveness of ethanol, targeting an increase of share on Ethanol E100 in the fuel matrix from the current 30 percent to 40 percent in 2022 and to 55 percent in 2030. In addition, the Brazilian government and we are working very closely on research and development opportunities to further reduce CO_2 emissions through improvements to ethanol-fueled engines.

Brazilian consumers already widely use ethanol fuel, readily available in the current retail fuel market. We believe that Brazilian CO_2 fleet reduction targets will be met through 2025 with increased usage and efficiency of our ethanol based engines and without any high voltage electrification.

APAC

China is leading the rapid change in this region. The Chinese government has stated intentions to become the global leader in electrification, connectivity and autonomous driving in the next decade. The regulatory policies include requirements on corporate fuel economy and new energy vehicle credit and incentives for new energy vehicles which are defined as battery electric, plug-in hybrid, or fuel cell vehicles.

Some large cities provide consumers with license plate incentives for new energy vehicles. Given these incentives can be as high as €11,000 per vehicle, we believe they will be successful in driving the market toward electrification.

From a consumer perspective, China has the highest number of first time car buyers in the world. Since much of the vehicle consumer demographic resides in urban areas, access to public charging is expected to be a critical element to achieving China’s electrified objectives.

Our plan is, by 2022, for 18 percent of the overall fleet (including commercial vehicles) to use high voltage electrification, with the highest penetration of full battery electric of any region, 6 percent of the fleet to be equipped with a mild hybrid system and 76 percent of the fleet to retain conventional internal combustion engines.

In contrast to China, India continues to be a cost sensitive market with a developing infrastructure. As a result, increased regulatory requirements are expected to be met through application of shared conventional technologies while the industry continues to investigate electrification options.

EMEA

Europe represents the most challenging combination of regulatory stringency and consumer price sensitivity. The EU is driving a significant reduction in CO_2 in 2020, and metropolitan areas are implementing low emission zones in an attempt to improve air quality in city centers. Conventional internal combustion engine applications will likely be restricted, especially with aging vehicles. The CO_2 financial penalty structure is very significant.

Many consumers in Europe need reduced cost of vehicle ownership given high fuel prices and pressure on disposable income. As the demand for diesels continues to decrease, we intend to use mild hybrids as a replacement. The region will need to address the development of charging infrastructure so that zero emission vehicles are more convenient for consumers.

Our plan is, by 2022, for 16 percent of the overall fleet (including commercial vehicles) to use high voltage electrification, 37 percent of the fleet to be equipped with a mild hybrid system and 47 percent to retain conventional internal combustion engines. As previously announced, we expect to introduce electrification technology on several models in 2020 including plug-in hybrid versions of the Jeep Renegade, Jeep Compass and Jeep Wrangler, an all-new full battery electric Fiat 500, as well as the inclusion of mild hybrid technology on a range of other models. Leasys, a rental services subsidiary of our joint venture with Crédit Agricole Consumer Finance S.A., is expected to play a meaningful role in delivering these technologies to the market by leveraging its suite of mobility services.

Intellectual Property

We own a significant number of patents, trade secrets, licenses, trademarks and service marks, including, in particular, the marks of our vehicle and component and production systems brands, which relate to our products and services. We expect the number to grow as we continue to pursue technological innovations. We file patent applications in Europe, the U.S. and around the world to protect technology and improvements considered important to our business. No single patent is material to our business as a whole.

Property, Plant and Equipment

As of December 31, 2019, we operated 111 manufacturing facilities (including vehicle and light commercial vehicle assembly, powertrain and components plants, and excluding joint ventures), of which 28 were located in Italy, 13 in the rest of Europe, 28 in the U.S., 11 in Mexico, 9 in Canada, 13 in Brazil, 2 in Argentina, 3 in China and the remaining plants in various other countries. We also own other significant properties including parts distribution centers, research laboratories, test tracks, warehouses and office buildings. The total carrying value of our property, plant and equipment as of December 31, 2019 was €28.6 billion.

A number of our manufacturing facilities and equipment, including land and industrial buildings, plant and machinery and other assets, are subject to mortgages and other security interests granted to secure indebtedness to certain financial institutions. As of December 31, 2019, our property, plant and equipment reported as pledged as collateral for loans amounted to approximately €1.6 billion, excluding Right-of-use assets (refer to Note 11, *Property, plant and equipment).*

We believe that planned production capacity is adequate to satisfy anticipated retail demand and our operations are designed to be flexible enough to accommodate the planned product design changes required to meet global market conditions and new product programs (such as through leveraging existing production capacity in each region for export needs).

We are not aware of any environmental issues that would materially affect the utilization of our fixed assets. See *Industrial Environmental Control*.

Supply of Raw Materials, Parts and Components

We purchase a variety of components (including mechanical, steel, electrical and electronic, plastic components as well as castings and tires), raw materials, supplies, utilities, logistics and other services from numerous suppliers. Historically the purchase of raw materials, parts and components have accounted for 70-80 percent of total Cost of revenues. Of these purchases, 10-15 percent relate to the cost of raw materials, including steel, rubber, aluminum, resin, copper, lead, and precious metals (including platinum, palladium and rhodium).

Our focus on quality improvement, cost reduction, product innovation and production flexibility requires us to rely upon suppliers with a focus on quality and the ability to provide cost reductions. We value our relationships with suppliers, and in recent years, we have worked to establish closer ties with a significantly reduced number of suppliers by selecting those that enjoy a leading position in the relevant markets. In addition, we source some of the parts and components for our vehicles internally from Teksid. Subsequent to the announced sale of Teksid's cast iron business, we expect to enter into a long-term supply agreement with the acquirer, Tupy S.A. We also agreed to a multi-year supply agreement with Magneti Marelli in connection with our sale of that business. Although we have not experienced any major loss of production as a result of material or parts shortages in recent years, because we, like most of our competitors, regularly source some of our systems, components, parts, equipment and tooling from a single provider or limited number of providers, we are at risk of production delays and lost production should any supplier fail to deliver goods and services on time.

Supply of raw materials, parts and components may also be disrupted or interrupted by natural disasters. In such circumstances, we work proactively with our suppliers to identify material and part shortages and take steps to mitigate their impact by deploying additional personnel, accessing alternative sources of supply and managing our production schedules. We also continue to refine our processes to identify emerging capacity constraints in the supplier tiers given the ramp up in manufacturing volumes to meet our volume targets. Furthermore, we continuously monitor supplier performance according to key metrics such as part quality, delivery, performance, financial solvency and sustainability.

Employees

At December 31, 2019, we had a total of 191,752 employees (excluding employees of joint arrangements, associates and unconsolidated subsidiaries), a 3.4 percent decrease from December 31, 2018 and a 2.4 percent decrease over December 31, 2017. The following table provides a breakdown of these employees as of December 31, 2019, 2018 and 2017, indicated by type of contract and region.

			Hourly			Salaried			Total
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Europe	**37,609**	40,446	40,910	**23,027**	24,170	24,920	**60,636**	64,616	65,830
North America[(1)]	**72,667**	74,703	71,414	**22,954**	22,326	22,778	**95,621**	97,029	94,192
Latin America	**24,525**	26,004	25,634	**7,088**	7,062	6,917	**31,613**	33,066	32,551
Asia	**230**	253	271	**3,413**	3,313	3,486	**3,643**	3,566	3,757
Rest of the world	**46**	46	4	**193**	222	177	**239**	268	181
Total	**135,077**	**141,452**	**138,233**	**56,675**	**57,093**	**58,278**	**191,752**	**198,545**	**196,511**

(1) *Refers to the geographical area and not our North America reporting segment.*

We maintain dialogue with trade unions and employee representatives to achieve consensus-based solutions for responding to different market conditions in each geographic area. We have had no significant instances of labor unrest overall, and no significant local labor actions in the past three years.

In Europe, we established a European Works Council (the "EWC") in 1997 to ensure workers the right to information and consultation as required by European Union regulations applicable to community-scale undertakings. The EWC was established on the basis of an agreement initially signed in 1996 and subsequently revised and amended with a further amendment executed in July 2016. The amendment increased the number of total seats from 20 to 24 so that additional employees from new countries within the scope of the EWC are represented.

Trade Unions and Collective Bargaining

Our employees are free to join any trade union provided they do so in accordance with local law and the rules of the related trade union. The Group recognizes and respects the right of its employees to be represented by trade unions or other representatives in accordance with local applicable legislation and practice.

A large portion of our workers in Italy, the U.S., Canada and Mexico are represented by trade unions. In addition to the rights granted to all Italian trade unions and workers concerning freedom of association, in the Italian collective labor agreement FCA has agreed an additional service by paying the trade union dues on behalf of the employees.

Collective bargaining at various levels resulted in major agreements being reached with trade unions on both wage and employment conditions in several countries. Based on an average figure that includes the Sevel plant (Italy), 87.3 percent of our employees worldwide are covered by collective bargaining agreements.

In Italy, substantially all of our employees are covered by collective bargaining agreements. On March 11, 2019, the company-specific collective labor agreement (CCSL), which covers about 53,000 employees, was renewed with the Trade Unions FIM-CISL, UILM-UIL, FISMIC, UGLM and AQCFR. The agreement was effective retrospectively from January 1, 2019, through December 31, 2022, and includes:

- the increase in the basic contractual salary of 2 percent per year;
- the strengthening (+1.5 percent) of the annual bonus calculated on the basis of production efficiencies achieved and the plant's WCM audit status;
- the increase (+ 0.5 percent) of the contribution paid by the company to supplementary pension fund;
- several further initiatives aimed at increasing the flexibility of working time and new ways of working linked to the technological and organizational evolution of work;
- a new classification of workers, capable of interpreting the continuous evolution of professional skills.

In December 2019, the UAW-represented workforce ratified a new four-year collective bargaining agreement that builds on the company's commitment to grow its U.S. manufacturing operations by providing for total investments of U.S.$9 billion and the creation of 7,900 new or secured jobs. The provisions of the agreement continued certain opportunities for success-based compensation upon meeting certain quality and financial performance metrics. The agreement, which covers about 49,200 employees, included a ratification bonus of U.S.$9,000 for "Traditional" and "In-progression" employees and U.S.$3,500 for temporary employees, as well as lump-sum payments, both of which are in lieu of further wage increases, totaling U.S.$499 million (€446 million) that were paid to UAW members on December 27, 2019. Lump sum payments made in lieu of future wage increases will be amortized over the contract period.

In September 2016, the four-year collective bargaining agreement that was entered into in September 2012 with Unifor in Canada expired. FCA entered into a four year labor agreement with Unifor in Canada that was ratified on October 16, 2016. The terms of this agreement provide a two percent wage increase in the first and fourth years of the agreement for employees hired prior to September 24, 2012 and will continue to close the pay gap for employees hired on or after September 24, 2012 by revising a ten-year progressive pay scale plan. The agreement includes a lump sum payment in lieu of further wage increases of $6,000 Canadian dollars ("CAD$") per employee totaling approximately CAD$55 million (approximately €38 million) that was paid to Unifor members on November 4, 2016. The agreement covers approximately 10,000 employees and expires September 2020. The Unifor lump-sum payment is being amortized ratably over the four-year labor agreement period.

SALES OVERVIEW

New vehicle sales represent sales of FCA vehicles primarily by dealers and distributors, or, directly by us in some cases, to retail customers and fleet customers. Sales include mass-market and luxury vehicles manufactured at our plants, as well as vehicles manufactured by our joint ventures and third party contract manufacturers and distributed under our brands. Sales figures exclude sales of vehicles that we contract manufacture for other OEMs. While vehicle sales are illustrative of our competitive position and the demand for our vehicles, sales are not directly correlated to our Net revenues, Cost of revenues or other measures of financial performance in any given period, as such results are primarily driven by our vehicle shipments to dealers and distributors. For a discussion of our shipments, see *FINANCIAL OVERVIEW—Shipment Information*. The following table shows new vehicle sales by geographic market for the periods presented.

	Years ended December 31,		
	2019	2018	2017
	(millions of units)		
North America	2.5	2.5	2.4
LATAM	0.6	0.6	0.5
APAC	0.2	0.2	0.3
EMEA	1.3	1.4	1.5
Total Mass-Market Vehicle Brands	**4.6**	**4.7**	**4.7**
Maserati	0.03	0.04	0.05
Total Worldwide	**4.6**	**4.8**	**4.8**

North America

North America Sales and Competition

The following table presents mass-market vehicle sales and estimated market share in the North America segment for the periods presented:

	Years ended December 31,					
	2019[(1),(2)]		2018[(1),(2)]		2017[(1),(2)]	
North America	Sales	Market Share	Sales	Market Share	Sales	Market Share
	Thousands of units (except percentages)					
U.S.	2,204	12.6%	2,235	12.6%	2,059	11.7%
Canada	223	11.6%	225	11.3%	267	13.0%
Mexico and Other	63	4.7%	74	5.1%	86	5.5%
Total	**2,490**	**12.0%**	**2,534**	**12.0%**	**2,412**	**11.4%**

(1) *Certain fleet sales that are accounted for as operating leases are included in vehicle sales.*
(2) *Estimated market share data presented are based on management's estimates of industry sales data, which use certain data provided by third-party sources, including IHS Markit and Ward's Automotive.*

The following table presents estimated new vehicle market share information for FCA and our principal competitors in the U.S., our largest market in the North America segment:

	Years ended December 31,		
U.S.	2019	2018	2017
Automaker	Percentage of industry		
GM	16.5%	16.7%	17.1%
Ford	13.8%	14.1%	14.7%
Toyota	13.6%	13.7%	13.9%
FCA	**12.6%**	**12.6%**	**11.7%**
Honda	9.2%	9.1%	9.3%
Nissan	7.7%	8.4%	9.1%
Hyundai/Kia	7.6%	7.2%	7.3%
Other	19.0%	18.2%	16.9%
Total	**100.0%**	**100.0%**	**100.0%**

U.S. industry sales, including medium and heavy-duty vehicles, increased from 10.6 million units in 2009 to 17.5 million units in 2019. The strong recovery in the automotive sector, from 2009 through 2019, was supported by robust macroeconomic and automotive specific factors, such as growth in per capita disposable income, improved consumer confidence, the increasing age of vehicles in operation, improved consumer access to affordably priced financing and higher prices of used vehicles.

Our vehicle line-up in the North America segment primarily leverages the brand recognition of the Jeep, Ram, Dodge and Chrysler brands to offer utility vehicles, pickup trucks, cars and minivans under those brands. Our vehicle sales and profitability in the North America segment are generally weighted towards larger vehicles such as utility vehicles, trucks and vans, consistent with overall industry sales trends in the North America segment, which have become increasingly weighted towards utility vehicles and trucks in recent years.

Our 2019 sales were at a comparable level to 2018, primarily from the strong performance of the Ram brand, for which growth was underpinned by the launch of Ram Heavy Duty and supported by higher sales of Ram Light Duty, as well as the launch of the all-new Jeep Gladiator, despite lower overall shipments.

North America Distribution

In the North America segment, our vehicles are sold primarily to dealers in our dealer network for sale to retail consumers and to fleet customers. Fleet sales in the commercial channel are typically more profitable than sales in the government and daily rental channels since they more often involve customized vehicles with more optional features and accessories; however, vehicle orders in the commercial channel are usually smaller in size than the orders made in the daily rental channel. Fleet sales in the government channel are generally more profitable than fleet sales in the daily rental channel primarily due to the mix of products included in each respective channel.

North America Dealer and Customer Financing

In the North America segment, we do not have a captive finance company or joint venture and instead rely upon independent financial service providers, including Santander Consumer USA Inc. ("SCUSA") to provide financing for dealers and retail customers in the U.S. In February 2013, we entered into a private label financing agreement with SCUSA (the "SCUSA Agreement"), under which SCUSA provides a wide range of wholesale and retail financial services to our dealers and retail customers in the U.S., under the Chrysler Capital brand name and covering the Chrysler, Jeep, Dodge, Ram, Fiat and Alfa Romeo brands.

The SCUSA Agreement has a ten year term from February 2013, subject to early termination in certain circumstances, including the failure by a party to comply with certain of its ongoing obligations under the agreement. Under the SCUSA Agreement, SCUSA has certain rights, including limited exclusivity to participate in specified minimum percentages of certain retail financing rate subvention programs. SCUSA's exclusivity rights are subject to SCUSA maintaining certain performance standards and price competitiveness based on minimum approval rates and market benchmark rates to be determined through a steering committee process as set out in the SCUSA Agreement. SCUSA and FCA US have been in continual discussion regarding performance under the SCUSA Agreement. The parties entered into a Tolling Agreement in July 2018 with respect to the SCUSA Agreement, pursuant to which, among other things, the parties agreed each party shall fully preserve and retain its respective rights, claims and defenses as they existed on April 30, 2018.

On June 28, 2019, FCA US entered into an amendment (the "Amendment") to the SCUSA Agreement. The Amendment modified certain terms of the agreement, with the remaining term unchanged through to February 2023, and in connection with its execution, SCUSA made a one-time, nonrefundable, non-contingent, cash payment of U.S.$60 million (€53 million) to FCA US as part of a negotiated resolution of open matters. Refer to Note 25, *Guarantees granted, commitments and contingent liabilities*, within our Consolidated Financial Statements included elsewhere in this report.

As of December 31, 2019, SCUSA was providing wholesale lines of credit to approximately 10 percent of our dealers in the U.S., while Ally Financial Inc. ("Ally") was at 33 percent. For the year ended December 31, 2019, we estimate that approximately 87 percent of the vehicles purchased by our U.S. retail customers were financed or leased of which approximately 55 percent financed or leased through SCUSA (40 percent) and Ally (15 percent). Alfa Romeo brand development within the U.S. is also supported by dealer and retail customer financing with primary financial institutions. Additionally, we have arrangements with a number of financial institutions to provide a variety of dealer and retail customer financing programs in Canada and a private label agreement with Inbursa Group in Mexico.

LATAM

LATAM Sales and Competition

The following table presents mass-market vehicle sales and market share in the LATAM segment for the periods presented:

						Years ended December 31,
	2019[(1)]		2018[(1)]		2017[(1)]	
LATAM	Sales	Market Share	Sales	Market Share	Sales	Market Share
	Thousands of units (except percentages)					
Brazil	497	18.7%	434	17.5%	380	17.5%
Argentina	54	12.4%	99	12.8%	105	12.2%
Other LATAM	29	2.7%	33	2.9%	28	2.5%
Total	**580**	**13.9%**	**566**	**12.8%**	**513**	**12.4%**

(1) *Estimated market share data presented are based on management's estimates of industry sales data, which use certain data provided by third-party sources, including IHS Markit, National Organization of Automotive Vehicles Distribution and Association of Automotive Producers.*

The following table presents our mass-market vehicle market share information and our principal competitors in Brazil, our largest market in the LATAM segment:

			Years ended December 31,
Brazil	2019[(1)]	2018[(1)]	2017[(1)]
Automaker	Percentage of industry		
FCA	18.7%	17.5%	17.5%
GM	17.9%	17.6%	18.1%
Volkswagen	15.6%	14.8%	12.5%
Ford	8.2%	9.2%	9.5%
Other	39.6%	40.9%	42.4%
Total	**100.0%**	**100.0%**	**100.0%**

(1) *Our estimated market share data presented are based on management's estimates of industry sales data, which use certain data provided by third-party sources, including IHS Markit, National Organization of Automotive Vehicles Distribution and Association of Automotive Producers.*

Automotive industry volumes within the countries in which the LATAM segment operates decreased 5 percent from 2018 to 4.2 million vehicles (cars and light commercial vehicles) in 2019, which was primarily driven by a 43 percent decline in vehicle sales in Argentina, reflecting the impact of the Argentina economic downturn, partially offset by a 7.6 percent increase in vehicle sales in Brazil, reflecting continued improvement in market conditions.

The Group's market share in LATAM increased 110 basis points from 12.8 percent to 13.9 percent, primarily reflecting market share growth in Brazil. In Brazil, overall market share increased 120 basis points to 18.7 percent from 17.5 percent while, in Argentina, overall market share decreased 40 basis points to 12.4 percent from 12.8 percent in 2018.

Our vehicle line-up in LATAM leverages the brand recognition of Fiat, as well as the relatively urban population of countries like Brazil, to offer vehicles in smaller segments, such as the Fiat Mobi, Argo and Cronos. Fiat also leads the pickup truck market in Brazil, with the Fiat Strada (22.3 percent market share) and the Fiat Toro (19.1 percent market share). Jeep leads the small and medium SUV segments in Brazil with the Jeep Renegade (11.5 percent market share) and the Jeep Compass (10.1 percent market share).

LATAM Distribution

In the LATAM segment, we generally enter into multiple dealer agreements with individual dealerships. Outside our major markets of Brazil and Argentina, we mainly distribute our vehicles through general distributors.

LATAM Dealer and Customer Financing

In the LATAM segment, we provide access to dealer and retail customer financing both through 100 percent owned captive finance companies and also through strategic relationships with financial institutions.

We have two 100 percent owned captive finance companies in the LATAM segment that offer dealer and retail customer financing: Banco Fidis S.A. ("Banco Fidis") in Brazil and FCA Compañia Financiera S.A. in Argentina. In addition, in Brazil we have two significant commercial partnerships with Banco Itaù and Bradesco to provide financing to retail customers purchasing FCA branded vehicles. Banco Itaù is a leading vehicle retail financing company in Brazil and our partnership was renewed in August 2013 for a ten-year term ending in 2023. Under this agreement, which applies only to our retail customers purchasing Fiat branded vehicles, Banco Itaù has exclusivity on our promotional campaigns and preferential rights on non-promotional financing. We receive commissions in connection with each vehicle financing above a certain threshold. In July 2015, FCA Fiat Chrysler Automoveis Brasil ("FCA Brasil") and Banco Fidis signed a ten-year partnership contract with Bradesco, one of the leading Brazilian banks, through its affiliate Bradesco Financiamentos, whereby Bradesco Financiamentos finances retail sales of Jeep, Chrysler, Dodge and Ram vehicles in Brazil. Under this agreement, Bradesco has exclusivity on promotional campaigns and FCA Brasil promotes Bradesco as its official financial partner. Banco Fidis is in charge of the commercial management of this partnership and receives commissions for this partnership agreement and for acting as banking agent, based on profitability and penetration.

APAC

APAC Sales and Competition

The following table presents vehicle sales in the APAC segment:

					Years ended December 31,	
	2019[(1),(4)]		2018[(1),(4)]		2017[(1),(4)]	
APAC	Sales	Market Share	Sales	Market Share	Sales	Market Share
	Thousands of units (except percentages)					
China[(2)]	92	0.4%	163	0.8%	215	0.9%
Japan	24	0.6%	22	0.5%	21	0.5%
India[(3)]	12	0.4%	19	0.6%	15	0.5%
Australia	9	0.8%	11	1.0%	13	1.1%
South Korea	10	0.7%	8	0.5%	8	0.5%
APAC 5 major Markets	**147**	**0.5%**	**223**	**0.7%**	**272**	**0.8%**
Other APAC	5	—	5	—	5	—
Total	**152**	**—**	**228**	**—**	**277**	**—**

(1) Estimated market share data presented are based on management's estimates of industry sales data, which use certain data provided by third-party sources, including IHS Markit and China Association of Automobile Manufacturers. Effective January 2019, industry data sourced from China Passenger Car Association.

(2) Sales data include vehicles shipped by our joint venture in China.

(3) India market share is based on wholesale volumes.

(4) Sales reflect retail deliveries. APAC industry reflects aggregate for major markets where the Group competes (China, Australia, Japan, South Korea, and India). Market share is based on retail registrations except, as noted above, in India where market share is based on wholesale volumes.

The automotive industry in the APAC segment has shown a year-over-year decline, with industry sales in the five key markets (China, India, Japan, Australia and South Korea) decreasing by 6 percent to 31.2 million. Overall for the ten year period in the five key markets in which we compete, industry sales have increased from 16.1 million in 2009 to 31.2 million in 2019, a compound annual growth rate ("CAGR") of approximately 7 percent. Industry demand decreased from 2018 to 2019 with decreases in China (-7 percent), Australia (-8 percent), India (-12 percent), South Korea (-2 percent) and Japan (-2 percent).

We sell a range of vehicles in the APAC segment, including small and compact cars and utility vehicles. Although our smallest mass-market segment by vehicle sales, we believe the APAC segment represents a significant growth opportunity and have invested in building relationships with key joint venture partners in China and India in order to increase our presence in the region. In 2010, GAC Fiat Chrysler Automobiles Co. ("GAC FCA JV"), our joint venture with Guangzhou Automobiles Group Co., Ltd., was formed. In 2015, we expanded local production through the GAC FCA JV with the production of the Jeep Cherokee and in 2016 the Jeep Renegade and the Jeep Compass. In 2016, the Jeep brand also made its return to India, with the launches of the imported Jeep Wrangler and Jeep Grand Cherokee. In 2017, we launched the imported Alfa Romeo Giulia and Alfa Romeo Stelvio in China and local production of the Jeep Compass was launched in the Ranjangaon, India plant for sale in India and other right-hand drive countries. In 2018, we launched the Grand Commander in China, a premium seven-seater SUV produced at the GAC FCA JV plant in Changsha, China. In 2019, we launched the all-new Jeep Commander PHEV, a 5-passenger plug-in hybrid SUV developed for China. In other parts of the APAC segment, we distribute vehicles that we manufacture in the U.S., Europe and India through our dealers and distributors.

APAC Distribution

In the key markets in the APAC segment (China, Australia, India, Japan and South Korea), we sell our vehicles through 100 percent owned subsidiaries or through our joint venture to local independent dealers. In other markets where we do not have a substantial presence, we have agreements with general distributors.

APAC Dealer and Customer Financing

In the APAC segment, we operate a 100 percent owned captive finance company, FCA Automotive Finance Co., Ltd, which supports our sales activities in China on a non-exclusive basis through dealer and retail customer financing. Cooperation agreements are also in place with third-party financial institutions to provide dealer network and retail customer financing in India, South Korea, Australia and Japan.

EMEA

EMEA Sales and Competition

The following table presents vehicle sales in the EMEA segment for the periods presented:

	Years ended December 31,					
	2019(1),(2),(3)		2018(1),(2),(3)		2017(1),(2),(3)	
EMEA	Sales	Market Share	Sales	Market Share	Sales	Market Share
	Thousands of units (except percentages)					
Italy	521	24.8%	571	27.3%	633	29.4%
Germany	130	3.3%	155	4.0%	151	3.9%
France	127	4.7%	139	5.3%	126	4.9%
Spain	87	5.9%	97	6.4%	84	5.8%
UK	53	2.0%	62	2.3%	73	2.5%
Other Europe	244	4.7%	252	4.9%	228	4.6%
Europe*	**1,162**	**6.4%**	**1,276**	**7.1%**	**1,295**	**7.2%**
Other EMEA**	165	—	152	—	191	—
Total	**1,327**	**—**	**1,428**	**—**	**1,486**	**—**

* *28 members of the European Union (including the UK for the periods presented) and members of the European Free Trade Association (other than Italy, Germany, UK, France, and Spain).*
** *Market share not included in Other EMEA because our presence is less than one percent.*
(1) *Certain fleet sales accounted for as operating leases are included in vehicle sales.*
(2) *Estimated market share data is presented based on the European Automobile Manufacturers Association (ACEA) Registration Databases and national Registration Offices databases.*
(3) *Sale data includes vehicle sales by our joint venture in Turkey.*

The following table summarizes new passenger vehicle market share information and our principal competitors in Europe, our largest market in the EMEA segment:

	Years ended December 31,		
Europe-Passenger Cars	**2019**[(1)]	**2018**[(1)]	**2017**[(1)]
Automaker	Percentage of industry		
Volkswagen	**24.5%**	23.9%	23.8%
PSA	**15.6%**	16.0%	12.1%
Renault	**10.5%**	10.5%	10.4%
Hyundai/Kia	**6.7%**	6.7%	6.3%
BMW	**6.6%**	6.6%	6.7%
Daimler	**6.4%**	6.2%	6.3%
Ford	**6.1%**	6.4%	6.6%
FCA[(2)]	**6.0%**	**6.5%**	**6.7%**
Toyota	**5.0%**	4.9%	4.6%
Other	**12.6%**	12.3%	16.5%
Total	**100.0%**	**100.0%**	**100.0%**

(1) *Including all 28 European Union (EU) Member States (including the UK for the periods presented) and the 4 European Free Trade Association member states, or EFTA member states.*
(2) *Market share data is presented based on the European Automobile Manufacturers Association, or ACEA Registration Databases, which also includes Maserati within our Group for all periods presented.*

In 2019, the Fiat brand continued its leadership in the European A minicar segment in EU 28+EFTA (including the UK), with Fiat 500 and Fiat Panda accounting for 29.1 percent of market share in the segment and Fiat 500 remaining segment leader, with sales down 2.2 percent. The Jeep Brand posted sales of more than 167 thousand vehicles. Sales of the Alfa Romeo Brand decreased, primarily from the discontinuance of the Mito and of certain engines of the Giulietta.

In Europe, FCA's sales are largely weighted to passenger cars, with 37.4 percent of our total vehicle sales in the small car segment for 2019, reflecting demand for smaller vehicles due to driving conditions prevalent in many European cities and stringent environmental regulations.

EMEA Distribution

In Europe, our relationship with individual dealer entities can be represented by a number of contracts (typically, we enter into one agreement per brand of vehicles to be sold), and the dealer can sell those vehicles through one or more points of sale.

In Europe, we sell our vehicles directly to independent and our own dealer entities located in most European markets, as well as to fleet customers (including government and rental). In other markets in the EMEA segment in which we do not have a substantial presence, we have agreements with general distributors.

EMEA Dealer and Customer Financing

In the EMEA segment, dealer and retail customer financing is primarily managed by FCA Bank, our joint venture with Crédit Agricole Consumer Finance S.A. ("CACF"). FCA Bank operates in Europe, including the five major markets of Italy, France, Germany, Spain and the UK, and provides dealer and retail financing and, within selected countries, also rentals to support our mass-market vehicle brands. FCA Bank provides its services to our Maserati luxury brand, as well as certain other OEMs, including Ferrari. We began this joint venture in 2007 and have agreed with Crédit Agricole to extend its term through December 31, 2024, which may be automatically renewed unless notice of non-renewal is provided no later than three years before end of the term.

We also operate a joint venture, Koç Fiat Kredi, providing financial services mainly to retail customers in Turkey, and operate vendor programs with bank partners in other markets to provide access to dealer and retail customer financing in those markets.

Maserati

Maserati, a luxury vehicle brand founded in 1914, became part of the Group in 1993. In 2013, the Maserati brand was re-launched by the introduction of the next generation Quattroporte and the introduction of the Ghibli (luxury four-door sedans), the first in the flagship large sedan segment and the second in the luxury full-size sedan vehicle segment. Maserati's current vehicles also include the GranTurismo, the brand's first modern two-door, four-seat coupe, also available in a convertible version and the Maserati Levante, the first SUV in Maserati's history.

In September 2019, Maserati announced plans for its lineup of new and electrified vehicles to be produced at Modena, Cassino and Turin (Mirafiori and Grugliasco), for the construction of a new production line at Cassino for a new Maserati utility vehicle, scheduled to open at the end of the first quarter of 2020 with the first pre-series cars expected to roll off the production line by 2021, and for the Turin production hub, where the all-new GranTurismo and GranCabrio will be produced.

The following table shows the distribution of Maserati sales by geographic regions as a percentage of total sales for each year ended December 31, 2019, 2018 and 2017:

	As a percentage of 2019 sales	As a percentage of 2018 sales	As a percentage of 2017 sales
U.S.	31%	32%	28%
China	24%	24%	30%
Europe Top 4 countries(1)	17%	17%	16%
Japan	5%	4%	4%
Other countries	23%	23%	22%
Total	**100%**	**100%**	**100%**

(1) *Europe Top 4 Countries by sales are Italy, UK, Germany and Switzerland.*

In 2019, a total of 26 thousand Maserati vehicles were sold to retail consumers, a decrease of 26 percent compared to 2018 as a result of reduced sales in China, the U.S. and other key markets, partially due to lower industry volumes in Maserati relevant segments.

FCA Bank provides access to dealer and retail customer financing for Maserati brand vehicles in Europe and our 100 percent owned captive finance company, FCA Automotive Finance Co. Ltd, provides dealer and retail financing on a non-exclusive basis in China. In other regions, we rely on local agreements with financial services providers for the financing of Maserati brand vehicles to dealers and end customers.

Cyclical Nature of the Business

As is typical in the automotive industry, our vehicle sales are highly sensitive to general economic conditions, availability of low interest rate vehicle financing for dealers and retail customers and other external factors, including fuel prices, and as a result may vary substantially from quarter to quarter and year to year. Retail consumers tend to delay the purchase of a new vehicle when disposable income and consumer confidence are low. In addition, our vehicle production volumes and related revenues may vary from month to month, sometimes due to plant shutdowns, which may occur for several reasons including production changes from one model year to the next and actions to balance vehicle supply and demand fluctuations and also to adjust dealer stock levels appropriately. Plant shutdowns, whether associated with model year changeovers or other factors such as temporary supplier interruptions, can have a negative impact on our revenues and working capital as we continue to pay suppliers under established terms while we do not receive proceeds from vehicle sales. Refer to *Liquidity and Capital Resources—Liquidity Overview* for additional information.

ENVIRONMENTAL AND OTHER REGULATORY MATTERS

We engineer, manufacture and sell our products and offer our services around the world, subject to requirements applicable to our products that relate to vehicle emissions, fuel economy, emission control software calibration and on-board diagnostics, as well as those applicable to our manufacturing facilities that relate to stack emissions, the treatment of waste, water and hazardous materials, prohibitions on soil contamination, and worker health and safety. Our vehicles and the engines that power them must also comply with extensive regional, national and local laws and regulations and industry self-regulations (including those that regulate end-of-life vehicles and the chemical content of our parts). In addition, vehicle safety regulations are becoming increasingly strict.

We believe we are substantially in compliance with the relevant global regulatory requirements affecting our facilities and products taken as a whole, although we may from time to time fail to meet a particular regulatory requirement. We consistently monitor the relevant global regulatory requirements affecting our facilities and products and adjust our operations and processes as we seek to remain in compliance. Compliance with these requirements involves significant costs and risks. See "*Risk Factors-Risks Related to the Legal and Regulatory Environment in which we Operate Current and future more stringent or incremental laws, regulations and governmental policies, including those regarding increased fuel efficiency requirements and reduced greenhouse gas and tailpipe emissions, have a significant effect on how we do business and may increase our cost of compliance and negatively affect our operations and results.* " and "*Risk Factors-Risks Related to the Legal and Regulatory Environment in which we Operate-We remain subject to diesel emissions investigations by several governmental agencies and to a number of related private lawsuits, as well as other claims and lawsuits which may lead to further enforcement actions, penalties or damage awards and may also adversely affect our reputation with consumers*"

Automotive Tailpipe Emissions

Numerous laws and regulations limit automotive emissions, including vehicle exhaust emission standards, vehicle evaporative emission standards and emission control software calibration system requirements. Advanced onboard diagnostic systems are used to identify and diagnose problems with emission control systems. These requirements become more challenging each year, especially in light of increased global scrutiny of diesel emission control software calibration and we expect these emissions and certification requirements will continue to become even more rigorous worldwide.

North America Region

Under the U.S. Clean Air Act and California law, the U.S. Environmental Protection Agency ("EPA"), and the California Air Resource Board ("CARB") by virtue of an EPA waiver, require emission compliance certification before a vehicle can be sold in the U.S. or in California (and many other states that have adopted the California emissions requirements). Both agencies impose limits on tailpipe and evaporative emissions of certain non-greenhouse gas pollutants from new motor vehicles and engines, and in some cases dictate the pollution control methods our engines must employ.

Our vehicles are subject to EPA's Tier 3 Vehicle Emission and Fuel Standards Program, which regulates vehicle tailpipe and evaporative emission standards and fuels. These Tier 3 standards generally align with California's Low Emission Vehicle ("LEV") III tailpipe and evaporative standards, discussed below, and require automakers to conduct pre- and post-production vehicle testing to demonstrate compliance with these emissions limits for the useful life of a vehicle, and require that FCA Italy-produced and Maserati-branded vehicles sold in the U.S. be included in the Group's U.S. fleet as reported to EPA and CARB.

In addition, we have implemented hardware and software systems in all our vehicles in connection with onboard diagnostic monitoring requirements. Conditions identified through these systems could lead to vehicle recalls (or other remedial actions such as extended warranties) with significant costs for related inspections, repairs or per-vehicle penalties.

In addition to its LEV III emissions standards, CARB regulations also require that a specified percentage of cars and certain light-duty trucks sold in California qualify as zero emission vehicles, such as electric vehicles, hybrid electric vehicles or hydrogen fuel cell vehicles. Our strategy for compliance with the zero emission vehicle requirements involves the sale of a variety of vehicles, including battery electric vehicles and hybrid electric vehicles. Our compliance strategy is also supported by the purchase of credits from other OEMs. The Group's compliance with zero emission vehicles regulations includes Maserati vehicles sold in the U.S.

In addition to California, 12 states currently enforce California's LEV III standards in lieu of the federal EPA standards, and nine states, as well as Quebec province in Canada, have also adopted California's zero emission vehicle requirements.

For a discussion of inquiries into our compliance with certain regulations in the U.S., see Note 25, *Guarantees granted, commitments and contingent liabilities* within the Consolidated Financial Statements included elsewhere in this report. See also "*Risk Factors-Risks Related to the Legal and Regulatory Environment in which we Operate-Current and future more stringent or incremental laws, regulations and governmental policies, including those regarding increased fuel efficiency requirements and reduced greenhouse gas and tailpipe emissions, have a significant effect on how we do business and may increase our cost of compliance and negatively affect our operations and results.* "

LATAM Region

Certain countries in South America follow U.S. procedures, standards and onboard diagnostic requirements, while others follow the European procedures, standards and onboard diagnostic requirements described below under — *EMEA Region*. In Brazil, vehicle emission standards are regulated by the Ministry of the Environment and have been in place since 1988 for passenger cars and light commercial vehicles. The next phase of regulations (PROCONVE L7) are expected to be aligned with fuel efficiency and safety standards in January 2022 and a second step (PROCONVE L8) will be mandatory in January 2025 with fleet target limits (US BIN methodology), Real drive emission limits and onboard refueling vapor recovery. Argentina has implemented regulations that mirror the European Commission Euro 5 standards for all new vehicles. In Chile, implementation of Euro 6 standards is under discussion for 2022.

APAC Region

China 5 standards, which mirror Euro 5 standards, are currently in place in China nationwide. China 6 standards were released in 2016 and will be required nationwide beginning in July 2020 with China 6a thresholds and in July 2023 with China 6b thresholds. China 6a and 6b have more stringent tailpipe emissions thresholds than Euro 6 and also add European Union ("EU") real driving emissions and U.S. onboard diagnostics, onboard refueling vapor recovery and evaporative emission control system requirements. Some regions within China implemented China 6b in 2019 such as Shanghai, Guangzhou, Shenzhen, Yangtze River Delta, Pearl River Delta, Chengdu, Chongqing and Tianjin. Beijing implemented China 6b at the beginning of 2020. FCA's entire China fleet has been developed with the intent to meet China 6 standards.

South Korea implemented regulations that are similar to California's LEV III regulations beginning in 2016 and became fully required in 2019 for all gasoline vehicles. Diesel vehicles are required to meet Euro 6 EU emissions requirements. Japan adopted the Worldwide Harmonized Light Vehicle Testing Procedures ("WLTP") without Extra High phase in 2018 for new models and will be required by September 2020 for all models. WLTP is a global harmonized standard for regulating greenhouse gas ("GHG") emissions, non-GHG pollutants, and fuel or energy consumption for light-duty vehicles and electric range for battery electric vehicles or hybrids. India currently follows Bharat Stage IV ("BSIV") emission norms, which are equivalent to Euro 4 standards. BSIV emission norms were enforced nationwide starting in 2017. The government will mandate the new Bharat Stage VI emission norms beginning in April 2020, skipping Euro 5 equivalent norms. In addition, Australia is developing a revised Regulatory Impact Statement to introduce mandatory Euro 6 standards beginning in 2027 and Euro 5 standards are expected to remain in force until that time.

EMEA Region

In Europe, emissions are regulated by the European Commission ("EC") and the United Nations Economic Commission for Europe ("UNECE"). The EC imposes standardized emission control requirements on vehicles sold in all 28 EU member states, while non-EU countries bound by the "1985 UN Agreement" (an agreement concerning the adoption of uniform technical prescriptions for wheeled vehicles, equipment and parts which can be fitted or used on wheeled vehicles and the conditions for reciprocal recognition of approvals granted on the basis of these prescriptions) apply regulations under the UNECE framework. EU Member States can provide tax incentives for the purchase of vehicles that meet emission standards earlier than the compliance date. As a result, vehicles must meet emission requirements and receive specific approval from an appropriate Member State authority before they can be sold in any EU Member State. These regulatory requirements include random testing of newly assembled vehicles and a manufacturer in-use surveillance program.

Euro 6 emission levels are in effect for all passenger cars and light commercial vehicles and require additional technologies and further increase the cost of diesel engines compared to prior Euro 5 standards. These new technologies have put additional cost pressures on the already challenging European market for small and mid-size diesel-powered vehicles. Further requirements of Euro 6 have been developed by the EC and became effective for all new passenger cars registered after September 1, 2018. In addition to WLTP, a new test procedure to directly assess the regulated emissions of light duty vehicles under real driving conditions became effective for all new passenger cars registered after September 1, 2019 and will become effective for new light commercial vehicles registered after September 1, 2020. For a discussion of inquiries from relevant governmental agencies in the European Union, see Note 25, *Guarantees granted, commitments and contingent liabilities* within the Consolidated Financial Statements included elsewhere in this report. See also "*Risk Factors-Risks Related to the Legal and Regulatory Environment in which we Operate-We remain subject to diesel emissions investigations by several governmental agencies and to a number of related private lawsuits, as well as other claims and lawsuits which may lead to further enforcement actions, penalties or damage awards and may also adversely affect our reputation with consumers*".

Automotive Fuel Economy and Greenhouse Gas Emissions

We pursue compliance with fuel economy and greenhouse gas regulations in the markets where we operate through the most cost effective combination of developing, manufacturing and selling vehicles with better fuel economy and lower emissions, purchasing compliance credits and paying regulatory penalties. The cost of each of these components of our strategy has increased and is expected to continue to increase in the future. As the costs of each of these components, particularly the relative costs of each component, changes, we intend to adjust our strategies in an effort to maintain the most cost effective means of complying with the regulations.

North America Region

In the U.S., since the enactment of the 1975 Energy Policy and Conservation Act, the National Highway Traffic Safety Administration ("NHTSA") has enforced minimum CAFE for fleets of new passenger cars and light-duty trucks sold in the U.S. for each model year. These CAFE standards apply to all domestic and imported passenger car and light-duty truck fleets and currently require year-over-year increases in fuel economy through 2025. The requirement is scaled based on vehicle footprint size. The CAFE standards require that passenger cars imported into the U.S. from outside of North America are averaged separately from those manufactured within North America, and domestic cars and light duty trucks are also considered separately. A civil fine can be paid under the CAFE standards which can vary to the extent fuel economy targets are not met, and the policy also allows for the trading of CAFE credits as a means to achieve compliance.

In addition, as part of a Joint Rule with NHTSA's CAFE standards, the EPA and CARB (by virtue of an EPA waiver) enforce a GHG standard that is also footprint based and increasing in stringency year over year through 2025. This requirement corresponds to an equivalent fuel economy target of 54.5 miles per gallon in the 2025 model year. Various flexibilities exist to reach this target, including utilizing advanced technology components and more environmentally friendly refrigerants. A civil fine cannot be paid to achieve compliance with GHG standards.

Pursuant to the Joint Rule, EPA and NHTSA conducted a "mid-term" review to evaluate the appropriateness of model year 2022-2025 CAFE/GHG standards and the original assumptions the agencies made as a basis for those standards. The "mid-term" review concluded that model year 2022-2025 standards were inappropriate. In September 2019, EPA and NHTSA issued a new Joint Rule that prohibits California from having a GHG program. California and other stakeholders challenged the new Joint Rule in federal court. FCA and other OEMs have intervened in this litigation to ensure the ability to participate in the case and any outcome.

For light duty vehicles, California and nine other states enforce a ZEV mandate requiring a certain percentage of each OEM's fleet in each state to be zero emission - either battery electric vehicles or fuel cell vehicles. This standard also increases in stringency through model year 2025. The policy does allow for a limited number of sales of partial zero emission vehicles and plug-in electric hybrids as a flexibility for manufacturers. The Joint Rule also prohibits California from having its own ZEV program and is subject to challenge by California in federal court.

For heavy duty vehicles (>8,500 pound gross vehicle weight rating), the GHG standard is utility based (payload and towing) and is increasing in stringency through 2027. Similar to passenger cars, flexibilities exist to meet GHG regulation. A civil fine cannot be paid to achieve compliance with heavy duty vehicle GHG standards.

The approach and technologies being developed to meet U.S. requirements are intended to also enable compliance in the Canadian and Mexican markets.

LATAM Region

In 2012, the Brazilian government issued a CO_2 reduction decree which provided indirect tax incentives to manufacturers who met certain requirements. Participating companies had to meet vehicle energy efficiency targets on vehicles sold from October 1, 2016 to September 30, 2017 and must maintain the required level until September 30, 2020. The program has additional targets that result in additional tax incentives based on the magnitude and timing of target accomplishment.

In July 2018, the first regulations related to Rota 2030 were enacted. Rota 2030 is a long-term program (three cycles of five years each) which includes key principles related to energy efficiency for all vehicles sold in Brazil. Key Rota 2030 regulations were approved by the Brazilian Congress and sanctioned by the Brazilian President in December 2018 as well as ordinary regulations to address certain minimum requirements and other metrics. The regulation for the next phase of Energy Efficiency (CO_2/fuel efficiency) beginning in 2022 incorporates three fleets split into passenger, large SUV and light commercial vehicle categories. Among other things, the rule rewards the improvement of sugar cane ethanol combustion efficiency and also recognizes and provides credit flexibilities for technologies that provide benefits in conditions that are not seen on the standardized government test cycles.

In Argentina, although there is no current mandatory greenhouse gas requirement, the government is in the process of a CO_2 standard revision which is expected to be finalized by year end 2020.

APAC Region

In China, Phase IV of the Corporate Average Fuel Consumption (or "CAFC") is currently in place and provides an industry target of 5.0 liters per 100 kilometers by 2020. Each OEM must meet a specific fleet average fuel consumption target related to vehicle weight. The phase-in of this fleet-average requirement began in 2016, with increasing stringency each year through 2020. Additional provisions for Phase IV include meeting a quota for New Energy Vehicles ("NEVs") credit beginning in 2019. NEVs consist of plug-in electric hybrids, battery electric vehicles, and fuel cell vehicles. No off-cycle credit flexibilities exist in the China regulation, although credit multipliers are granted for NEVs.

In September 2017, China's Ministry of Industry and Information Technology released administrative rules regarding CAFC and NEV credits that became effective in April 2018. Non-compliance with the CAFC target in these administrative rules can be offset through carry-forward CAFC credits, transfer of CAFC credits within affiliates, the OEMs use of its own NEV credits, or the purchase of NEV credits. Non-compliance with the NEV target can only be offset by the purchase of NEV credits. The homologation of new products that exceed CAFC targets will be suspended for OEMs that are unable to offset CAFC and/or NEV deficits until the deficits are offset.

Beginning in 2021, China will adopt WLTP for conventional and plug-in hybrid electric vehicles and a unique Chinese test cycle is also expected to be applicable to battery electric vehicles in the same year. A draft of Phase V CAFC and NEV credit rules has been released by the Chinese government with increasing stringency reaching a target of 4.6 liters per 100 kilometers by 2025. The final rules are expected to be issued soon.

Additional markets within the APAC region have enacted fuel consumption and GHG targets. India began enforcing a phase I CAFC limit starting in April 2017 with a second, more stringent phase beginning in 2022.

South Korea has implemented a new phase of CAFE/CO_2 standards beginning in 2016 with increased targets for 2021.

In Japan, auto manufacturers are required to achieve the 2015 fuel economy standard for each vehicle weight class, which applies through the 2019 fiscal year. In 2020, a new fuel economy standard will be implemented that switches from vehicle weight class average to corporate average fuel economy. In Australia, although there is no mandatory greenhouse gas requirement, the government is in the midst of a CO_2 standard revision which is expected to result in a voluntary CO_2 target for light vehicles.

EMEA Region

Each automobile manufacturer must meet a specific sales-weighted fleet average target for CO_2 emissions as related to vehicle weight. This regulation sets an industry fleet average target of 95 grams of CO_2 per kilometer starting in 2020 for passenger cars (130g/km until 2019). In order to promote the sale of ultra-efficient vehicles, automobile manufacturers that sell vehicles emitting less than 50 grams of CO_2 per kilometer earn additional CO_2 credits from 2020 to 2022. Furthermore, automobile manufacturers that make use of innovative technologies, or eco-innovations, which improve real-world fuel economy but may not show in the test cycles, such as solar panels or LED lighting, may gain an average credit for the manufacturer's fleet of up to seven grams of CO_2 per kilometer.

The EU has also adopted standards for regulating CO_2 emissions from light commercial vehicles ("LCVs"). This regulation requires that new light commercial vehicles meet a fleet average CO_2 target of 147 grams of CO_2 per kilometer in 2020 (175g/km until 2019).

In April 2019, the Regulation (EU) 2019/631 which sets new CO_2 emissions targets starting from 2025 and 2030 was adopted and requires a 15 percent reduction from 2021 levels in 2025 (both passenger cars and LCV), a 37.5 percent reduction for passenger cars and a 31 percent reduction for LCV in 2030 from 2021 levels.

A new regulatory test procedure for measuring CO_2 emissions and fuel consumption of light duty vehicles known as the WLTP entered into force in September 2018 for all registered passenger cars and in September 2019 for all registered LCVs. The WLTP is expected to provide CO_2 emissions and fuel consumption values that are more representative of real driving conditions.

The quantity of CO_2 emissions in 2020 will be affected not only by market evolution (such as the expected reduction of diesel market share), but also by the commercialization of low-emission and electrified vehicles. FCA has defined a plan to reach compliance with CO_2 emissions targets, mainly based on technical actions (such as the launch of electrified products and the extension of the new Gasoline Small Engine family across a significant portion of its products) and commercial actions (such as the promotion of low CO_2 emission vehicles). Finally, according to applicable EU regulations, current pooling arrangements for emissions compliance with another OEM are also expected to apply in 2020.

Other countries in the EMEA region outside of the EU perimeter, such as Switzerland and Saudi Arabia, have introduced specific regulations aimed to reduce vehicle CO_2 emissions or fuel consumption. The United Kingdom is expected to continue following the EU GHG policy post-Brexit.

Vehicle Safety

North America Region

Under U.S. federal law, all vehicles sold in the U.S. must comply with Federal Motor Vehicle Safety Standards ("FMVSS") promulgated by NHTSA, and must be certified by their manufacturer as being in compliance with all such standards at the time of the first purchase of the vehicle. In addition, if a vehicle contains a defect that is related to motor vehicle safety or does not comply with an applicable FMVSS, the manufacturer must notify NHTSA and vehicle owners and provide a remedy at no cost. Moreover, the TREAD Act authorized NHTSA to promulgate regulations requiring Early Warning Reporting ("EWR"). EWR requires manufacturers to provide NHTSA several categories of information, including all claims which involve one or more fatalities or injuries; all incidents of which the manufacturer receives actual notice which involve fatalities or injuries which are alleged or proven to have been caused by a possible defect in such manufacturer's motor vehicle or motor vehicle equipment in the U.S.; and all claims involving one or more fatalities in a foreign country when the possible defect is in a motor vehicle or motor vehicle equipment that is identical or substantially similar to a motor vehicle or motor vehicle equipment offered for sale in the U.S., as well as aggregate data on property damage claims from alleged defects in a motor vehicle or in motor vehicle equipment; warranty claims; consumer complaints and field reports about alleged or possible defects. The rules also require reporting of customer satisfaction campaigns, consumer advisories, recalls, or other activity involving the repair or replacement of motor vehicles or items of motor vehicle equipment, even if not safety related.

NHTSA has secured a voluntary commitment from manufacturers, including FCA, to equip future vehicles with automatic electronic braking systems. The commitment will make these braking systems standard on virtually all light-duty cars and trucks with a gross vehicle weight of 8,500 pounds or less beginning no later than September 1, 2022 and on virtually all trucks with a gross vehicle weight between 8,501 pounds and 10,000 pounds beginning no later than September 1, 2025.

In September 2019, the Alliance of Automobile Manufacturers, Inc. and the Association of Global Automakers, Inc. announced a voluntary commitment from auto manufacturers, including FCA, to introduce technology including a combination of auditory and visual alerts to remind parents and caregivers to check the back seat upon leaving a vehicle to help address the risk of pediatric heatstroke in children left in cars. The commitment is to install such technology in essentially all cars and trucks by the 2025 model year or sooner.

At times, organizations like NHTSA or the U.S. Insurance Institute of Highway Safety ("IIHS") issue or reissue safety ratings applicable to vehicles. In October 2019, NHTSA announced a plan to propose significant updates and upgrades to its New Car Assessment Program, also known as the Five-star Safety Ratings Program, in 2020. The details are not known at this time, but are expected to include new test dummies, changes to the mandatory label, new test procedures and evaluation of new technologies. Depending on the content of the final changes, this set of changes could impact the market competitiveness of the affected vehicles.

In 2016, NHTSA issued a Notice of Proposed Rulemaking ("NPRM") designed to enable vehicle-to-vehicle communication technology. Rulemaking in this area has been inactive since then, and any additional costs that would have been associated with the NPRM are deferred for the foreseeable future. However, NHTSA has engaged with industry to confirm continued interest in facilitating the growth of this technology.

Furthermore, NHTSA has issued non-binding guidelines for addressing cybersecurity issues in the design and manufacture of new motor vehicles, as well as guidance for the investigation and validation of cybersecurity measures.

In January 2018, Mexico issued an amendment to the Consumers' Protection Law ("CPL") regarding safety regulations based on U.S. standards. The CPL, among other things, includes a deadline for vehicle manufacturers to provide to the Federal Consumer Protection Agency (i) the launch date and a detailed description of every safety campaign applicable to vehicles sold in Mexico, (ii) mandatory recall campaigns, based on international agencies' investigations and guidelines, (iii) mandatory repurchase, repair or replacement (with a new vehicle model having the same characteristics) of vehicles that risk the consumer's safety, health or life or threatens the consumer's personal financial condition, and (iv) mandatory product withdrawal, when the Federal Consumer Protection Agency determines that the vehicle could risk the consumer's safety, health or life or affect the consumer's personal financial condition.

LATAM Region

Vehicles sold in the LATAM region are subject to different vehicle safety regulations according to each country, generally based on European and United Nations standards. Brazil published a draft of its 10 year safety regulatory roadmap in 2017. This roadmap provides a staged approach to implementation of new testing requirements and active safety technology. The more costly active safety technologies would be scheduled for implementation after 2024. In July 2018, the first regulation related to Rota 2030 was enacted. Rota 2030 is a long-term program (three cycles of five years each) which includes principles related to mandatory safety for all vehicles sold in Brazil. These regulations were approved by the Brazilian Congress and sanctioned by the Brazilian President in December 2018 as well as ordinary regulations to address certain minimum requirements and other metrics.

APAC Region

Many countries in the Asia Pacific region, including China, South Korea, Japan and India, have adopted or are adopting measures for pedestrian protection and vehicle safety regulations. China published the Regulation for Administration of Recall of Defective Vehicles effective in 2013 and the Implementation Provisions on the Regulation for Administration of Recall of Defective Vehicles effective in 2016. In 2019, State Administration for Market Supervision and Regulation in China issued a notice requiring close supervision of defects reporting and recall of new energy vehicles. In addition, India has implemented vehicle crash regulations effective in 2017 for new models and 2019 for all models, and has introduced for implementation in 2019 new standards relating to pedestrian safety, compulsory installation of airbags, speed limit reminders, anti-lock braking systems and reverse parking sensors. Further, in June 2019 the Indian Government Cabinet approved the “Road Transport and Safety Bill, 2015” which, among other things, covers provisions relating to the recall of vehicles. In South Korea, amendments to major provisions relating to vehicle accidents, fire incidents, defect reporting and recall procedures have been proposed that may considerably increase the liabilities and penalties of vehicle manufacturers.

EMEA Region

Vehicles sold in Europe are subject to vehicle safety regulations established by the EU or, in very limited cases and aspects, by individual Member States. In 2009, the EU established a uniform legal framework for vehicle safety, repealing more than 50 then-existing directives and replacing them with a single regulation known as the “General Safety Regulation” (“GSR”) aimed at incorporating relevant United Nations standards. The incorporation of United Nations standards commenced in 2012. In 2014, discussions began in Europe for a comprehensive upgrade to the GSR, which is expected to lead to the implementation of a variable suite of passive and active safety technologies, depending on vehicle type and classification. The significant items for the most common vehicles include advanced emergency braking, intelligent speed assistance, emergency lane keeping, driver drowsiness and attention warning, advanced driver distraction warning, reversing detection, event data recorder, protection of pedestrians, cyclists and other vulnerable road users, and an expanded scope of front and side crash testing. Also included are the introduction of automated vehicle provisions, such as a driver availability monitoring system or vehicle platooning. The updated GSR was published in 2019 and implementation of this upgraded GSR for new vehicle and vehicle types will begin in 2022. In addition, in-vehicle emergency call systems became mandatory for new type-approved vehicles in the EU, Israel and Turkey markets in 2018. In Russia, a similar in-vehicle emergency call system became mandatory in 2015 and there are currently draft regulations for these systems in some countries in the Middle East region.

Industrial Environmental Control

Our operations are subject to a wide range of environmental protection laws including those laws regulating air emissions, water discharges, waste management and environmental clean-up. Certain environmental statutes require that responsible parties fund remediation actions regardless of fault, legality of original disposal, or ownership of a disposal site. Under certain circumstances, these laws impose liability for related damages to natural resources. Our Environmental Management System (“EMS”) formalizes our commitment to responsible management of methodologies and processes designed to prevent or reduce the environmental impact of our manufacturing activities. ISO 14001 is an internationally agreed standard that sets out the requirements for an EMS. At December 31, 2019, the majority of the Group’s manufacturing plants have an ISO 14001 certified EMS in place.

Our commitment to environmental and sustainability issues is also reflected through our internal World Class Manufacturing (“WCM”) system.

Workplace Health and Safety

FCA aims to provide all employees with a safe, healthy and productive work environment at every facility worldwide and in every area of activity. Accordingly, the Group focuses on identifying and evaluating workplace safety risks, implementing internal and governmental safety and ergonomic standards, promoting employee awareness and safe behavior and encouraging a healthy lifestyle.

The goal of achieving zero accidents is formalized in the targets set by FCA, as well as through global adoption of an Occupational Health and Safety Management System ("OHSMS") certified to the Occupational Health and Safety Assessment Series ("OHSAS") 18001 standard. At December 31, 2019, the vast majority of our manufacturing plants had an OHSMS in place that was OHSAS 18001 certified.

Effective safety management is also supported by the application of WCM tools and methodologies, active involvement of employees and targeted investment.

Applicability of Banking Law and Regulation to Financial Services

Several of our captive finance companies, each of which provides financial services to our customers, are regulated as financial institutions in the jurisdictions in which they operate. FCA Bank S.p.A., incorporated in Italy, is subject to European Central Bank and Bank of Italy supervision. Within FCA Bank Group, two subsidiaries (the Austrian FCA Bank G.m.b.H. and the Portuguese FCA Capital Portugal I.F.I.C., S.A.), are subject to the supervision of the European Central Bank and of the local central banks, whereas certain other subsidiaries are subject to the supervision of the local Supervisory Financial or Banking Authority. Banco Fidis S.A., incorporated in Brazil, is subject to Brazilian Central Bank supervision. FCA Compañia Financiera S.A., incorporated in Argentina, is subject to Argentinian Central Bank supervision. FCA Automotive Finance Co., Ltd, incorporated in China, is subject to the supervision of the Chinese Banking Insurance Regulatory Commission and People's Bank of China. As a result, those companies are subject to regulation in a wide range of areas including solvency, capital requirements, reporting, customer protection and account administration, among other matters.

Financial Overview

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE GROUP

The following discussion of our financial condition and results of operations should be read together with the information included under "GROUP OVERVIEW", "SELECTED FINANCIAL DATA" and the Consolidated Financial Statements included elsewhere in this report. This discussion includes forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described under "Forward-Looking Statements" and "Risk Factors". Actual results may differ materially from those contained in any forward looking statements.

Management's Discussion and Analysis of the Financial Condition and Results of Operations of the Group for the year ended December 31, 2017 was previously included in the section "FINANCIAL OVERVIEW" in the 2018 Annual Report and Form 20-F, as filed with the SEC on February 20, 2019, and has not been included in this report. Industrial free cash flows excluding Magneti Marelli and Adjusted diluted EPS for 2017 were not previously disclosed and have been disclosed below.

Trends, Uncertainties and Opportunities

Our results of operations and financial condition are affected by a number of factors, including those that are outside our control.

Shipments. Vehicle shipments are generally driven by expectations of consumer demand for vehicles, which is affected by economic conditions, availability and cost of dealer and customer financing and incentives offered to retail customers, as discussed further below. Transfer of control, and therefore revenue recognition, generally corresponds to vehicle shipment to dealers or distributors. This generally occurs upon the release of the vehicle to the carrier responsible for transporting the vehicle to the dealer or distributor, or when the vehicle is made available to the dealer or distributor. Shipments and revenue recognition are not necessarily directly correlated with retail sales by dealers, which may be affected by other factors including dealer decisions as to appropriate inventory levels.

Product Development and Technology. A key driver of consumer demand and therefore our shipments, has been the continued refresh, renewal and evolution of our vehicle portfolio, and we have committed significant capital and resources toward the introduction of new vehicles on new platforms, with additions of new powertrains and other new technologies. In order to realize a return on the significant investments we have made to sustain market share and to achieve competitive operating margins, we will have to continue significant investment in new vehicle launches. We believe efforts in developing common vehicle platforms and powertrains have accelerated the time-to-market for many of our new vehicle launches and resulted in cost savings.

The costs associated with product development, vehicle improvements and launches can impact our Net profit. In addition, our ability to continue to make the necessary investments in product development, and recover the related costs, depends in large part on the market acceptance and success of the new or significantly refreshed vehicles we introduce. During a new vehicle launch and introduction to the market, we typically incur increased selling, general and advertising expenses associated with the advertising campaigns and related promotional activity.

Costs we incur in the initial research phase for new projects (which may relate to vehicle models, vehicle platforms, powertrains or technology) are expensed as incurred and reported as Research and development costs. Costs we incur for product development are capitalized and recognized as intangible assets if and when the following two conditions are both satisfied: (i) development expenditures can be measured reliably and (ii) the technical feasibility of the project, and the anticipated volumes and pricing indicate it is probable that the development expenditures will generate future economic benefits. Capitalized development expenditures include all costs that may be directly attributed to the development process. Such capitalized development expenditures are amortized on a straight-line basis commencing from start of production over the expected economic useful life of the product developed and based on an end date that we estimate to correspond to the end of the useful life of such product, we recognize and report such amortization as Research and development costs in our Consolidated Income Statement. Any changes in the expected end date of vehicle production (extensions, accelerations or terminations) result in a prospective change in the period over which the asset is amortized.

Future developments in our product portfolio to support our growth strategies and their related development expenditures could lead to significant capitalization of development assets. Our time to market is at least 24 months, but varies depending on our product, from the date the design is signed-off for tooling and production, after which the project goes into production, resulting in an increase in amortization. Therefore, our operating results are impacted by the cyclicality of our research and development expenditures based on our product portfolio strategies and our product plans.

In order to meet expected changes in consumer demand and regulatory requirements, we intend to invest significant resources in product development and research and development. New markets for alternative fuel source vehicles and autonomous vehicles are also continuing to emerge and we expect to invest resources in these areas in order to meet future demand and to support compliance with emissions and fuel efficiency requirements. In addition, global demand continues to shift from passenger cars to utility vehicles and away from diesel-powered vehicles.

Cost of revenues. Cost of revenues includes purchases (including costs related to the purchase of components and raw materials), labor costs, depreciation, amortization, logistic and product warranty and recall campaign costs. We purchase a variety of components, raw materials, supplies, utilities, logistics and other services from numerous suppliers. These purchases have historically accounted for 70-80 percent of total Cost of revenues. Fluctuations in Cost of revenues are primarily related to the number of vehicles we produce and sell along with shifts in vehicle mix, as newer models of vehicles generally have more technologically advanced components and enhancements and therefore higher costs per unit. Cost of revenues may also be affected by fluctuations in raw material prices. The cost of raw materials has historically comprised 10-15 percent of the total purchases described above, while the remaining portion of purchases is made of components, conversion of raw materials and overhead costs. We typically seek to manage these costs and minimize their volatility by using fixed price purchase contracts, commercial negotiations and technical efficiencies. Nevertheless, our Cost of revenues related to materials and components has increased as a result of recent tariff activity, and uncertainty related to tariffs and trade policy in our larger markets including the U.S. and China have made managing our raw material costs difficult to predict. Our Cost of revenues has also increased as we have significantly enhanced the content of our vehicles as we renew and refresh our product offerings. Over time, technological advancements and improved material sourcing may reduce the cost to us of the additional enhancements. In addition, we seek to recover higher costs through pricing actions, but even when market conditions permit this, there may be a time lag between the increase in our costs and our ability to realize improved pricing. Accordingly, our results are typically adversely affected, at least in the short term, until price increases are accepted in the market.

Further, in many markets where our vehicles are sold, we are required to pay import duties on those vehicles, which are included in Cost of revenues. We reflect these costs in the price charged to our customers to the extent market conditions permit. However, for many of our vehicles, particularly in the mass-market vehicle segments, we cannot always pass along increases in those duties to our dealers and distributors and remain competitive. Our ability to price our vehicles to recover those increased costs has affected, and will continue to affect, our profitability.

Pricing. Our profitability depends in part on our ability to maintain or improve pricing on the sale of our vehicles to dealers and fleet customers and will also be significantly impacted by our ability to pass along the increased costs of the technology needed to meet increased regulatory compliance requirements. However, as described above, import duties and tariffs affecting raw materials or component pricing may in some instances increase the price charged to our customers, where the market can accept such price increases in that particular market or otherwise impact our profitability if we are unable to increase prices to our customers.

In addition, the automotive industry continues to experience intense price competition resulting from the variety of available competitive vehicles and excess global manufacturing capacity. Historically, manufacturers have promoted products by offering dealer, retail and fleet incentives, including cash rebates, option package discounts, and subsidized financing or leasing programs. The amount and types of incentives are dependent on numerous factors, including market competition level, vehicle demand, economic conditions, model age and time of year, due to industry seasonality. We plan to continue to use such incentives to price vehicles competitively and to manage demand and support inventory management profitability.

Vehicle Profitability. Our results of operations reflect the profitability of the vehicles we sell, which tends to vary based upon a number of factors, including vehicle size, content of those vehicles and brand positioning. Vehicle profitability also depends on sales prices to dealers and fleet customers, net of sales incentives, costs of materials and components, as well as transportation and warranty costs. In the North America segment, our larger vehicles such as our larger SUVs and pickup trucks have historically been more profitable on a per vehicle basis than other vehicles and accounted for approximately 71 percent of our total U.S. retail vehicle shipments in 2019. In recent years, consumer preferences for certain larger vehicles, such as SUVs, have increased; however, there is no guarantee this will continue.

In all mass-market vehicle segments throughout the world, vehicles equipped with additional options selected by the dealer are generally more profitable for us. As a result, our ability to offer attractive vehicle options and upgrades is critical to our ability to increase our profitability on these vehicles. In addition, in the U.S. and Europe, our vehicle sales to dealers for sale to their retail consumers are normally more profitable than our fleet sales, in part because the retail consumers are more likely to prefer additional optional features while fleet customers increasingly tend to concentrate purchases on smaller, more fuel-efficient vehicles with fewer optional features, which have historically had a lower profitability per unit.

Vehicles sold under certain brand and model names are generally more profitable when there is strong brand recognition of those vehicles. In some cases this is tied to a long history for those brands and models, and in other cases to customers identifying these vehicles as being more modern and responsive to customer needs.

Economic Conditions. Demand for new vehicles tends to reflect economic conditions in the various markets in which we operate because retail sales depend on individual purchasing decisions, which in turn are affected by many factors including levels of disposable income. Fleet sales and sales of light commercial vehicles are also influenced by economic conditions, which drive vehicle utilization and investment activity. Further, demand for light commercial vehicles and pickup trucks is driven, in part, by construction and infrastructure projects. Therefore, our performance is affected by the macroeconomic trends in the markets in which we operate.

Regulation. We are subject to a complex set of regulatory regimes throughout the world in which vehicle safety, emissions and fuel economy regulations have become increasingly stringent and the related enforcement regimes increasingly active. These developments may affect our vehicle sales as well as our profitability and reputation. We are subject to applicable national and local regulations and must achieve an appropriate level of compliance in order to continue operations in every market, including a number of markets in which we derive substantial revenue. Developing, engineering and manufacturing vehicles that meet these requirements and therefore may be sold in those markets requires a significant expenditure of management time and financial resources.

We pursue compliance with fuel economy and greenhouse gas regulations in the markets where we operate through the most cost effective combination of developing, manufacturing and selling vehicles with better fuel economy and lower emissions, purchasing regulatory emissions credits and paying regulatory expenses. The cost of each of these components of our strategy has increased and is expected to continue to increase in the future. As the costs of each of these components, particularly the relative costs of each component, changes, we intend to adjust our strategies to the extent feasible in an effort to pursue the most cost effective means of meeting our regulatory compliance obligations. In addition, these costs and the costs incurred to meet other regulatory requirements may be difficult to pass through to customers, so the increased costs may affect our results of operations and profitability.

Further, developments in regulatory requirements in China, the largest single market in the world in 2019, limit in some respects, the product offerings we can pursue as we expand the scope of our operations in that country. Refer to *Risk Factors-Risks Related to the Legal and Regulatory Environment in which we Operate- Current and future more stringent or incremental laws, regulations and governmental policies, including those regarding increased fuel efficiency requirements and reduced greenhouse gas and tailpipe emissions, have a significant effect on how we do business and may increase our cost of compliance and negatively affect our operations and results.* for more information. In addition, recent legal proceedings instituted by the U.S. federal government have challenged the jurisdiction of U.S. states, such as California, to impose their own regulations on the vehicles that we sell, resulting in uncertainty regarding the applicability of these regulations.

Tariffs and Trade Policy. There has been a recent and significant increase in activity and speculation regarding tariffs and duties between the U.S. and its trading partners, including China and the EU. Tariffs or duties implemented between the U.S. and its trading partners, and the implementation of the USMCA, may reduce consumer demand and/or make our products less profitable. In addition, the availability and price at which we are able to source components and raw materials globally may be adversely affected.

Consolidation. The automotive industry is exceptionally capital intensive and capital expenditures and research and development requirements in our industry have continued to grow significantly in recent years as we pursue technological innovations and respond to a number of challenges. Compliance with enhanced emissions and safety regulations continue to impose new and increasing capital requirements as does the development of proprietary components. On December 17, 2019, we signed a binding Combination Agreement with Peugeot S.A. providing for a 50/50 merger (the "FCA-PSA Merger") to create the 4th largest global automotive OEM by volume and 3rd largest by revenue. While we continue to implement our business plan, and we believe that our business will continue to grow and our operating margins will continue to improve, if we are unable to reduce our capital requirements through consummation of the FCA-PSA Merger, or cooperation or consolidation with other manufacturers, we may not be able to reduce component development costs, optimize manufacturing investments or product allocation and improve utilization of tooling, machinery and equipment, as a result of which our product development and manufacturing costs will continue to restrict our profitability and return on capital. Although there can be no assurance that these challenges can be overcome through large scale integration or product development and manufacturing collaboration, if we are unable to pursue such benefits our returns on capital employed may be impaired which could adversely affect our results of operations and financial condition.

FCA-PSA Merger. Completion of the FCA-PSA Merger is subject to several conditions beyond our control that may prevent, delay or otherwise adversely affect its completion. In addition, even if the FCA-PSA Merger is completed, challenges in the integration process may arise and the synergies we expect to realize may not be realized in a timely manner or at all.

Dealer and Customer Financing. Given that a large percentage of the vehicles we sell to dealers and retail customers worldwide are financed, the availability and cost of financing is a significant factor affecting our vehicle shipment volumes and Net revenues. Availability of customer financing could affect the vehicle mix, as customers who have access to greater financing are able to purchase higher priced vehicles, whereas when customer financing is constrained, vehicle mix could shift towards less expensive vehicles. The low interest rate environment in recent years has had the effect of reducing the effective cost of vehicle ownership. While interest rates in the U.S. and Europe have been at historically low levels, the availability and terms of financing will likely continue to change over time, impacting our results. We currently operate in many regions (including the U.S.) without a captive finance company, and we continue to provide access to financing through joint ventures and third party arrangements in several of our key markets (including the U.S.). Therefore, we may be less able to ensure availability of financing for our dealers and retail customers in those markets than our competitors that own and operate affiliated finance companies.

Effects of Foreign Exchange Rates. We are affected by fluctuations in foreign exchange rates (i) through translation of foreign currency financial statements into Euro for consolidation, which we refer to as the translation impact, and (ii) through transactions by entities in the Group in currencies other than their own functional currencies, which we refer to as the transaction impact. Given the size of our U.S. operations, a strengthening of the U.S. Dollar against the Euro generally would have a positive effect on our financial results, which are reported in Euro, and on our operations in relation to sales in the U.S. of vehicles and components produced in Europe. Foreign exchange rates, including the U.S. Dollar/Euro exchange rate, have fluctuated significantly in 2019, and may continue to do so in the future. We are primarily financed by a mix of Euro, U.S. dollar and Brazilian Real denominated debt. Given the mix of our debt and liquidity, strengthening of the U.S. dollar against the Euro generally would have a positive impact on our net cash position.

In order to reduce the impacts of foreign exchange rates, we hedge a percentage of certain exposures. Refer to Note 30*, Qualitative and quantitative information on financial risks* within our Consolidated Financial Statements included elsewhere in this report for additional information.

Shipment Information

As discussed in *GROUP OVERVIEW—Overview of Our Business*, our activities are carried out through five reportable segments: four regional mass-market vehicle segments (North America, LATAM, APAC and EMEA) and the Maserati global luxury brand segment. The following table sets forth our vehicle shipment information by segment. Vehicle shipments are generally aligned with current period production which is driven by our plans to meet consumer demand. Revenue is recognized when control of our vehicles, services or parts has been transferred and the Group's performance obligations to our customers have been satisfied. The Group has determined that our customers from the sale of vehicles and service parts are generally dealers, distributors or fleet customers. Transfer of control, and therefore revenue recognition, generally corresponds to the date when the vehicles or service parts are made available to the customer, or when the vehicles or service parts are released to the carrier responsible for transporting them to the customer. New vehicle sales through the Guaranteed Depreciation Program ("GDP") are recognized as revenue when control of the vehicle transfers to the fleet customer, except in situations where the Group issues a put for which there is a significant economic incentive to exercise. Refer to Note 2, *Basis of preparation*, within our Consolidated Financial Statements included elsewhere in this report for further details on our revenue recognition policy.

For a description of our dealers and distributors see *GROUP OVERVIEW—Sales Overview*. Accordingly, the number of vehicles sold does not necessarily correspond to the number of vehicles shipped for which revenues are recorded in any given period.

	Years ended December 31,	
(thousands of units)	2019	2018
North America	2,401	2,633
LATAM	577	585
APAC	76	84
EMEA	1,199	1,318
Maserati	19	35
Total Consolidated shipments	**4,272**	**4,655**
Joint venture shipments	146	187
Total Combined shipments	**4,418**	**4,842**

For discussion of shipments for North America, LATAM, APAC, EMEA and Maserati for 2019 as compared to 2018, refer to *—Results by Segment* below.

Non-GAAP Financial Measures

We monitor our operations through the use of several non-generally accepted accounting principles ("non-GAAP") financial measures: Adjusted Earnings Before Interest and Taxes ("Adjusted EBIT"), Adjusted net profit, Adjusted diluted earnings per share ("Adjusted diluted EPS"), Industrial free cash flows and certain information provided on a constant exchange rate ("CER") basis. We believe that these non-GAAP financial measures provide useful and relevant information regarding our operating results and enhance the overall ability to assess our financial performance. They provide us with comparable measures which facilitate management's ability to identify operational trends, as well as make decisions regarding future spending, resource allocations and other operational decisions. These and similar measures are widely used in the industry in which we operate, however, these financial measures may not be comparable to other similarly titled measures of other companies and are not intended to be substitutes for measures of financial performance as prepared in accordance with IFRS as issued by the IASB as well as IFRS adopted by the European Union.

Adjusted EBIT: excludes certain adjustments from Net profit from continuing operations including gains/(losses) on the disposal of investments, restructuring, impairments, asset write-offs and unusual income/(expenses) that are considered rare or discrete events that are infrequent in nature, and also excludes Net financial expenses and Tax expense/(benefit).

Adjusted EBIT is used for internal reporting to assess performance and as part of the Group's forecasting, budgeting and decision making processes as it provides additional transparency to the Group's core operations. We believe this non-GAAP measure is useful because it excludes items that we do not believe are indicative of the Group's ongoing operating performance and allows management to view operating trends, perform analytical comparisons and benchmark performance between periods and among our segments. We also believe that Adjusted EBIT is useful for analysts and investors to understand how management assesses the Group's ongoing operating performance on a consistent basis. In addition, Adjusted EBIT is one of the metrics used in the determination of the annual performance bonus and the achievement of certain performance objectives established under the terms of the 2019-2021 equity incentive plan for the Chief Executive Officer of the Group and other eligible employees, including members of the Group Executive Council ("GEC").

Refer to the sections *Group Results* and *Results by Segment* below for further discussion and for a reconciliation of this non-GAAP measure to Net profit from continuing operations, which is the most directly comparable measure included in our Consolidated Income Statement. Adjusted EBIT should not be considered as a substitute for Net profit from continuing operations, cash flow or other methods of analyzing our results as reported under IFRS.

Adjusted net profit: is calculated as Net profit from continuing operations excluding post-tax impacts of the same items excluded from Adjusted EBIT, as well as financial income/(expenses) and tax income/(expenses) considered rare or discrete events that are infrequent in nature.

We believe this non-GAAP measure is useful because it also excludes items that we do not believe are indicative of the Group's ongoing operating performance and provides investors with a more meaningful comparison of the Group's ongoing operating performance. In addition, Adjusted net profit is one of the metrics used in the determination of the annual performance bonus and the achievement of certain performance objectives established under the terms of the 2014-2018 equity incentive plan for the Chief Executive Officer of the Group and other eligible employees, including members of the Group Executive Council.

Refer to the section *Group Results* below for further discussion and for a reconciliation of this non-GAAP measure to Net profit from continuing operations, which is the most directly comparable measure included in our Consolidated Income Statement. Adjusted net profit should not be considered as a substitute for Net profit from continuing operations, cash flow or other methods of analyzing our results as reported under IFRS.

Adjusted diluted EPS: is calculated by adjusting Diluted earnings per share from continuing operations for the impact per share of the same items excluded from Adjusted net profit.

We believe this non-GAAP measure is useful because it also excludes items that we do not believe are indicative of the Group's ongoing operating performance and provides investors with a more meaningful comparison of the Group's ongoing quality of earnings.

Refer to the section *Group Results* below for a reconciliation of this non-GAAP measure to Diluted earnings per share from continuing operations, which is the most directly comparable measure included in our Consolidated Financial Statements. Adjusted diluted EPS should not be considered as a substitute for Basic earnings per share, Diluted earnings per share from continuing operations or other methods of analyzing our quality of earnings as reported under IFRS.

Industrial free cash flows: is our key cash flow metric, and is calculated as Cash flows from operating activities less: cash flows from operating activities from discontinued operations; cash flows from operating activities related to financial services, net of eliminations; investments in property, plant and equipment and intangible assets for industrial activities; adjusted for net intercompany payments between continuing operations and discontinued operations; and adjusted for discretionary pension contributions in excess of those required by the pension plans, net of tax. The timing of Industrial free cash flows may be affected by the timing of monetization of receivables and the payment of accounts payable, as well as changes in other components of working capital, which can vary from period to period due to, among other things, cash management initiatives and other factors, some of which may be outside of the Group's control.

Refer to *Liquidity and Capital Resources—Industrial free cash flows* for further information and the reconciliation of this non-GAAP measure to Cash flows from operating activities, which is the most directly comparable measure included in our Consolidated Statement of Cash Flows. Industrial free cash flows should not be considered as a substitute for Net profit from continuing operations, cash flow or other methods of analyzing our results as reported under IFRS.

Constant Currency Information: the discussion within section *Group Results* includes information about our results at CER, which is calculated by applying the prior year average exchange rates to translate current financial data expressed in local currency in which the relevant financial statements are denominated (see Note 2, *Basis of preparation*, within the Consolidated Financial Statements included elsewhere in this report for the exchange rates applied). Although we do not believe that this non-GAAP measure is a substitute for GAAP measures, we believe that results excluding the effect of currency fluctuations provide additional useful information to investors regarding the operating performance and trends in our business on a local currency basis.

RESULTS OF OPERATIONS

Group Results – 2019 compared to 2018

The following is a discussion of the Group's results of operations for the year ended December 31, 2019 as compared to the year ended December 31, 2018.

	Years ended December 31,			
(€ million)		2019		2018
Net revenues	€	108,187	€	110,412
Cost of revenues		93,164		95,011
Selling, general and other costs		6,455		7,318
Research and development costs		3,612		3,051
Result from investments		209		235
Gains on disposal of investments		15		—
Restructuring costs		154		103
Net financial expenses		1,005		1,056
Profit before taxes		**4,021**		**4,108**
Tax expense		1,321		778
Net profit from continuing operations		**2,700**		**3,330**
Profit from discontinued operations, net of tax		3,930		302
Net profit	€	**6,630**	€	**3,632**
Net profit attributable to:				
Owners of the parent	€	6,622	€	3,608
Non-controlling interests	€	8	€	24
Net profit from continuing operations attributable to:				
Owners of the parent	€	2,694	€	3,323
Non-controlling interests	€	6	€	7
Net profit from discontinued operations attributable to:				
Owners of the parent	€	3,928	€	285
Non-controlling interests	€	2	€	17

As of January 1, 2019 the Group adopted IFRS 16 - *Leases* using the modified retrospective approach and did not restate prior year comparatives. The impact of the adoption of this new standard is not material and the Group does not expect a material impact from the adoption of this new standard on an ongoing basis. Refer to Note 2, *Basis of preparation,* within our Consolidated Financial Statements included elsewhere in this report, for further information.

Net revenues

	Years ended December 31,				Increase/(Decrease) 2019 vs. 2018	
(€ million)		2019		2018	% Actual	% CER
Net revenues	€	108,187	€	110,412	(2.0)%	(5.2)%

For a discussion of Net revenues for each of our five reportable segments (North America, LATAM, APAC, EMEA and Maserati) for 2019 as compared to 2018 see *Results by Segment* below.

Cost of revenues

			Increase/(Decrease)	
	Years ended December 31,		2019 vs. 2018	
(€ million)	2019	2018	% Actual	% CER
Cost of revenues	€ 93,164	€ 95,011	(1.9)%	(5.1)%
Cost of revenues as % of Net revenues	86.1%	86.1%		

Cost of revenues includes purchases (including commodity costs), labor costs, depreciation, amortization, logistic, product warranty and recall campaign costs.

The decrease in Cost of revenues in 2019 compared to 2018 was primarily related to (i) volume decreases in North America, EMEA and Maserati, which were partially offset by (ii) increases resulting from foreign currency translation effects, (iii) overall mix, product costs and enhancements on recently launched vehicles in North America, and (iv) impairment of assets, as described below.

Included within Cost of revenues for 2019 were amounts of €425 million (€370 million in 2018), which represent primarily the accrual of regulatory expenses and the utilization of regulatory credits, mainly in North America and EMEA.

Cost of revenues also includes significant costs that contribute to regulatory compliance but which are not separately quantifiable as they are elements within broader initiatives, such as technology deployment in terms of powertrain upgrades and alternative powertrains, along with actions to improve vehicle demand energy. For further detail, refer to *Environmental and Other Regulatory Matters* included elsewhere in this report.

During 2019, rationalization of product portfolio plans, primarily for Europe in the A-segment as well as for Alfa Romeo resulted in the recognition of asset impairment charges for certain platforms. The impairment charges totaled €1,376 million, composed of €563 million of Property, plant and equipment recognized within *Cost of revenues* and €813 million of previously capitalized development costs recognized within *Research and development costs* and excluded from Adjusted EBIT. Of these charges, €435 million relates to the EMEA segment, €148 million relates to the Maserati segment and the remaining €793 million is not allocated to a specific region as the platform assets that have been impaired are used to produce Alfa Romeo vehicles sold in several of our regions. Refer to Note 2, *Basis of preparation - Use of Estimates* in the Consolidated Financial Statements included elsewhere in this Report.

Selling, general and other costs

			Increase/(Decrease)	
	Years ended December 31,		2019 vs. 2018	
(€ million)	2019	2018	% Actual	% CER
Selling, general and other costs	€ 6,455	€ 7,318	(11.8)%	(13.7)%
Selling, general and other costs as% of Net revenues	6.0%	6.6%		

The decrease in Selling, general and other costs in 2019 as compared with 2018 was primarily due to the non-repeat of the €748 million charge for estimated costs related to U.S. diesel emissions matters recognized during 2018 and the U.S special bonus payment of €111 million in 2018 as a result of the Tax Cuts and Jobs Act in the U.S., which were excluded from Adjusted EBIT. Net of these charges, Selling, general and other costs decreased primarily due to lower advertising expenses in EMEA and North America and efficiencies resulting from restructuring actions in EMEA.

Selling, general and other costs includes advertising, personnel and administrative costs. Advertising costs amounted to approximately 47 percent and 42 percent of total Selling, general and other costs for the years ended December 31, 2019 and 2018 respectively. Advertising costs were consistent for the years ended December 31, 2019 and 2018, with the increase in advertising costs as a proportion of total Selling, general and other costs primarily due to lower total Selling, general and other costs in 2019 from the non-repeat of the charge recognized in 2018, referred to above.

Research and development costs

(€ million)	Years ended December 31, 2019		2018	Increase/(Decrease) 2019 vs. 2018 % Actual	% CER
Research and development expenditures expensed	€ 1,305	€	1,448	(9.9)%	(13.3)%
Amortization of capitalized development expenditures	1,358		1,456	(6.7)%	(8.9)%
Impairment and write-off of capitalized development expenditures	949		147	n.m.	n.m.
Total Research and development costs	**€ 3,612**	**€**	**3,051**	**18.4%**	**15.6%**

n.m. = numbers are not meaningful

	Years ended December 31, 2019	2018
Research and development expenditures expensed as % of Net revenues	1.2%	1.3%
Amortization of capitalized development expenditures as % of Net revenues	1.3%	1.3%
Impairment and write-off of capitalized development expenditures as % of Net revenues	0.9%	0.1%
Total Research and development costs as % of Net revenues	**3.3%**	**2.8%**

The following table summarizes our research and development expenditures for the years ended December 31, 2019 and 2018:

(€ million)	Years ended December 31, 2019		2018	Increase/(Decrease) 2019 vs. 2018
Capitalized development expenditures	€ 2,889	€	2,079	39.0%
Research and development expenditures expensed	1,305		1,448	(9.9)%
Total Research and development expenditures	**€ 4,194**	**€**	**3,527**	**18.9%**
Capitalized development expenditures as % of Total Research and development expenditures	68.9%		58.9%	
Total Research and development expenditures as % of Net revenues	**3.9%**		**3.2%**	

We conduct research and development for new vehicles and technology to improve the performance, safety, fuel efficiency, reliability, consumer perception and environmental impact of our vehicles. Research and development costs consist primarily of material costs, services and personnel related expenses that support the development of new and existing vehicles with powertrain technologies. For further details of research and development costs, see *Trends, Uncertainties and Opportunities—Product Development and Technology* and *Overview of Our Business - Research and Development*.

The decrease in the Research and development expenditures expensed in 2019 compared to 2018 was primarily due to the higher capitalization of costs, consistent with the progress in the stage of development of models in North America, primarily the Jeep brand, EMEA and Maserati.

The decrease in the Amortization of capitalized development costs in 2019 compared to 2018 was primarily due to the cycle of the current product range.

The Impairment and write-off of capitalized development expenditures during 2019 was primarily due to the impact of impairment charges of previously capitalized development costs (refer to *Cost of Revenues* above). The impairment and write-off of capitalized development expenditures during the year ended December 31, 2018, primarily in EMEA, was due to changes in product plans in connection with the 2018-2022 business plan.

The increase in total Research and development expenditures in 2019 compared to 2018 reflects the efforts in the continued renewal and enrichment of our product portfolio.

The increase in Capitalized development expenditures as a proportion of total Research and development expenditures in 2019 compared to 2018 was due to increased spending for the development of new models to be launched in 2020 and 2021.

Result from investments

(€ million)	Years ended December 31, 2019	2018	Increase/(Decrease) 2019 vs. 2018
Result from investments	€ 209	€ 235	(11.1)%

The decrease in Result from investments in 2019 compared to 2018 was primarily attributable to lower GAC FCA JV results.

Net financial expenses

(€ million)	Years ended December 31, 2019	2018	Increase/(Decrease) 2019 vs. 2018
Net financial expenses	€ 1,005	€ 1,056	(4.8)%

The decrease in Net financial expenses in 2019 compared to 2018 was primarily due to the average reduction in gross debt, partially offset by €88 million of interest on lease liabilities recognized following the adoption of IFRS 16.

Tax expense

(€ million)	Years ended December 31, 2019	2018	Increase/(Decrease) 2019 vs. 2018
Tax expense	€ 1,321	€ 778	69.8%
Effective tax rate	32.7%	18.5%	+1420 bps

The increase in Tax expense in 2019 compared to 2018 was primarily attributable to (i) a non-recurring net €334 million tax benefit recognized for U.S. prior years' tax positions finalized in 2018, including a reduction to the estimated 2017 U.S. one-time deemed repatriation tax expense by €70 million and tax benefit of €94 million from an accelerated discretionary pension contribution (refer to Note 19, *Employee benefits liabilities* within our Consolidated Financial Statements for additional detail); and (ii) higher operating results in North America. Refer to Note 7, *Tax expense* in the Consolidated Financial Statements included elsewhere in this report for additional information.

The increase in the effective tax rate to 33 percent in 2019 from 19 percent in 2018 primarily related to the (i) non-recurring benefit recognized for U.S. prior years' tax positions finalized in 2018; and (ii) no corresponding tax benefit for primarily all of the impairment charges of €1,376 million recognized in relation to the rationalization of product portfolio plans (refer to *Cost of Revenues* above), due to partial recognition of deferred tax assets in Italy.

Net profit from continuing operations

(€ million)	Years ended December 31, 2019	2018	Increase/(Decrease) 2019 vs. 2018
Net profit from continuing operations	€ 2,700	€ 3,330	(18.9)%

The decrease in Net profit from continuing operations in 2019 compared to 2018 was mainly driven by the pre-tax impact of €1,376 million impairment of assets recognized in relation to the rationalization of product portfolio plans (refer to *Cost of Revenues* above) and the increase in tax charges, as described above, partially offset by the non-repeat of €748 million for estimated costs related to U.S. diesel emissions matters recognized during 2018. Decreased operating performance in EMEA and Maserati was offset by improvements in APAC, LATAM and North America.

Profit from discontinued operations, net of tax

	Years ended December 31,		Increase/(Decrease)
(€ million)	2019	2018	2019 vs. 2018
Profit from discontinued operations, net of tax	€ 3,930	€ 302	n.m.

n.m. = number not meaningful

Magneti Marelli, including the gain on sale of €3,771 million and related tax expense of €2 million, is presented as a discontinued operation in the Consolidated Financial Statements for the years ended December 31, 2019 and 2018. For more information, refer to Note 3, *Scope of consolidation*, within our Consolidated Financial Statements included elsewhere in this report.

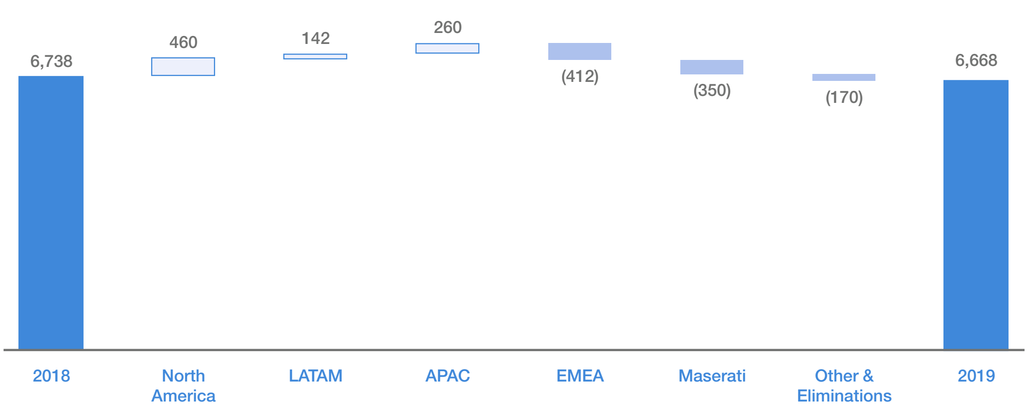
The impact of ceasing depreciation of the property, plant and equipment and amortization of the intangible assets of Magneti Marelli on its classification as held for sale as required by IFRS 5 was €134 million for the period up to the completion of the sale transaction on May 2, 2019 (€96 million for the year ended December 31, 2018) net of tax of €27 million (€20 million for the year ended December 31, 2018).

Adjusted EBIT

			Increase/(Decrease)	
	Years ended December 31,		2019 vs. 2018	
(€ million)	2019	2018	% Actual	% CER
Adjusted EBIT	€ 6,668	€ 6,738	(1.0)%	(5.1)%
Adjusted EBIT margin (%)	6.2%	6.1%	+10 bps	—

The following charts present our Adjusted EBIT walk by segment for 2019 as compared to 2018:

Adjusted EBIT by segment
2019 compared to 2018 (€ million)



For the year ended December 31, 2019, the Adjusted EBIT related to Magneti Marelli that was excluded from the Group's Adjusted EBIT result was €218 million, net of intercompany eliminations. For the year ended December 31, 2018, the Adjusted EBIT related to Magneti Marelli that was excluded from the Group's Adjusted EBIT result was €546 million, net of intercompany eliminations. For more information, refer to Note 3, *Scope of consolidation*, within our Consolidated Financial Statements included elsewhere in this report.

For a discussion of Adjusted EBIT for each of our five reportable segments (North America, LATAM, APAC, EMEA and Maserati) in 2019 as compared to 2018 see *Results by Segment* below.

The following table summarizes the reconciliation of Net profit from continuing operations to Adjusted EBIT:

	Years ended December 31,	
(€ million)	2019	2018
Net profit from continuing operations	€ **2,700**	€ **3,330**
Tax expense	**1,321**	778
Net financial expenses	**1,005**	1,056
Adjustments:		
Impairment expense and supplier obligations	**1,542**	353
Restructuring costs, net of reversals	**154**	103
Gains on disposal of investments	**(15)**	—
Brazilian indirect tax - reversal of liability/recognition of credits	**(164)**	(72)
Charge for U.S. diesel emissions matters	**—**	748
China inventory impairment	**—**	129
Costs for recall, net of recovery - airbag inflators	**—**	114
U.S. special bonus payment	**—**	111
Employee benefits settlement losses	**—**	92
Port of Savona (Italy) flood and fire	**—**	43
(Recovery of)/costs for recall - contested with supplier	**—**	(50)
North America capacity realignment	**—**	(60)
Other	**125**	63
Total Adjustments	**1,642**	1,574
Adjusted EBIT	€ **6,668**	€ **6,738**

During the year ended December 31, 2019 Adjusted EBIT excluded adjustments primarily related to:

- €1,542 million relating to the impairment expense of €1,376 million recognized in relation to the rationalization of product portfolio plans (refer to *Cost of Revenues* above), as well as impairment expense of €98 million in North America, €62 million in Maserati, and supplier obligations of €6 million in EMEA;
- €154 million of restructuring costs, mainly related to LATAM, EMEA and North America, primarily includes €76 million of write-down of Property, plant and equipment and €118 million related to the recognition of provisions for restructuring (refer to Note 20, *Provisions* in the Consolidated Financial Statements included elsewhere in this report), partially offset by the reversal of previously recorded provisions, primarily €46 million in EMEA;
- €164 million of gains in relation to the recognition of credits for amounts paid in prior years in relation to indirect taxes in Brazil (refer to Note 15, *Trade and other receivables* in the Consolidated Financial Statements included elsewhere in this report); and
- €125 million of Other costs, primarily relating to litigation proceedings (refer to Note 25, *Guarantees granted, commitments and contingent liabilities* in the Consolidated Financial Statements included elsewhere in this report for further details).

During the year ended December 31, 2019 impairment charges of €1,589 million were recorded, classified within *Impairment expense and supplier obligations, Restructuring costs, net of reversals* and *Other* above. These comprised €636 million of Property, plant and equipment (refer to Note 11, *Property, plant and equipment* in the Consolidated Financial Statements included elsewhere in this report) and €953 million of Other intangible assets (refer to Note 10, *Other intangible assets* in the Consolidated Financial Statements included elsewhere in this report).

During the year ended December 31, 2018 Adjusted EBIT excluded adjustments primarily related to

- €748 million provision recognized for costs related to final settlements reached on civil, environmental and consumer claims related to U.S. diesel emissions matters (refer to Note 25 - *Guarantees granted, commitments and contingent liabilities* to the Consolidated Financial Statements included elsewhere in this report);
- €353 million relating to impairment expense of €297 million and supplier obligations of €56 million, primarily in EMEA, resulting from changes in product plans in connection with the 2018-2022 business plan;
- €129 million relating to impairment of inventory in connection with the accelerated adoption of new emission standards in China and slower than expected sales;
- €114 million costs for recall, net of recovery in relation to Takata airbag inflators. During 2017, €102 million costs were recorded in Cost of revenues, relating to an expansion of the scope of the Takata airbag inflator recalls, of which €29 million related to the previously announced recall in North America and €73 million related to the preventative safety campaigns in LATAM. As the charges for the warranty adjustment were due to an industry-wide recall resulting from parts manufactured by Takata, and, due to the financial uncertainty of Takata, we determined these charges were unusual in nature, and as such, the charges for 2017 and 2018 were excluded from Adjusted EBIT (refer to Note 25, *Guarantees granted, commitments and contingent liabilities*, within our Consolidated Financial Statements included elsewhere in this report for additional information);
- €111 million charge in relation to a special bonus payment, announced January 11, 2018, of U.S.$2,000 to approximately 60,000 hourly and salaried employees in the United States, excluding senior management, as a result of the Tax Cuts and Jobs Act;
- €103 million relating to restructuring costs, which included €123 million of costs in EMEA offset by a €28 million reversal of previously recorded restructuring costs in LATAM;
- €92 million charge arising on settlement of a portion of a supplemental retirement plan and an annuity buyout in North America;
- €43 million charge in relation to costs incurred in relation to the flood and fire in the Port of Savona (Italy);
- €50 million gain from the partial recovery of amounts accrued in 2016 in relation to costs for a recall which were contested with a supplier;
- €60 million reduction of costs previously provided in relation to the North America capacity realignment plan. During the year ended December 31, 2015, as part of the plan to improve margins in North America, the Group realigned a portion of its manufacturing capacity in the region to better meet market demand for Ram pickup trucks and Jeep vehicles within the Group's existing plant infrastructure; and
- €72 million of gains in relation to the recognition of credits for amounts paid in prior years in relation to indirect taxes in Brazil.

Adjusted net profit

	Years ended December 31,		Increase/(Decrease)
(€ million)	2019	2018	2019 vs. 2018
Adjusted net profit	€ 4,297	€ 4,707	(8.7)%

The decrease in Adjusted net profit in 2019 compared to 2018 was primarily driven by an increase in Tax expense. The slight decrease in operating performance was offset by lower net financial expenses.

The following table summarizes the reconciliation of Net profit from continuing operations to Adjusted net profit:

	Years ended December 31,	
(€ million)	2019	2018
Net profit from continuing operations	€ 2,700	€ 3,330
Adjustments (as above)	1,642	1,574
Tax impact on adjustments	(122)	(125)
Net derecognition of deferred tax assets and other tax adjustments	77	—
Impact of U.S. tax reform	—	(72)
Total adjustments, net of taxes	1,597	1,377
Adjusted net profit	€ 4,297	€ 4,707

During the year ended December 31, 2019, Adjusted net profit excluded adjustments related to:

- €122 million gain reflecting the tax impact on the items excluded from Adjusted EBIT above; and
- €77 million charge reflecting net derecognition of deferred tax assets and other tax adjustments.

During the year ended December 31, 2018 Adjusted net profit excluded adjustments related to:

- €125 million gain reflecting the tax impact on the items excluded from Adjusted EBIT above; and
- €72 million gain relating to the impact of December 2017 U.S. tax reform.

Adjusted diluted EPS

	Years ended December 31,			Increase/(Decrease)	
(€ per share)	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
Adjusted diluted EPS	€ 2.73	€ 3.00	€ 2.25	(9.0)%	33.3%

The following table summarizes the reconciliation of Diluted earnings per share from continuing operations, which is the most directly comparable measure included in the Consolidated Financial Statements, to Adjusted diluted earnings per share:

	Years ended December 31,		
(€ per share except otherwise noted)	2019	2018	2017[(1)]
Diluted earnings per share from continuing operations	€ 1.71	€ 2.12	€ 2.11
Impact of adjustments above, net of taxes, on Diluted earnings per share from continuing operations	1.02	0.88	0.14
Adjusted diluted earnings per share	€ 2.73	€ 3.00	€ 2.25
Weighted average number of shares outstanding for Diluted earnings per share from continuing operations (thousand)	1,570,850	1,567,839	1,556,306

(1) *Total adjustments, net of tax for the year ended December 31, 2017 was €221 million, as disclosed in the 2018 Annual Report and Form 20-F as filed with the SEC on February 20, 2019.*

Results by Segment – 2019 compared to 2018

(€ million, except shipments which are in thousands of units)	Net revenues 2019	Net revenues 2018	Adjusted EBIT 2019	Adjusted EBIT 2018	Shipments 2019	Shipments 2018
	Years ended December 31,					
North America	€ 73,357	€ 72,384	€ 6,690	€ 6,230	2,401	2,633
LATAM	8,461	8,152	501	359	577	585
APAC	2,814	2,703	(36)	(296)	76	84
EMEA	20,571	22,815	(6)	406	1,199	1,318
Maserati	1,603	2,663	(199)	151	19	35
Other activities	3,009	2,888	(173)	(40)	—	—
Unallocated items & eliminations(1)	(1,628)	(1,193)	(109)	(72)	—	—
Total	€ 108,187	€ 110,412	€ 6,668	€ 6,738	4,272	4,655

(1) *Includes intercompany transactions which are eliminated in consolidation and certain costs related to Alfa Romeo that are not allocated to the regional mass-market vehicle segments.*

The following is a discussion of Net revenues, Adjusted EBIT and shipments for each segment for the year ended December 31, 2019 as compared to the year ended December 31, 2018. We review changes in our results of operations with the following operational drivers:

- **Volume**: reflects changes in products sold to our customers, primarily dealers and fleet customers. Change in volumes is driven by industry volume, market share and changes in dealer stock levels. Vehicles manufactured and distributed by our unconsolidated subsidiaries are not included within volume;
- **Mix**: generally reflects the changes in product mix, including mix among vehicle brands and models, as well as changes in regional market and distribution channel mix, including mix between retail and fleet customers;
- **Net price**: primarily reflects changes in prices to our customers including higher pricing related to content enhancement, net of discounts, price rebates and other sales incentive programs, as well as related foreign currency transaction effects;
- **Industrial costs**: primarily include cost changes to manufacturing and purchasing of materials that are associated with content, technology and enhancement of vehicle features, as well as industrial efficiencies and inefficiencies, recall campaign and warranty costs, research and development costs and related foreign currency transaction effects;
- **Selling, general and administrative costs ("SG&A")**: primarily include costs for advertising and promotional activities, purchased services, information technology costs and other costs not directly related to the development and manufacturing of our products; and
- **Other**: includes other items not mentioned above, such as foreign currency exchange translation and results from joint ventures and associates.

North America

	Years ended December 31,		Increase/(Decrease) 2019 vs. 2018	
	2019	2018	% Actual	% CER
Shipments (thousands of units)	2,401	2,633	(8.8)%	—
Net revenues (€ million)	€ 73,357	€ 72,384	1.3%	(3.7)%
Adjusted EBIT (€ million)	€ 6,690	€ 6,230	7.4%	1.6%
Adjusted EBIT margin (%)	9.1%	8.6%	+50 bps	—

Shipments

The decrease in vehicle shipments in 2019 compared to 2018 was primarily due to dealer stock discipline, partially offset by volumes of all-new Jeep Gladiator and higher Ram 1500 shipments. Shipments reflected decreases in (i) the U.S. of 251 thousand units (-11 percent) and (ii) Mexico of 6 thousand units (-9 percent), which were partially offset by an increase in (iii) Canada of 26 thousand units (+12 percent).

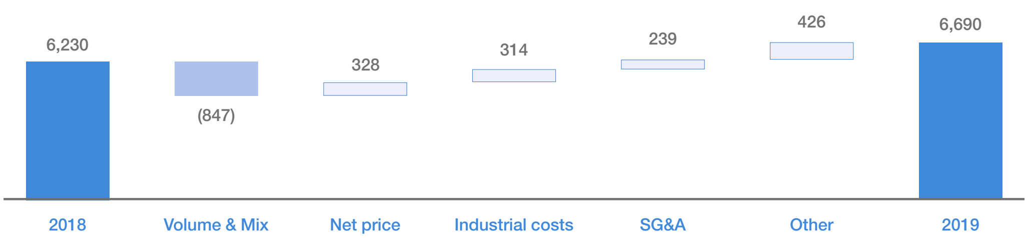
Net revenues

North America Net revenues in 2019 were in line compared to 2018, primarily from €2.3 billion overall favorable mix, from favorable model mix partially offset by negative channel mix, and €3.7 billion favorable foreign exchange translation effects, offset by €5.3 billion lower volumes.

Adjusted EBIT

The following chart reflects the change in North America Adjusted EBIT by operational driver for 2019 as compared to 2018:

Adjusted EBIT by operational driver
2019 compared to 2018 (€ million)



The increase in North America Adjusted EBIT in 2019 compared to 2018 was primarily attributable to:

- favorable model mix and positive net price;
- industrial efficiencies;
- lower advertising costs; and
- favorable foreign exchange translation effects.

These were partially offset by:

- lower volumes; and
- increased product costs on new vehicles, included within *Industrial costs.*

LATAM

	Years ended December 31,				Increase/(Decrease) 2019 vs. 2018	
		2019		2018	% Actual	% CER
Shipments (thousands of units)		577		585	(1.4)%	—
Net revenues (€ million)	€	8,461	€	8,152	3.8%	7.6%
Adjusted EBIT (€ million)	€	501	€	359	39.6%	55.8%
Adjusted EBIT margin (%)		5.9%		4.4%	+150 bps	—

Shipments

LATAM vehicle shipments in 2019 were in line compared to 2018, with increased volumes in Brazil offset by lower volumes in other markets, primarily Argentina due to continued market decline. Shipments reflected (i) an increase of 49 thousand units (+11 percent) in Brazil, more than offset by (ii) a decrease of 43 thousand units (-46 percent) in Argentina and (iii) a decrease of 14 thousand units (-34 percent) in other LATAM markets.

Net revenues

The increase in LATAM Net revenues in 2019 compared to 2018 was primarily due to positive net pricing, including recognition of Brazilian indirect tax credits, partially offset by negative foreign exchange effects.

Adjusted EBIT

The following chart reflects the change in LATAM Adjusted EBIT by operational driver for 2019 as compared to 2018:

Adjusted EBIT by operational driver
2019 compared to 2018 (€ million)

The increase in LATAM Adjusted EBIT in 2019 compared to 2018 was primarily attributable to:

- higher Net revenues and industrial efficiencies.

These were partially offset by:

- purchasing cost inflation;
- higher import and export duties; and
- negative foreign exchange effects.

Amounts totaling €164 million for credits recognized in relation to a definitive favorable court decision in the COFINS over ICMS litigation in Brazil were excluded from Adjusted EBIT, consistent with the treatment of the related recognition of previous credits in 2018 and the reversal of an indirect tax liability in 2017. Refer to 22, *Other liabilities and Tax liabilities* in the Consolidated Financial Statements included elsewhere in this report.

APAC

		Years ended December 31,			Increase/(Decrease) 2019 vs. 2018	
		2019		2018	% Actual	% CER
Combined shipments (thousands of units)		149		209	(28.7)%	—
Consolidated shipments (thousands of units)		76		84	(9.5)%	—
Net revenues (€ million)	€	2,814	€	2,703	4.1%	1.4%
Adjusted EBIT (€ million)	€	(36)	€	(296)	87.8%	89.6%
Adjusted EBIT margin (%)		(1.3)%		(11.0)%	+970 bps	—

We locally produce and distribute the Jeep Cherokee, Renegade, Compass, Grand Commander and Commander PHEV through the 50% owned GAC FCA JV. The results of the GAC FCA JV are accounted for using the equity method, with recognition of our share of the net income of the joint venture in the line item "Result from investments" within the Consolidated Income Statement. We also produce the Jeep Compass through our joint operation with Fiat India Automobiles Private Limited ("FIAPL") and we recognize our related interest in the joint operation on a line by line basis.

Shipments of our consolidated subsidiaries, which includes vehicles produced by FIAPL, are reported in both consolidated and combined shipments. Shipments of the GAC FCA JV joint venture are not included in consolidated shipments and are only in combined shipments.

Shipments

The decrease in combined shipments in 2019 compared to 2018 was due to lower GAC FCA JV volumes.

The decrease in consolidated shipments in 2019 compared to 2018 was primarily due to increased Jeep Wrangler volumes more than offset by lower volumes of other vehicles, primarily Jeep Compass and Alfa Romeo Stelvio.

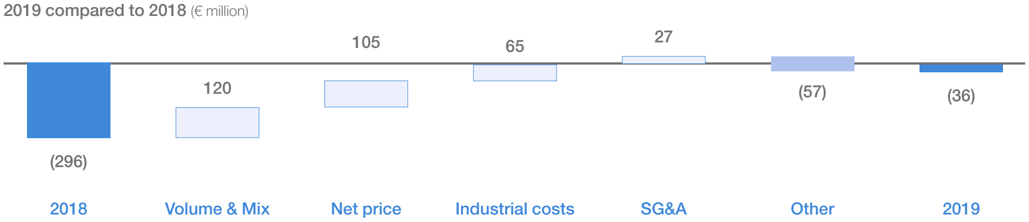
Net revenues

The increase in APAC Net revenues in 2019 compared to 2018 was primarily due to favorable vehicle mix, positive net pricing due to reduced incentives, partially offset by lower volumes.

Adjusted EBIT

The following chart reflects the change in APAC Adjusted EBIT by operational driver for 2019 as compared to 2018;

Adjusted EBIT by operational driver
2019 compared to 2018 (€ million)



The increase in APAC Adjusted EBIT in 2019 compared to 2018 was primarily attributable to:

- increased Net revenues; and
- lower industrial costs.

These were partially offset by:

- lower GAC FCA JV results, included within *Other.*

EMEA

					Increase/(Decrease)	
	Years ended December 31,				2019 vs. 2018	
		2019		2018	% Actual	% CER
Combined shipments (thousands of units)		1,272		1,380	(7.8)%	—
Consolidated shipments (thousands of units)		1,199		1,318	(9.0)%	—
Net revenues (€ million)	€	20,571	€	22,815	(9.8)%	(10.2)%
Adjusted EBIT (€ million)	€	(6)	€	406	(101.5)%	(97.9)%
Adjusted EBIT margin (%)		—%		1.8%	-180 bps	—

Shipments

The decrease in EMEA combined and consolidated shipments in 2019 compared to 2018 was primarily attributable to sales channel actions and discontinuation of products. Consolidated shipments reflected (i) a decrease in passenger cars to 926 thousand units (-10 percent) and (ii) a decrease in shipments of LCVs to 273 thousand units (-5 percent).

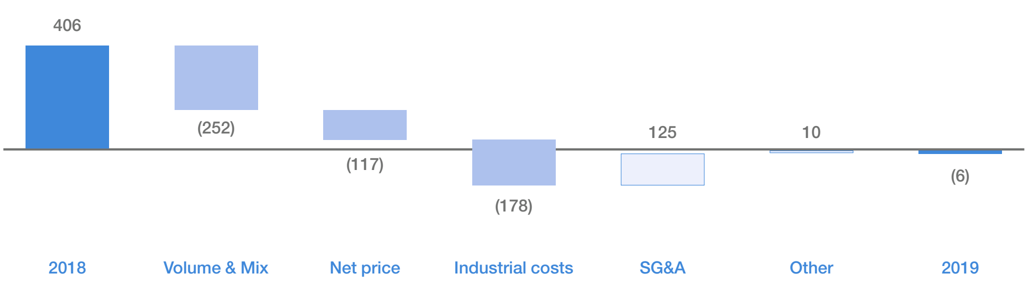
Net revenues

The decrease in EMEA Net revenues in 2019 compared to 2018 was primarily attributable to €1.7 billion relating to lower volumes.

Adjusted EBIT

The following chart reflects the change in EMEA Adjusted EBIT by operational driver for 2019 as compared to 2018:

Adjusted EBIT by operational driver
2019 compared to 2018 (€ million)



The decrease in EMEA Adjusted EBIT in 2019 compared to 2018 was primarily attributable to:

- lower volumes;
- higher incentives; and
- increased compliance and product costs.

These were partially offset by:

- reduced advertising costs;
- labor efficiencies resulting from restructuring actions; and
- favorable model and channel mix.

Maserati

			Increase/(Decrease)	
	Years ended December 31,		2019 vs. 2018	
	2019	2018	% Actual	% CER
Shipments (thousands of units)	19	35	(45.7)%	—
Net revenues (€ million)	€ 1,603	€ 2,663	(39.8)%	(41.0)%
Adjusted EBIT (€ million)	€ (199)	€ 151	(231.8)%	(231.8)%
Adjusted EBIT margin (%)	(12.4)%	5.7%	-1810 bps	—

Shipments

The decrease in Maserati shipments in 2019 compared to 2018 was primarily due to lower sales and planned dealer stock reductions. The decrease was mainly due to North America (-49 percent), China (-34 percent), as well as lower volumes in Europe (-47 percent).

Net revenues

The decrease in Maserati Net revenues in 2019 compared to 2018 was primarily due to lower volumes.

Adjusted EBIT

The decrease in Maserati Adjusted EBIT in 2019 compared to 2018 was primarily due to lower Net revenues, adjustments of residual values in the U.S during the second quarter and higher incentives related to accelerated transition to China 6, partially offset by favorable model and market mix.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Overview

We require significant liquidity in order to meet our obligations and fund our business. Short-term liquidity is required to purchase raw materials, parts and components for vehicle production, as well as to fund selling, administrative, research and development, and other expenses. In addition to our general working capital and operational needs, we expect to use significant amounts of cash for the following purposes: (i) capital expenditures to support our existing and future products, (ii) principal and interest payments under our financial obligations and (iii) pension and employee benefit payments. We make capital investments in the regions in which we operate primarily related to initiatives to introduce new products, including for electrification and autonomous driving, enhance manufacturing efficiency, improve capacity and for maintenance, and for regulatory and environmental compliance. Our capital expenditures in 2020 are expected to be approximately €9.5 billion, which we plan to fund primarily with cash generated from our operating activities, as well as with credit lines provided to certain of our Group entities.

Our business and results of operations depend on our ability to achieve certain minimum vehicle shipment volumes. As is typical for an automotive manufacturer, we have significant fixed costs and, as such, changes in our vehicle shipment volumes can have a significant effect on profitability and liquidity. We generally receive payment from dealers and distributors shortly after shipment, whereas there is a lag between the time we receive parts and materials from our suppliers and the time we are required to pay for them. Therefore, during periods of increasing vehicle shipments, there is generally a corresponding positive impact on our cash flow and liquidity. Conversely, during periods in which vehicle shipments decline, there is generally a corresponding negative impact on our cash flow and liquidity. Delays in shipments of vehicles, including delays in shipments in order to address quality issues, tend to negatively affect our cash flow and liquidity. In addition, the timing of our collections of receivables for export shipments of vehicles, fleet sales, as well as sales of powertrain systems and pre-assembled parts of vehicles tend to be longer due to different payment terms. Although we regularly enter into factoring transactions for such receivables in order to accelerate collections and transfer relevant risks to the factor, a change in vehicle shipment volumes may cause fluctuations in our working capital. The increased internationalization of our product portfolio may also affect our working capital requirements as there may be an increased requirement to ship vehicles to countries different from where they are produced. In addition, working capital can be affected by the trend and seasonality of shipments of vehicles with a buy-back commitment.

Management believes that the funds currently available, in addition to those funds that will be generated from operating and financing activities, will enable the Group to meet its obligations and fund its businesses including funding planned investments, working capital needs as well as fulfill its obligations to repay its debts in the ordinary course of business.

Fidis S.p.A., our 100 percent owned captive finance company, supports working capital needs in all regions at a Group level (including the Maserati segment), as well as selected Group suppliers, through the offering of receivable and payable financing activity (also known as factoring). In addition, Fidis S.p.A. provides financing to selected dealers in Italy.

Liquidity needs are met primarily through cash generated from operations, including the sale of vehicles, service and parts to dealers, distributors and other consumers worldwide.

The operating cash management and liquidity investment of the Group are coordinated with the objective of ensuring effective and efficient management of the Group's funds. The Group raises capital in the financial markets through various funding sources.

Certain notes issued by FCA and its treasury subsidiaries include covenants which may be affected by circumstances related to certain subsidiaries (including FCA Italy and FCA US); in particular, there are cross-default clauses which may accelerate repayments in the event that such subsidiaries fail to pay certain of their debt obligations.

Long-term liquidity requirements may involve some level of debt refinancing as outstanding debt becomes due or we are required to make principal payments. Although we believe that our current level of total available liquidity is sufficient to meet our short-term and long-term liquidity requirements, we regularly evaluate opportunities to improve our liquidity position in order to enhance financial flexibility and to achieve and maintain a liquidity and capital position consistent with that of other companies in our industry.

However, any actual or perceived limitations of our liquidity may limit the ability or willingness of counterparties, including dealers, consumers, suppliers, lenders and financial service providers, to do business with us, or require us to restrict additional amounts of cash to provide collateral security for our obligations. Our liquidity levels are subject to a number of risks and uncertainties, including those described in *Risk Factors*.

For additional information on distribution of profits, refer to *ADDITIONAL INFORMATION FOR NETHERLANDS CORPORATE GOVERNANCE - Dividends* and Note 26, *Equity* within the Consolidated Financial Statements included elsewhere in this report.

Available Liquidity

The following table summarizes our Available liquidity:

		At December 31,		
(€ million)		2019		2018
Cash, cash equivalents and current securities[1]	€	15,494	€	12,669
Undrawn committed credit lines		7,575		7,728
Cash, cash equivalents and current securities - included with Assets held for sale		17		728
Total Available liquidity[2]	€	**23,086**	€	**21,125**

(1) Current securities are comprised of short-term or marketable securities which represent temporary investments but do not satisfy all the requirements to be classified as cash equivalents as they may not be able to be readily converted into cash, or they are subject to significant risk of change in value (even if they are short-term in nature or marketable).

(2) The majority of our liquidity is available to our treasury operations in Europe and U.S.; however, liquidity is also available to certain subsidiaries which operate in other countries. Cash held in such countries may be subject to restrictions on transfer depending on the foreign jurisdictions in which these subsidiaries operate. Based on our review of such transfer restrictions in the countries in which we operate and maintain material cash balances, we do not believe such transfer restrictions had an adverse impact on the Group's ability to meet its liquidity requirements at the dates presented above.

Our Available liquidity is subject to intra-month and seasonal fluctuations resulting from business and collection payment cycles as well as to changes in foreign exchange conversion rates. Refer to the section — *Cash Flows* below for additional information regarding the change in cash and cash equivalents.

Our liquidity is principally denominated in U.S. Dollar and Euro. Out of the total €15.5 billion of cash, cash equivalents and current securities available at December 31, 2019 (€12.7 billion at December 31, 2018), €9.3 billion or 60.0 percent were denominated in U.S. Dollar (€7.8 billion, or 58.2 percent, at December 31, 2018) and €2.0 billion, or 12.9 percent, were denominated in Euro (€1.9 billion, or 14.2 percent, at December 31, 2018).

The €2.0 billion increase in total Available liquidity from December 31, 2018 to December 31, 2019 was primarily a result of the proceeds from the sale of Magneti Marelli of €5.8 billion, net of €0.4 billion cash held by Magneti Marelli at the time of the disposal, and €0.2 billion from positive foreign exchange translation differences, partially offset by €3.1 billion of dividends paid. Cash flows from operations of €10.5 billion were more than offset by capital expenditures of €8.4 billion and net repayments of debt of €2.7 billion. Refer to Note 29, *Explanatory notes to the Consolidated Statement of Cash Flows*, within our Consolidated Financial Statements included elsewhere in this report for additional information.

Refer to Note 21, *Debt* in the Consolidated Financial Statements included elsewhere in this report for further information regarding the Group's undrawn committed credit lines.

Cash Flows

Year ended December 31, 2019 compared to the year ended December 31, 2018

The following table summarizes the cash flows from operating, investing and financing activities for each of the years ended December 31, 2019 and 2018.

		Years ended December 31,		
(€ million)		2019[1]		2018[1]
Cash flows from operating activities - continuing operations	€	10,770	€	9,464
Cash flows (used in)/from operating activities - discontinued operations		(308)		484
Cash flows used in investing activities - continuing operations		(8,178)		(6,106)
Cash flows from investing activities - net cash proceeds, disposal of discontinued operations[2]		5,348		—
Cash flows used in investing activities - discontinued operations		(155)		(632)
Cash flows used in financing activities - continuing operations		(6,152)		(2,695)
Cash flows from/(used in) financing activities - discontinued operations		325		(90)
Translation exchange differences		212		106
Total change in cash and cash equivalents		1,862		531
Cash and cash equivalents at beginning of the period		12,450		12,638
Add: Cash and cash equivalents at beginning of the period included within Assets held for sale		719		—
Total change in cash and cash equivalents		1,862		531
Less: Cash and cash equivalents at end of the period included within Assets held for sale[3]		17		719
Cash and cash equivalents at end of the period	€	**15,014**	€	**12,450**

(1) Magneti Marelli operating results and cash flows were excluded from the Group's continuing operations and are presented as a single line item within the Consolidated Income Statements and Consolidated Statement of Cash Flows for the year ended December 31, 2019, 2018 and 2017 following the classification of Magneti Marelli as a discontinued operations for the year ended December 31, 2018. The assets and liabilities of Magneti Marelli have been classified as Assets held for sale and Liabilities held for sale within the Consolidated Statement of Financial Position at December 31, 2018. All amounts presented above exclude net intercompany amounts (received by)/paid by Magneti Marelli from/to the Group totaling €(200) million for the year ended December 31, 2019 (€(46) million for the year ended December 31, 2018) within operating activities, €(41) million for the year ended December 31, 2019 (€(35) million for the year ended December 31, 2018) within investing activities; and €405 million for the year ended December 31, 2019 (€(410) million for the year ended December 31, 2018) within financing activities.

(2) Included within Cash flows from investing activities - net cash proceeds, disposal of discontinued operations for the year ended December 31, 2019, is €5,348 million reflecting the aggregate cash flows arising from the disposal of Magneti Marelli through the completion of the sale transaction on May 2, 2019, consisting of €5,774 million cash consideration net of €426 million cash balances transferred.

(3) The assets and liabilities of the cast iron automotive components business of Teksid were classified as Assets held for sale and Liabilities held for sale within the Consolidated Statement of Financial Position at December 31, 2019. Refer to Note 3, Scope of consolidation within our Consolidated Financial Statements included elsewhere in this report.

Also, refer to our Consolidated Statement of Cash Flows and Note 29, *Explanatory notes to the Consolidated Statement of Cash Flows*, within our Consolidated Financial Statements included elsewhere in this report for additional information.

Industrial free cash flows

As described in *Non-GAAP Financial Measures*, Industrial free cash flows is management's key cash flow metric. The following table provides a reconciliation of Cash flows from operating activities, the most directly comparable measure included in our Consolidated Statement of Cash Flows, to Industrial free cash flows for the years ended December 31, 2019, 2018 and 2017. Except as otherwise noted, all amounts presented below exclude Magneti Marelli.

	Years ended December 31,		
(€ million)	2019	2018	2017
Cash flows from operating activities (including discontinued operations)	**€ 10,462**	**€ 9,948**	**€ 10,385**
Less: Cash flows from operating activities - discontinued operations	(308)	484	705
Cash flows from operating activities - continuing operations	**10,770**	**9,464**	**9,680**
Less: Operating activities not attributable to industrial activities	74	59	146
Less: Capital expenditures for industrial activities	8,383	5,389	8,102
Add: Net intercompany payments between continuing and discontinued operations	(200)	(46)	21
Add back: Discretionary pension contribution, net of tax	—	478	—
Industrial free cash flows	**€ 2,113**	**€ 4,448**	**€ 1,453**

Industrial free cash flows for the year ended December 31, 2019 decreased as compared to 2018, primarily due to higher capital expenditures as compared to 2018, partially offset by higher cash flows from operating activities.

Industrial free cash flows for the year ended December 31, 2018 increased as compared to 2017, primarily due to lower capital expenditures and improved cash flows from operating activities (excluding impacts from discretionary pension contributions).

Rating Agency updates

In May 2019, Moody's Investors Service raised the Corporate Family Rating on FCA NV from Ba2 to Ba1 and the rating on the bonds issued or guaranteed by FCA NV from Ba3 to Ba2. In November 2019, Moody's Investors Service affirmed those ratings and improved the outlook to positive from stable.

In November 2019, S&P Global Ratings placed FCA NV's long and short-term ratings (BB+/B) on CreditWatch with positive implications.

Refer to Note 21, *Debt* for further information regarding the Group's Capital Resources.

Risk Management

RISK MANAGEMENT

Our Approach

Risk management is an important business driver and is integral to the achievement of the Group's long-term business plan. We take an integrated approach to risk management, where risk and opportunity assessment are at the core of the leadership team agenda. Our success as an organization depends on our ability to identify and capitalize on the opportunities generated by our business and the markets in which we compete. By managing the associated risks, we strive to achieve a balance between our goals of growth and return and the related risks.

Risk Management Framework

The Group's risk management framework (the "Framework") is based on the COSO Framework (Committee of Sponsoring Organizations of the Treadway Commission Report - Enterprise Risk Management model) and the principles of the Dutch Corporate Governance Code. The Framework consists of a set of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the principal risks to which the Company is exposed. The Framework is integrated within the Company's organization and corporate governance and supports the protection of corporate assets, the efficiency and effectiveness of business processes, the reliability of financial information and compliance with laws and regulations.

The Framework consists of the following three levels of oversight:

Level 1	Operating areas, which identify and assess risks as well as establish specific actions for the management of risks
Level 2	Specific individuals identified as risk owners, which define methodologies and tools for both monitoring and managing risks
Level 3	Enterprise risk management ("ERM") functions, which support the monitoring of our risks and manage discussions of our risks at the Group level

In addition to the three levels of control, the results of the ERM process are part of the risk assessment of Group Internal Audit in defining its audit plan and accordingly, specific audits are planned for global enterprise risk management ("ERM") significant risks.

Appetite for Significant Risk

We align our risk appetite to our business plan. Risk boundaries are set through our strategy, Code of Conduct, budgets and policies. We have established risk management committees which are responsible for supporting risk governance in their respective region/sector. A Global Risk Management Committee ("GRMC") was established to promote a culture of proactive risk monitoring and management by the relevant risk owners throughout the Group. The GRMC is chaired by the Group CFO and other members are representatives from the legal, risk management, internal audit functions and from business operations. The mission of the GRMC is to provide broad process oversight and to facilitate our integrated risk assessment process. Responsibilities include:

- Providing guidance to the ERM program.
- Reviewing the results of the annual Enterprise Risk Assessment ("ERA").
- Identifying risks to be discussed at the Group level (GEC and/or Group Product Committee).
- Assisting in the development of the Company's risk appetite and risk tolerance, which support disclosures required in our European Union Annual Report (Annual Report).
- Reviewing risk management disclosure in the Annual Report.
- Reviewing the design of the Group's risk management functions, including reporting lines of authority, communications and control functions to ensure they are appropriate.

In addition, we utilize the operational focus of our existing Product (Group and Regional) and Commercial Committees to support risk governance. The Product Committees oversee capital investment, engineering and product development, while the Commercial Committee oversees matters related to sales and marketing. Both committees include executive managers from each of the Companies' brands, all of whom also have separate functional responsibilities across all the brands. Through our integrated approach our various committees support our Group Executive Council, CFO, CEO and Board of Directors (through the Audit Committee) with risk oversight. Our risk appetite differs by risk category as shown below.

Risk category	Category description	Risk appetite
Strategic	Risk that may arise from the pursuit of FCA's business plan, from strategic changes in the business environment, and/or from adverse strategic business decisions.	We are prepared to take risks in a responsible way that takes our stakeholders' interests into account and are consistent with our business plan.
Operational	Risk relating to internal processes, people and systems or external events (including legal and reputational risks).	We look to mitigate operational risks to the maximum extent based on cost/benefit considerations.
Financial	Risk relating to uncertainty of return and the potential for financial loss due to financial performance.	We seek capital market and other transactions to strengthen our financial position while allowing us to finance our operations on a consolidated global basis.
Compliance	Risk of non-compliance with relevant regulations and laws, internal policies and procedures.	We hold ourselves, as well as our employees, responsible for acting with honesty, integrity and respect, including complying with our Code of Conduct, applicable laws and regulations everywhere we do business.

Significant risks identified and control measures taken

On an annual basis, an enterprise risk assessment is performed, beginning with our operating segments. Risks identified to have high or medium-high residual risk rating within our Group are considered significant risks. Results of the assessment are consolidated into a Group report for review and validation with the GRMC and Group CEO. In addition, the most significant risks to the Group are discussed with the GEC to support the monitoring of these risks along with the respective mitigation efforts. Once validated, results are discussed with the Audit Committee, assisting the Board of Directors in their responsibility for strategic oversight of risk management activities.

Each key global focus risk has been classified by risk categories and control measures and mitigating actions are subsequently defined for each identified risk. The risks, control measures and mitigating actions presented below are not all-inclusive. The sequence in which these risks and mitigating actions are presented does not reflect any order or of importance, likelihood or materiality.

Risk Category	Key Global Risk Description	Control / Mitigating Actions
Compliance	**Regulatory Compliance** Our ability to manage the impact of regulatory compliance with vehicle fuel economy ("FE"), greenhouse gas ("GHG") and zero emission vehicle ("ZEV") requirements.	Group Product Committee ("GPC") manages approval for investments in FE/ GHG/ZEV related compliance ensures governance of program timing and monitors compliance impact related to changes in the long-range plan. Continued reduction of CO2 emissions is achieved through a combination of technologies aligned to the vehicle mix, consumer needs and regulatory framework in each market. Central coordination and oversight of internal checks and conformity activities under senior management to promote consistency in approach and process across our operations. The FCA Code of Conduct clearly and affirmatively requires employees to report issues of non-compliance, in addition, the "Leave No Doubt" program encourages employees, contractors, suppliers and dealers to report any issue which may concern vehicle safety, emissions or regulatory compliance. FCA continuously works to improve on emission compliance tools and implements these tools throughout the organization as appropriate.

Risk Category	Key Global Risk Description	Control / Mitigating Actions
Operational	**Customer Satisfaction** Our ability to produce vehicles to meet product quality standards, gain market acceptance and satisfy customer expectations.	Quality and customer satisfaction performance improvement metrics monitored at GEC and Product Committee meetings. World Class Manufacturing ("WCM") principles deployed throughout our manufacturing operations, foster a manufacturing culture that targets improved safety, quality and efficiency. Quality considerations ranging from customer expectations to functional requirements are analyzed from the earliest stages of design. A cross-functional initiative within FCA focuses on managing risks and implementing solutions for new vehicles. The program helps identify and avoid potential issues earlier in the vehicle development process and makes implementing solutions more cost effective.
Operational	**Corporate Cybersecurity** Our ability to protect our systems globally against a security incident or system failure that may lead to a significant business disruption, loss of confidential information, or breach of data privacy resulting in financial and/ or reputational damage.	FCA's dedicated cyber risk insurance coverage is designed on the basis of a comprehensive and thorough analysis of: • the threats of exposure of vital company assets, including the information that must be protected and at which level • policies and procedures in place to reduce the risk of attack in the event of a security breach • plans and procedures in place to neutralize threats and remedy security issues.
Operational	**Interruption of Critical Supplies and Supplier Quality** Our ability to manage our critical supplies to ensure alignment with required expectations, needs and quality standards and prevent interruption resulting in production blockages.	Active monitoring of the financial health of suppliers to mitigate disruption due to financial distress of companies in our supply chain. Monitoring political, environmental and economic events, globally, to anticipate or identify events that could lead to supply chain disruption so that mitigating action can be taken.
Operational / Strategic	**Talent Management - Attraction, Development & Retention of Critical Resources** Our ability to globally manage all aspects of Talent Management - including attraction, development and retention to facilitate internal benchmarking and improvement in order to meet current and future needs.	Convergence of key HR talent management processes, metrics, and reporting, along with adding global HR process oversight and governance, has been initiated in 2019 and included: • Organizational restructuring to reinforce the global governance of Talent Management programs • Consolidation of standardized retention/attrition metrics and reporting, including global views by function with internal and external benchmarks • Monitoring of specific KPIs for key position succession planning and talent development. • Periodic updates provided to the GEC • Development of a consistent employer value proposition for use by each region in attracting talent • Deployment of Regional best practice sharing and integration methodology
Strategic	**Technology Development and Product Launch** Our ability to develop and launch products with new technologies (e.g., electrification and propulsion, autonomous driving and connected vehicles) to meet regulatory requirements and customer expectations.	GEC and Product Committees' reviews of product plans and commercialization strategies in order to define investment needs in the near and long-term. Regular monitoring at the GEC enforced the review of new technologies, their applications in line with the product launch status and cadence, as well as what is required to successfully execute the programs. Collaborative efforts with strategic partnerships allow leveraging of capabilities and resources to achieve synergies and economies of scale needed to advance technology applications.
Strategic	**Product Portfolio & Technology Strategies** Our ability to create a product portfolio that supports achievement of strategic objectives, including completeness of product range and technological content.	GEC and Product Committees' reviews of product plans and commercialization strategies in order to define investment needs in the near and long-term. Partnerships with major technology players to share resources, including data for validation and reliability testing, as well as underlying investments.
Strategic	**Commercial Policies (Pricing)** Our ability to manage volume, price and market mix to ensure competitive pricing consistent with competitors' achievements and internal targets.	Sales and marketing (including pricing) is monitored by the Commercial Committees.

Control measures and comprehensive mitigation actions listed above for key global risks were monitored throughout the year by the Risk Management Committees in our regions and business sectors to ensure that these are relevant and sufficient. As needed, control measures and mitigation actions are enhanced to ensure risks are appropriately addressed. We believe this approach allows us to address risk on a timely basis and ensure effectiveness of the control measures taken.

Current or planned improvements in the overall risk management system

We continue to engage the business in key risk areas, benchmark our processes with peer companies and explore opportunities for improvement, in order to strengthen and improve our ERM Governance, monitor risks in a more predictive way and evaluate remediation plans. In an effort to escalate risk awareness, we have facilitated focused risk discussions at the Group level in 2019, to reduce our company risk exposure and enhance our risk response. We also upgraded our current Governance, Risk management and Compliance tool to include the ERM module, to further improve efficiency, enhance our risk monitoring and reporting, and capture additional criteria related to our enterprise risks. Several risk workshops were held with second line risk functions in an effort to achieve synergies through integration and method sharing.

One of the results of this increased integration was reflected in the inclusion of sustainability-related topics, as disclosed in the materiality diagram, in the ERM risk assessment discussion, driving to an alignment with the global focus risks for the Group.

We will continue engaging the business in reviewing our management and monitoring activities for key risks throughout the Group in the upcoming year. As we continue to evolve our Group ERM program, we will strive to identify best practices and refine our processes to identify and escalate risk developments.

Further information regarding the risks we face, and the potential impact on results or financial position, are described in *Risk Factors* below.

RISK FACTORS

We face a variety of risks in our business. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently believe to be immaterial, may also become important factors that affect us.

Risks Related to Our Business, Strategy and Operations

If our vehicle shipment volumes deteriorate, particularly shipments of our pickup trucks and larger sport utility vehicles in the U.S. retail market, our results of operations and financial condition will suffer.

As is typical for an automotive manufacturer, we have significant fixed costs primarily due to our significant investment in product development, property, plant and equipment and the requirements of our collective bargaining agreements and other applicable labor relations regulations. As a result, changes in vehicle shipment volumes can have a disproportionately large effect on our profitability.

Further, our profitability in the U.S., Canada, Mexico and Caribbean islands ("North America"), a region which contributed a majority of our profit in each of the last three years, is particularly dependent on demand for our pickup trucks and larger SUVs. Our pickup trucks and larger SUVs have historically been more profitable than other vehicles and accounted for approximately 71 percent of our total U.S. retail vehicle shipments in 2019. A shift in consumer demand away from these vehicles within the North America region, and towards compact and mid-size passenger cars, whether in response to higher fuel prices or other factors, could adversely affect our profitability.

Our dependence within the North America region on pickup trucks and larger SUVs remained high in 2019 as we continued implementation of our plan to reallocate more production capacity to these vehicle types after we ceased production in the region of compact and mid-size passenger cars in 2016. Our dependence on these vehicles is expected to continue given the focus of our business on pickup trucks and SUVs in the North America region. For additional information on factors affecting vehicle profitability, see *GROUP OVERVIEW-Overview of Our Business* and *Trends, Uncertainties and Opportunities*.

Moreover, we tend to operate with negative working capital as we generally receive payment for vehicles within a few days of shipment, whereas there is a lag between the time when parts and materials are received from suppliers and when we pay for such parts and materials; therefore, in periods in which our vehicle shipments decline materially we will suffer a significant negative impact on cash flow and liquidity as we continue to pay suppliers for components purchased in a high volume environment during a period in which we receive lower proceeds from vehicle shipments. If vehicle shipments decline, or if they were to fall short of our assumptions, due to recessionary conditions, changes in consumer confidence, geopolitical events, inability to produce sufficient quantities of certain vehicles, limited access to financing or other factors, such decline or shortfall could have a material adverse effect on our business, financial condition and results of operations.

Our businesses may be adversely affected by global financial markets, general economic conditions, pandemics, changes to and enforcement of government incentive programs as well as other macro developments over which we have little or no control.

Our results of operations and financial position may be influenced by various macroeconomic factors within the various countries in which we operate including changes in gross domestic product, the level of consumer and business confidence, changes in interest rates for or availability of consumer and business credit, the rate of unemployment and foreign currency exchange rates.

In addition to slow economic growth or recession, other economic circumstances, such as increases in energy prices, fuel prices and fluctuations in prices of raw materials (including as a result of tariffs) or contractions in infrastructure spending, could have negative consequences for the industry in which we operate and, together with the other conditions discussed above, could have a material adverse effect on our business, financial condition and results of operations. For further discussion of risks related to the automotive industry, see "*Risk Factors -- Risks Related to the Industry in which we Operate.*"

We have operations in a number of emerging markets, including Turkey, China, Brazil, Argentina, India and Russia. We are particularly susceptible to risks relating to local political conditions, import and/or export restrictions (including the imposition of tariffs on raw materials we procure and on vehicles we sell), and compliance with local laws and regulations in these markets.

In Brazil, we have historically received and continue to receive certain tax benefits and other government grants, which have favorably affected the results of our operations, and were recently extended through 2025. Expiration of these tax benefits and government grants without their renewal or any change in the amount of such tax benefits or government grants could have a material adverse effect on our business, financial conditions and results of operations.

We are also susceptible to risks relating to epidemics and pandemics of diseases. For example, the recent outbreak of coronavirus, a virus causing potentially deadly respiratory tract infections originating in China, may negatively affect economic conditions regionally as well as globally and may disrupt supply chains and otherwise impact operations. Governments in affected countries are imposing travel bans, quarantines and other emergency public safety measures. Those measures, though expected to be temporary in nature, may continue and increase depending on developments in the virus' outbreak. As of the date hereof, we have temporarily halted production at one of our European plants because of an interruption of critical supplies. The Chinese automobile market has also begun to experience reduced demand. The ultimate severity of the coronavirus outbreak is uncertain at this time and therefore we cannot predict the impact it may have on our end markets and our operations; however, the effect on our results could be material and adverse.

We are also subject to other risks inherent to operating globally. For example, we are subject to multiple tax regimes, including regulations relating to transfer pricing and withholding and other taxes on remittances and other payments to or from subsidiaries. European developments in data and digital taxation may also negatively affect some of our automated driving and infotainment connected services. Unfavorable developments in any one or a combination of these risk areas (which may vary from country to country) could have a material adverse effect on our business, financial condition and results of operations and on our ability to execute planned strategies.

On June 23, 2016, a majority of voters in a national referendum in the United Kingdom ("UK") voted in favor of the UK leaving ("Brexit") the European Union (the "EU"). The UK left the EU on January 31, 2020 and pursuant to a negotiated withdrawal agreement, there will be an 11-month transition period under which EU rules will continue to apply in the UK. During this period, the UK and the EU will seek to reach an agreement on their future relationship. There can be no assurance that an agreement with regard to future trade and co-operation will be reached prior to the end of the transition period.

Although we do not believe Brexit will have a direct material impact on our operations or materially impact our tax expense, the form of Brexit remains uncertain and may result in greater restrictions on imports and exports between the UK and EU countries, a fluctuation in currency exchange rates and additional regulatory complexity as well as further global economic uncertainty, all of which could have a material adverse effect on our business, financial condition and results of operations.

There has been a recent and significant increase in activity and speculation regarding tariffs and duties between the U.S. and its trading partners. We manufacture a significant percentage of our vehicles outside the U.S. (particularly in Canada, Mexico and Italy) for import into the U.S. We also manufacture vehicles in the U.S. that are exported to China. Tariffs or duties implemented between the U.S. and its trading partners could have a material adverse effect on our business, financial condition and results of operations. Tariffs or duties that directly impact our products could reduce consumer demand and/or make our products less profitable. In addition, a continued escalation in tariff or duty activity between the U.S. and its major trading partners could negatively impact global economic activity, which could in turn reduce demand for our products.

We may be unsuccessful in efforts to increase the growth of some of our brands that we believe have global appeal and reach, which could have material adverse effects on our business.

The volume growth and margin expansion strategies reflected in our business plan include the renewal of key products, the launch of white-space products, the implementation of various electrified powertrain applications and partnerships relating to the development of autonomous driving technologies. We have experienced challenges in expanding the product range and global sales of certain brands, in particular, Alfa Romeo. As a result, we have rationalized our product plans, which resulted in the recognition of impairment charges in the third quarter of 2019.

Our strategies have required and will continue to require significant investments in products, powertrains, production facilities and distribution networks. If we are unable to achieve our volume growth and margin expansion goals, we may be unable to earn a sufficient return on these investments which could have a material adverse effect on our business, financial condition and results of operations.

Our future performance depends on our ability to offer innovative, attractive products.

Our success depends on, among other things, our ability to develop innovative, high-quality products that are attractive to consumers and provide adequate profitability.

We may not be able to effectively compete with other automakers with regard to electrification, autonomous driving, mobility and other emerging trends in the industry. In certain cases, the technologies that we plan to employ are not yet commercially practical and depend on significant future technological advances by us, our partners and by suppliers. There can be no assurance that these advances will occur in a timely or feasible manner, that the funds we have budgeted or expended for these purposes will be adequate, or that we will be able to obtain rights to use these technologies. Further, our competitors and others are pursuing similar technologies and other competing technologies, and there can be no assurance that they will not acquire and implement similar or superior technologies sooner than we will or on an exclusive basis or at a significant cost advantage.

In addition, as a result of the extended product development cycle and inherent difficulty in predicting consumer acceptance, a vehicle that we believe will be attractive may not generate sales in sufficient quantities and at high enough prices to be profitable. It generally takes two years or more to design and develop a new vehicle, and a number of factors may lengthen that schedule. For example, if we determine that a safety or emissions defect, a mechanical defect or a non-compliance with regulation exists with respect to a vehicle model prior to retail launch, the launch of such vehicle could be delayed until we remedy the defect or non-compliance. Various elements may also contribute to consumers' acceptance of new vehicle designs, including competitors' product introductions, fuel prices, general economic conditions and changes in styling preferences. In addition, there can be no assurance that vehicles we develop in order to comply with government regulations, particularly those related to fuel efficiency, greenhouse gas and tailpipe emissions standards, will be attractive to consumers or will generate sales in sufficient quantities and at high enough prices to be profitable.

If we fail to develop products that contain desirable technologies and are attractive to and accepted by consumers, the residual value of our vehicles could be negatively impacted. In addition, the increasing pace of inclusion of new innovations and technologies in our and our competitors' vehicles could also negatively impact the residual value of our vehicles. A deterioration in residual value could increase the cost that consumers pay to lease our vehicles or increase the amount of subvention payments that we make to support our leasing programs.

The failure to develop and offer innovative, attractive and relevant products on a timely basis could have a material adverse effect on our business, financial condition and results of operations.

Our success largely depends on the ability of our management team to operate and manage effectively.

Our success largely depends on the ability of our senior executives and other members of management to effectively manage the Group and individual areas of the business. Our management team is critical to the execution of our strategic direction and implementation of our business plan.

We have developed succession plans that we believe are appropriate, although it is difficult to predict with any certainty that we will be able to replace these individuals with persons of equivalent experience and capabilities. If we are unable to find adequate replacements or to attract, retain and incentivize senior executives, other key employees or new qualified personnel, such inability could have a material adverse effect on our business, financial condition and results of operations.

Labor laws and collective bargaining agreements with our labor unions could impact our ability to increase the efficiency of our operations, and we may be subject to work stoppages in the event we are unable to agree on collective bargaining agreement terms or have other disagreements.

Unlike businesses operating in different industries and/or in different geographical regions, substantially all of our production employees are represented by trade unions, are covered by collective bargaining agreements and/or are protected by applicable labor relations regulations that may restrict our ability to modify operations and reduce personnel costs quickly in response to changes in market conditions and demand for our products. See *Overview of Our Business - Employees* for a description of these arrangements. These and other provisions in our collective bargaining agreements may impede our ability to restructure our business successfully to compete more effectively, especially with those automakers whose employees are not represented by trade unions or are subject to less stringent regulations, which could have a material adverse effect on our business, financial condition and results of operations. In addition, we may be subject to work stoppages in the event that we and our labor unions are unable to agree on collective bargaining agreement terms or have other disagreements. Any such work stoppage could have a material adverse effect on our business, financial condition and results of operations.

If we fail to accurately forecast demand for our vehicles, our profitability may be affected.

We have taken steps to improve efficiency in our manufacturing, supply chain and logistics processes. This includes producing certain vehicle models with specified features based on forecasted dealer orders, which we believe will allow us to more efficiently and cost effectively manage our supply chain. This practice may result in higher finished goods inventory in certain periods when we anticipate increased dealer orders. Further, while we are confident that our analytical tools should enable us to align production with dealer orders, if dealer orders do not meet our forecasts, our profitability on these vehicles may be affected.

Product recalls and warranty obligations may result in direct costs, and any resulting loss of vehicle sales could have material adverse effects on our business.

We, and the U.S. automotive industry in general, have experienced a sustained increase in recall activity to address performance, compliance or safety-related issues. For example, in November 2019, we voluntarily recalled more than 700,000 SUVs worldwide due to problems with an electrical connection that could result in a vehicle stall. Our costs to recall vehicles have been significant and typically include the cost of replacement parts and labor to remove and replace parts. These costs substantially depend on the nature of the remedy and the number of vehicles affected, and may arise many years after a vehicle's sale. Product recalls may also harm our reputation, force us to halt the sale of certain vehicles and cause consumers to question the safety or reliability of our products. Given the intense regulatory activity across the automotive industry, ongoing compliance costs are expected to remain high.

Any costs incurred, or lost vehicle sales, resulting from product recalls could materially adversely affect our financial condition and results of operations. Moreover, if we face consumer complaints, or we receive information from vehicle rating services that calls into question the safety or reliability of one of our vehicles and we do not issue a recall, or if we do not do so on a timely basis, our reputation may also be harmed and we may lose future vehicle sales. We are also obligated under the terms of our warranty agreements to make repairs or replace parts in our vehicles at our expense for a specified period of time. Therefore, any failure rate that exceeds our assumptions could have a material adverse effect on our business, financial condition and results of operations.

Our lack of a captive finance company in certain key markets could place us at a competitive disadvantage to other automakers that may be able to offer consumers and dealers financing and leasing on better terms than our consumers and dealers are able to obtain.

Our dealers enter into wholesale financing arrangements to purchase vehicles from us to hold in inventory and facilitate retail sales, and retail consumers use a variety of finance and lease programs to acquire vehicles.

Unlike many of our competitors, we do not currently own and operate a controlled finance company dedicated solely to our mass-market vehicle operations in the U.S. and certain key markets in Europe, Asia and South America. Instead we have elected to partner with specialized financial services providers through joint ventures and commercial agreements with third parties, including third party financial institutions, to provide financing to our dealers and retail consumers. Our lack of a controlled finance company in these key markets may increase the risk that our dealers and retail consumers will not have access to sufficient financing on acceptable terms which may adversely affect our vehicle sales in the future. Furthermore, many of our competitors are better able to implement financing programs designed to maximize vehicle sales in a manner that optimizes profitability for them and their finance companies on an aggregate basis. Since our ability to compete depends on access to appropriate sources of financing for dealers and retail consumers, our lack of a controlled finance company in those markets could have a material adverse effect on our business, financial condition and results of operations.

Any financial services provider, including our joint ventures and controlled finance companies, will also face other demands on its capital, including the need or desire to satisfy funding requirements for dealers or consumers of our competitors as well as liquidity issues relating to other investments. Furthermore, they may be subject to regulatory changes that may increase their costs, which may impair their ability to provide competitive financing products to our dealers and retail consumers.

To the extent that a financial services provider is unable or unwilling to provide sufficient financing at competitive rates to our dealers and retail consumers, such dealers and retail consumers may not have sufficient access to financing to purchase or lease our vehicles. As a result, our vehicle sales and market share may suffer, which could have a material adverse effect on our business, financial condition and results of operations.

A significant security breach compromising the electronic control systems contained in our vehicles could damage our reputation, disrupt our business and adversely impact our ability to compete.

Our vehicles, as well as vehicles manufactured by other original equipment manufacturers ("OEMs"), contain complex systems that control various vehicle processes including engine, transmission, safety, steering, brakes, window and door lock functions. These electronic control systems, which are increasingly connected to external cloud-based systems, are susceptible to cybercrime, including threats of intentional disruption and theft of personal information. These threats are also likely to increase in terms of sophistication and frequency as the level of connectivity and autonomy in our vehicles increases. A significant malfunction, disruption or security breach compromising the electronic control systems contained in our vehicles could damage our reputation, expose us to significant liability and could have a material adverse effect on our business, financial condition and results of operations.

A significant malfunction, disruption or security breach compromising the operation of our information technology systems could damage our reputation, disrupt our business and adversely impact our ability to compete.

Our ability to keep our business operating effectively depends on the functional and efficient operation of our information, data processing and telecommunications systems, including our vehicle design, manufacturing, inventory tracking and billing and payment systems. In addition, our vehicles are increasingly connected to external cloud-based systems. These systems are regularly the target of threats from third parties. A significant or large-scale malfunction or interruption of any one of our computer or data processing systems, including through the exploitation of a weakness in our systems or the systems of our vendors, could have a material adverse effect on our ability to manage and keep our manufacturing and other operations running effectively, and damage our reputation. A malfunction or security breach that results in a wide or sustained disruption to our business could have a material adverse effect on our business, financial condition and results of operations.

In addition to supporting our operations, we use our systems to collect and store confidential and sensitive data, including information about our business, our consumers and our employees. As our technology continues to evolve, we anticipate that we will collect and store even more data in the future and that our systems will increasingly use remote communication features that are sensitive to both willful and unintentional security breaches. Much of our value is derived from our confidential business information, including vehicle design, proprietary technology and trade secrets, and to the extent the confidentiality of such information is compromised, we may lose our competitive advantage and our vehicle shipments may suffer. We also collect, retain and use personal information, including data we gather from consumers for product development and marketing purposes, and data we obtain from employees. In the event of a breach in security that allows third parties access to this personal information, we are subject to a variety of ever-changing laws on a global basis that require us to provide notification to the data owners, and that subject us to lawsuits, fines and other means of regulatory enforcement.

For example, the General Data Protection Regulation (Regulation (EU) 2016/679) (the "GDPR") has increased the stringency of European Union data protection requirements and related penalties. Non-compliance with the GDPR can result in fines of the higher of €20 million or 4% of annual worldwide revenue. The requirements of the GDPR have necessitated changes to our existing business practices and systems in order to comply with the GDPR or to address the concerns of our customers or business partners. In addition, the California Consumer Privacy Act of 2018 became effective on January 1, 2020 and provides California residents with new data privacy rights. Several other U.S. states are also considering adopting laws and regulations imposing obligations regarding the handling of personal data. Complying with any new data protection-related regulatory requirements could force us to incur substantial expenses or require us to change our business practices in a manner that has a material adverse effect on our business, financial condition and results of operations.

Our reputation could also suffer in the event of a data breach, which could cause consumers to purchase their vehicles from our competitors. Ultimately, any significant compromise in the integrity of our data security could have a material adverse effect on our business, financial condition and results of operations.

There can be no assurance that we will be able to offset the earnings power lost from the sale of Magneti Marelli.
In October 2018, we announced that we had entered into a definitive agreement with CK Holdings Co., Ltd., a holding company of Calsonic Kansei Corporation, pursuant to which CK Holdings Co., Ltd. would acquire our automotive components business, Magneti Marelli. This transaction was completed in the second quarter of 2019 for consideration of €5.8 billion, subject to certain adjustments, and enabled the payment of an extraordinary dividend of €2 billion at closing.

If the improvement in our capital position resulting from the sale of Magneti Marelli is not sufficient to offset the related loss of revenue and earnings, we could experience a material adverse effect on our business, financial condition and results of operations.

Our reliance on joint arrangements in certain emerging markets may adversely affect the development of our business in those regions.
We intend to expand our presence in emerging markets, including China and India, through partnerships and joint ventures. For instance the GAC FCA JV locally produces the Jeep Cherokee, Jeep Renegade, Jeep Compass, Jeep Grand Commander and Jeep Commander PHEV for the Chinese market, expanding the portfolio of Jeep SUVs currently available to Chinese consumers. We also have a joint operation with TATA Motors Limited for the production of certain of our vehicles, engines and transmissions in India.

Our reliance on joint arrangements to enter or expand our presence in these markets may expose us to risk of conflict with our joint arrangement partners and the need to divert management resources to oversee these arrangements. Further, as these arrangements require cooperation with third party partners, these joint arrangements may not be able to make decisions as quickly as we would if we were operating on our own or may take actions that are different from what we would do on a standalone basis in light of the need to consider our partners' interests. As a result, we may be less able to respond timely to changes in market dynamics, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Industry in which we Operate

The automotive industry is highly competitive and cyclical and we may suffer from those factors more than some of our competitors.

Substantially all of our revenues are generated in the automotive industry, which is highly competitive, encompassing the production and distribution of passenger cars, light commercial vehicles and components and production systems. We face competition from other international passenger car and light commercial vehicle manufacturers and distributors and components suppliers in Europe, North America, Latin America and the Asia Pacific region. These markets are all highly competitive in terms of product quality, innovation, the introduction of new technologies, pricing, fuel economy, reliability, safety, consumer service and financial services offered. Many of our competitors are also better capitalized than us and command larger market shares, which may enable them to compete more effectively in these markets.

If our competitors are able to successfully integrate with one another and we are not able to adapt effectively to increased competition, our competitors' integration could have a material adverse effect on our business, financial condition and results of operations.

In the automotive business, sales to consumers are cyclical and subject to changes in the general condition of the economy, the readiness of consumers to buy and their ability to obtain financing, as well as the possible introduction of measures by governments to stimulate demand, particularly related to new technologies that we have not yet included in our vehicles (for example, technologies related to compliance with evolving emissions regulations). The automotive industry is also subject to the constant renewal of product offerings through frequent launches of new models and the incorporation of new technologies in those models. A negative trend in the automotive industry or our inability to adapt effectively to external market conditions coupled with more limited capital than many of our principal competitors could have a material adverse effect on our business, financial condition and results of operations.

Additionally, global vehicle production capacity exceeds current demand. In the event that industry shipments decrease and overcapacity intensifies, our competitors may attempt to make their vehicles more attractive or less expensive to consumers by adding vehicle enhancements, providing subsidized financing or leasing programs, or by reducing vehicle prices whether directly or by offering option package discounts, price rebates or other sales incentives in certain markets. Manufacturers in countries that have lower production costs may also choose to export lower-cost automobiles to more established markets. An increase in these actions could have a material adverse effect on our business, financial condition and results of operations.

Vehicle retail sales depend heavily on affordable interest rates for vehicle financing and a substantial increase in interest rates could adversely affect our business.

In certain regions, including North America, financing for new vehicle sales has been available at relatively low interest rates for several years due to, among other things, expansive government monetary policies. As interest rates rise, generally market rates for new vehicle financing are expected to rise as well, which may make our vehicles less affordable to retail consumers or steer consumers to less expensive vehicles that tend to be less profitable for us, adversely affecting our financial condition and results of operations. Additionally, if consumer interest rates increase substantially or if financial service providers tighten lending standards or restrict their lending to certain classes of credit, consumers may not desire to or be able to obtain financing to purchase or lease our vehicles. Furthermore, because purchasers of our vehicles may be relatively more sensitive to changes in the availability and adequacy of financing and macroeconomic conditions, our vehicle sales may be disproportionately affected by changes in financing conditions relative to the vehicle sales of our competitors. As a result, a substantial increase in consumer interest rates or tightening of lending standards could have a material adverse effect on our business, financial condition and results of operations.

We face risks associated with increases in costs, disruptions of supply or shortages of raw materials, parts, components and systems used in our vehicles.

We use a variety of raw materials in our business including steel, aluminum, lead, resin and copper, and precious metals such as platinum, palladium and rhodium, as well as energy. Also, as we begin to implement various electrified powertrain applications throughout our portfolio in accordance with our business plan, we will also depend on a significant supply of lithium, nickel and cobalt, which are used in lithium-ion batteries. The prices for these raw materials fluctuate, and market conditions can affect our ability to manage our Cost of revenues. In particular, as production of electric vehicles increases, we may face shortages of raw materials and lithium cells and prices may increase. We may not be successful in managing our exposure to these risks. Substantial increases in the prices for raw materials would increase our operating costs and could reduce profitability if the increased costs cannot be offset by higher vehicle prices or productivity gains. In particular, certain raw materials are sourced from a limited number of suppliers and from a limited number of countries, particularly those needed in catalytic converters and lithium-ion batteries. From time to time these may be susceptible to supply shortages or disruptions. We cannot guarantee that we will be able to maintain arrangements with suppliers that assure access to these raw materials at reasonable prices.

As with raw materials, we are also at risk for price fluctuations, supply disruption and shortages in parts and components for use in our vehicles for many reasons including, but not limited to, supplier disputes, particularly with regard to warranty recovery claims, supplier financial distress, tight credit markets, trade restrictions, tariffs, natural or man-made disasters, epidemics or pandemics of diseases, or production difficulties. With respect to the impact of the current outbreak of coronavirus, see " -- *Our businesses may be adversely affected by global financial markets, general economic conditions, pandemics, changes to and enforcement of government incentive programs as well as other macro developments over which we have little or no control."* Fluctuations in the price of parts and components can affect our costs and profitability in the manner described above with respect to raw materials. We will continue to work with suppliers to monitor potential disruptions and shortages and to mitigate the effects of any emerging shortages on our production volumes and revenues. However, there can be no assurances that these events will not have an adverse effect on our production in the future, and any such effect may be material. Further, there can be no assurance that trade restrictions and tariffs will not be imposed, and if imposed, tariffs and other trade restrictions may make the cost of required raw materials more expensive or delay or limit our access to these raw materials, each of which could have a material adverse effect on our business, financial condition and results of operations.

Any interruption in the supply or any increase in the cost of raw materials, parts, components and systems could negatively impact our ability to achieve our vehicle shipment objectives and profitability. The potential impact of an interruption is particularly high in instances where a part or component is sourced exclusively from a single supplier. Long-term interruptions in supply of raw materials, parts, components and systems may result in a material impact on vehicle production, vehicle shipment objectives, and profitability. Cost increases which cannot be recouped through increases in vehicle prices, or countered by productivity gains, could have a material adverse effect on our business, financial condition and results of operations. This risk can increase at points of economic uncertainty such as what has been experienced in LATAM as a result of economic deterioration in Argentina.

We are subject to risks associated with exchange rate fluctuations, interest rate changes and credit risk.

We operate in numerous markets worldwide and are exposed to risks stemming from fluctuations in currency and interest rates. The exposure to currency risk is mainly linked to the differences in geographic distribution of our manufacturing activities and commercial activities, resulting in cash flows from sales being denominated in currencies different from those connected to purchases or production activities. Additionally, a significant portion of our operating cash flow is generated in U.S. Dollars and, although we have significant U.S. Dollar-denominated debt, the majority of our indebtedness is denominated in Euro and Brazilian Real.

We use various forms of financing to cover funding requirements for our industrial activities and for providing financing to our dealers and consumers. Moreover, liquidity for industrial activities is also principally invested in variable-rate or short-term financial instruments. Our financial services businesses normally operate a matching policy to offset the impact of differences in rates of interest on the financed portfolio and related liabilities. Nevertheless, changes in interest rates can affect our Net revenues, finance costs and margins.

In addition, although we manage risks associated with fluctuations in currency and interest rates through financial hedging instruments, fluctuations in currency or interest rates could have a material adverse effect on our business, financial condition and results of operations.

Our financial services activities are also subject to the risk of insolvency of dealers and retail consumers. Despite our efforts to mitigate such risks through the credit approval policies applied to dealers and retail consumers, there can be no assurances that we will be able to successfully mitigate such risks.

Risks Related to the Legal and Regulatory Environment in which we Operate

Current and future more stringent or incremental laws, regulations and governmental policies, including those regarding increased fuel efficiency requirements and reduced greenhouse gas and tailpipe emissions, have a significant effect on how we do business and may increase our cost of compliance and negatively affect our operations and results.
As we seek to comply with government regulations, particularly those related to fuel efficiency, vehicle safety and greenhouse gas and tailpipe emissions standards, we must devote significant financial and management resources, as well as vehicle engineering and design attention, to these legal requirements. We expect the number and scope of these regulatory requirements, along with the costs associated with compliance, to increase significantly in the future, and these costs could be difficult to pass through to consumers, particularly if the acceptance rate for such vehicles is low. For a further discussion of the regulations we are subject to, see *Environmental and Other Regulatory Matters*.

For example, EU regulations governing passenger car and LCV fleet average CO_2 emissions become significantly more stringent in 2020 and provide for material penalties if targets are exceeded. In addition, the U.S. federal government has challenged the jurisdiction of U.S. states such as California to impose their own environmental regulatory requirements on the vehicles that we sell, resulting in uncertainty regarding the applicability of these regulations. Uncertainty regarding these regulations may increase our costs of compliance.

We remain subject to diesel emissions investigations by several governmental agencies and to a number of related private lawsuits, as well as other claims and lawsuits which may lead to further enforcement actions, penalties or damage awards and may also adversely affect our reputation with consumers.
On January 10, 2019, we announced that FCA US reached final settlements on civil environmental and consumer claims with the U.S. Environmental Protection Agency ("EPA"), U.S. Department of Justice, the California Air Resources Board, the State of California, 49 other States and U.S. Customs and Border Protection, for which €748 million was accrued during the year ended December 31, 2018. Approximately €350 million of the accrual related to civil penalties to resolve differences over diesel emissions requirements. A portion of the accrual was attributable to settlement of a putative class action on behalf of consumers in connection with which FCA US agreed to pay an average $2,800 per vehicle for each eligible customer affected by the recall. We continue to defend individual claims from approximately 3,200 consumers that have exercised their right to opt out of the class action settlement and pursue their own individual claims against us (the "Opt-Out Litigation"). We have engaged in further discovery in the Opt-Out Litigation and participated in court-sponsored settlement conferences, but have reached settlement agreements with only a very small number of these remaining plaintiffs.

In the U.S., we remain subject to diesel emissions-related investigations by the U.S. Securities and Exchange Commission and the U.S. Department of Justice, Criminal Division. In September 2019, the U.S. Department of Justice filed criminal charges against an employee of FCA US for, among other things, fraud, conspiracy, false statements and violations of the Clean Air Act primarily in connection with efforts to obtain regulatory approval of the vehicles that were the subject of the civil settlements described above. We continue to cooperate with these investigations and present FCA's positions on concerns raised by these governmental authorities. We may also engage in discussions in an effort to reach an appropriate resolution of these investigations. We are also subject to a number of related private lawsuits.

We have also received inquiries from other regulatory authorities in a number of jurisdictions as they examine the on-road tailpipe emissions of several automakers' vehicles and, when jurisdictionally appropriate, we continue to cooperate with these governmental agencies and authorities.

In Europe, we have been working with the Italian Ministry of Transport ("MIT") and the Dutch Vehicle Regulator ("RDW"), the authorities that certified FCA diesel vehicles for sale in the European Union, and the UK Driver and Vehicle Standards Agency in connection with their review of several of our vehicles.

We also initially responded to inquiries from the German authority, the Kraftfahrt-Bundesamt ("KBA"), regarding emissions test results for our vehicles, and we discussed the KBA reported test results, our emission control calibrations and the features of the vehicles in question. After these initial discussions, the MIT, which has sole authority for regulatory compliance of the vehicles it has certified, asserted its exclusive jurisdiction over the matters raised by the KBA, tested the vehicles, determined that the vehicles complied with applicable European regulations and informed the KBA of its determination. Thereafter, mediations have been held under EC rules, between the MIT and the German Ministry of Transport and Digital Infrastructure, which oversees the KBA, in an effort to resolve their differences. The mediation was concluded with no action being taken with respect to FCA. In May 2017, the EC announced its intention to open an infringement procedure against Italy regarding Italy's alleged failure to respond to EC's concerns regarding certain FCA emission control calibrations. The MIT has responded to the EC's allegations by confirming that the vehicles' approval process was properly performed.

In December 2019, the MIT notified us that the Dutch Ministry of Infrastructure and Water Management ("I&W") had been communicating with the MIT regarding certain irregularities allegedly found by the RDW and the Dutch Center of Research TNO in the emission levels of certain Jeep Grand Cherokee Euro 5 models and a vehicle model of another OEM that contains a Euro 6 diesel engine supplied by us. In January 2020, the Dutch Parliament published a letter from the I&W summarizing the conclusions of the RDW regarding those vehicles and engines and indicating an intention to order a recall and report their findings to the Public Prosecutor, the EC and other Member States. We are in the process of providing a response to the MIT and engaging with the RDW to present our positions and cooperate to reach an appropriate resolution of this matter. In addition, at the request of the French Consumer Protection Agency, the Juge d'Instruction du Tribunal de Grande Instance of Paris is investigating diesel vehicles of a number of automakers including FCA, regarding whether the sale of those vehicles violated French consumer protection laws.

In December 2018, the Korean Ministry of Environment ("MOE") announced its determination that approximately 2,400 FCA vehicles imported into Korea during 2015, 2016 and 2017 were not emissions compliant and that the vehicles with a subsequent update of the emission control calibrations voluntarily performed by FCA, although compliant, would have required re-homologation of the vehicles concerned. In May 2019, the MOE revoked certification of the above-referenced vehicles and announced an administrative fine for an amount not material to the Group. We have appealed the MOE's decision. Our subsidiary in Seoul, Korea is also cooperating with local criminal authorities in connection with their review of this matter and with the Korean Fair Trade Commission regarding a purported breach of the Act on Fair Labeling and Advertisement in connection with the subject vehicles.

The results of the unresolved governmental inquiries and private litigation cannot be predicted at this time and these inquiries and litigation may lead to further enforcement actions, penalties or damage awards, any of which may have a material adverse effect on our business, financial condition and results of operations. It is also possible that these matters and their ultimate resolution may adversely affect our reputation with consumers, which may negatively impact demand for our vehicles and consequently could have a material adverse effect on our business, financial condition and results of operations.

Our business operations and reputation may be impacted by various types of claims, lawsuits, and other contingencies.
We are involved in various disputes, claims, lawsuits, investigations and other legal proceedings relating to several matters, including product liability, warranty, vehicle safety, emissions and fuel economy, product performance, asbestos, personal injury, dealers, suppliers and other contractual relationships, alleged violations of law, environment, securities, labor, antitrust, intellectual property, tax and other matters. We estimate such potential claims and contingent liabilities and, where appropriate, record provisions to address these contingent liabilities. The ultimate outcome of the legal proceedings pending against us is uncertain, and such proceedings could have a material adverse effect on our financial condition or results of operations. Furthermore, additional facts may come to light or we could, in the future, be subject to judgments or enter into settlements of lawsuits and claims that could have a material adverse effect on our business, financial condition and results of operations. While we maintain insurance coverage with respect to certain claims, not all claims or potential losses can be covered by insurance, and even if claims could be covered by insurance, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against any such claims. See also Note 20, *Provisions*, and Note 25, *Guarantees granted, commitments and contingent liabilities*, within the Consolidated Financial Statements included elsewhere in this report for additional information. Further, publicity regarding such investigations and lawsuits, whether or not they have merit, may adversely affect our reputation and the perception of our vehicles with retail customers, which may adversely affect demand for our vehicles, and have a material adverse effect on our business, financial condition and results of operations.

For example, in November 2019, General Motors LLC and General Motors Company (collectively, "GM") filed a lawsuit in the U.S. District Court for the Eastern District of Michigan against FCA US, FCA NV and certain individuals, claiming violations of the Racketeer Influenced and Corrupt Organizations (RICO) Act, unfair competition and civil conspiracy in connection with allegations that FCA US paid bribes to UAW officials that corrupted the bargaining process with the UAW and as a result FCA US enjoyed unfair labor costs and operational advantages that caused harm to GM. GM also claimed that FCA US had made concessions to the UAW in collective bargaining that the UAW was then able to extract from GM through pattern bargaining which increased costs to GM in an effort to force a merger between GM and FCA NV. We are defending vigorously against this action and we have filed a motion to dismiss all claims.

In addition, we and other Brazilian taxpayers have significant disputes with the Brazilian tax authorities regarding the application of Brazilian tax law. We believe that it is more likely than not that there will be no significant impact from these disputes. However, given the current economic conditions and uncertainty in Brazil, new tax laws or more significant changes such as tax reform, may be introduced and enacted. Changes to the application of existing tax laws may also occur or the realization of accumulated tax benefits may be limited, delayed or denied. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

For additional risks regarding certain proceedings, see "*We remain subject to diesel emissions investigations by several governmental agencies and to a number of related private lawsuits, as well as other claims and lawsuits.*"

We may not be able to adequately protect our intellectual property rights, which may harm our business.
Our success depends, in part, on our ability to protect our intellectual property rights. If we fail to protect our intellectual property rights, others may be able to compete against us using intellectual property that is the same as or similar to our own. In addition, there can be no guarantee that our intellectual property rights are sufficient to provide us with a competitive advantage against others who offer products similar to ours. For example, another OEM has been producing a vehicle closely resembling one of our Jeep models for sale in the U.S. We have brought proceedings to stop these practices and while the court's initial ruling has been in our favor, we cannot be certain of the proceeding's final outcome. More generally, despite our efforts, we may be unable to prevent third parties from infringing our intellectual property and using our technology for their competitive advantage. Any such infringement could have a material adverse effect on our business, financial condition and results of operations.

The laws of some countries in which we operate do not offer the same protection of our intellectual property rights as do the laws of the U.S. or Europe. In addition, effective intellectual property enforcement may be unavailable or limited in certain countries, making it difficult for us to protect our intellectual property from misuse or infringement there. Our inability to protect our intellectual property rights in some countries could have a material adverse effect on our business, financial condition and results of operations.

It may be difficult to enforce U.S. judgments against us.

We are incorporated under the laws of the Netherlands, and a substantial portion of our assets are outside of the U.S. Most of our directors and senior management and our independent auditors are resident outside the U.S., and all or a substantial portion of their respective assets may be located outside the U.S. As a result, it may be difficult for U.S. investors to effect service of process within the U.S. upon these persons. It may also be difficult for U.S. investors to enforce within the U.S. judgments predicated upon the civil liability provisions of the securities laws of the U.S. or any state thereof. In addition, there is uncertainty as to whether the courts outside the U.S. would recognize or enforce judgments of U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the securities laws of the U.S. or any state thereof. Therefore, it may be difficult to enforce U.S. judgments against us, our directors and officers and our independent auditors.

We operate so as to be treated as exclusively resident in the UK for tax purposes, but the relevant tax authorities may treat us as also being tax resident elsewhere.

We are not a company incorporated in the UK. Therefore, whether we are resident in the UK for tax purposes depends on whether our “central management and control” is located (in whole or in part) in the UK. The test of “central management and control” is largely a question of fact and degree based on all the circumstances, rather than a question of law. Nevertheless, the decisions of the UK courts and the published practice of Her Majesty’s Revenue & Customs (“HMRC”), suggest that we, a group holding company, are likely to be regarded as having become UK resident on this basis from incorporation and remaining so if, as we intend, (i) at least half of the meetings of our Board of Directors are held in the UK with a majority of directors present in the UK for those meetings; (ii) at those meetings there are full discussions of, and decisions are made regarding, the key strategic issues affecting us and our subsidiaries; (iii) those meetings are properly minuted; (iv) at least some of our directors, together with supporting staff, are based in the UK; and (v) we have permanent staffed office premises in the UK. Although it has been accepted by HMRC that our “central management and control” is in the UK, we would nevertheless not be treated as UK-resident if (a) we were concurrently resident in another jurisdiction (applying the tax residence rules of that jurisdiction) that has a double tax treaty with the UK and (b) there were a tie-breaker provision in that tax treaty which allocated exclusive residence to that other jurisdiction. Our residence for Italian tax purposes is largely a question of fact based on all circumstances. We set up and we have thus far maintained, and intend to continue to maintain, our management and organizational structure in such a manner that we should not be regarded as an Italian tax resident either for Italian domestic law purposes or for the purposes of the Italy-UK tax treaty and should be deemed resident in the UK from our incorporation for the purposes of the Italy-UK tax treaty. Because this analysis is highly factual and may depend on future changes in our management and organizational structure, there can be no assurance regarding the final determination of our tax residence. Should we be treated as an Italian tax resident, we would be subject to taxation in Italy on our worldwide income and may be required to comply with withholding tax and/or reporting obligations provided under Italian tax law, which could result in additional costs and expenses.

Although it has been accepted that our “central management and control” is in the UK, we are considered to be resident in the Netherlands for Dutch corporate income tax and Dutch dividend withholding tax purposes on the basis that we are incorporated there. Nonetheless, we can be regarded as solely resident in either the UK or the Netherlands under the Netherlands-UK tax treaty if the UK and Dutch competent authorities agree that this is the case. We have received a ruling from the UK and Dutch competent authorities that we should be treated as resident solely in the UK for the purposes of the treaty. If there is a change over time to the facts upon which this ruling issued by the competent authorities is based, the ruling may be withdrawn or cease to apply.

We do not expect Brexit to affect our tax residency in the UK; however, we are unable to predict with certainty whether the discussion to implement the UK’s exit from the EU will ultimately have any impact on this matter.

Risks Related to the FCA-PSA Merger

The exchange ratio will not be adjusted for changes in the value of our common shares or PSA ordinary shares or for developments in our business or the business of PSA before the merger is completed.

Upon the consummation of the merger, PSA shareholders will be entitled to receive 1.742 common shares of the combined company for each PSA ordinary share that they own. This exchange ratio will not be adjusted for changes in the value of our common shares or the value of PSA ordinary shares, or for changes in the relative value of our business or the business of PSA between the date of the combination agreement and the date of the closing of the merger. Share price changes may result from a variety of factors that are beyond our control, including changes in our or PSA's respective businesses, operations or prospects, regulatory considerations, legal proceedings or in the general business, market, industry or economic conditions. Market assessments of the benefits of the merger and of the likelihood that the merger will be completed, and related arbitrage activities, may also have an effect on share prices. If the value of our common shares relative to the value of PSA ordinary shares increases or decreases (or the value of our business increases or decreases relative to the value of the PSA business) prior to the effectiveness of the merger, the market value of the combined company's common shares that shareholders will hold following the merger may be higher or lower than the relative values of their shares on a standalone basis at the date of the combination agreement or the date of this document.

The merger is subject to receipt of antitrust approvals from several competition authorities and the expiration of the applicable waiting period under the Hart Scott Rodino Act (the "HSR Act"). As a condition to obtaining the required antitrust approvals, the relevant regulatory authorities may impose conditions that could have an adverse effect on the combined company or, if such approvals are not obtained, could prevent the consummation of the merger.

Before the merger may be completed, any waiting period (or extension thereof) applicable to the merger must have expired or been terminated, and any competition approvals, consents or clearances required in connection with the merger must have been received, in each case, under the applicable antitrust laws of the EU, under the HSR Act, and under the competition laws of the Federative Republic of Brazil, the Republic of Chile, the United States of Mexico, the People's Republic of China, Japan, the Republic of India, the Republic of South Africa, People's Democratic Republic of Algeria, the Kingdom of Morocco, Israel, the Swiss Confederation, Ukraine, the Russian Federation, the Republic of Serbia, the Republic of Turkey, and, potentially, the Argentine Republic. The consummation of the merger might be delayed due to the time required to fulfill the requests for information by the relevant regulatory authorities. The terms and conditions of any antitrust approvals, consents and clearances that are ultimately granted may impose conditions, terms, obligations or restrictions on the conduct of the combined company's business.

We and PSA are obligated under the combination agreement to take all actions necessary to consummate the merger as soon as reasonably practicable, including the relevant competition approvals and to undertake and comply with such commitments as the regulatory authorities may require as a condition for such competition approvals. As an exception to the foregoing, neither we nor PSA are required to nor may, without the consent of the other party, undertake or comply with any commitments or take any action (i) if any such commitment or action, individually or in the aggregate, would, or would reasonably be expected to, result in a substantial detriment to the combined company or (ii) unless any such commitment or action is conditioned upon the consummation of the merger.

Regulatory authorities may impose conditions, and any such conditions may have the effect of delaying the consummation of the merger or imposing additional material costs on, or materially limiting, the revenues of the combined company following the consummation of the merger. In addition, any such conditions may result in the delay or abandonment of the merger. We and PSA may each terminate the combination agreement if the merger has not been completed by June 30, 2021 as a result of a failure to obtain the required approvals from the applicable antitrust regulatory authorities.

Failure to timely complete the merger could negatively affect our business plans and operations and share price.
The obligation of FCA and PSA to effect the merger is subject to various closing conditions, some of which are beyond our control and the control of PSA and any of which may prevent, delay or otherwise materially adversely affect the consummation of the merger. The consummation of the merger is conditioned upon, among other conditions, (i) the approval of the merger by our shareholders and by the PSA shareholders; (ii) the approval from the NYSE, the Euronext Paris and the MTA for listing of the combined company's common shares; (iii) the effectiveness of our registration statement on Form F-4; (iv) the receipt of the required approvals from antitrust authorities; (v) the receipt of any consents necessary to be obtained in order to consummate the merger; (vi) the receipt of ECB clearance; and (vii) the absence of injunctions or restraints of any governmental entity that prohibit or make illegal the consummation of the merger, but only to the extent that any failure to comply with such prohibition would reasonably be expected to result in a substantial detriment to the combined company. We cannot provide any assurance as to when these conditions will be satisfied or waived, if at all, or that other events will not intervene to delay or result in the failure to complete the merger. Any delay in completing the merger could prevent or delay the combined company from realizing some or all of the anticipated cost savings, synergies, growth opportunities and other benefits that we expect to achieve if the merger is successfully completed within the expected time frame.

The market price of our common shares currently, and in the period prior to termination, if the combination agreement were to be terminated, may reflect a market assumption that the merger will occur. If the merger is not completed for any reason, including as a result of our shareholders and PSA's shareholders failing to approve the merger, our business, cash flows, financial condition or results of operations may be materially adversely affected. Without realizing any of the anticipated benefits of completing the merger, we would be subject to a number of risks, including:

- we may experience negative reactions from the financial markets, including a decline of our share price;
- we may experience negative reactions from our customers, suppliers, regulators and employees and other stakeholders; and
- we may be adversely affected by the substantial commitments of time and resources undertaken by our management team in connection with the merger, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to our business had the merger not been contemplated.

The combined company may fail to realize some or all of the anticipated benefits of the merger, which could adversely affect the value of the shares of the combined company.
FCA and PSA currently operate, and up to the closing of the merger will continue to operate, independently as separate companies. The success of the merger will depend, in part, on the combined company's ability to realize the anticipated cost savings, synergies, growth opportunities and other benefits from combining the businesses. The achievement of the anticipated benefits of the merger is subject to a number of uncertainties, including general competitive factors in the marketplace and whether we are able to integrate our business with PSA's business in an efficient and effective manner and establish and implement effective operational principles and procedures. Failure to achieve these anticipated benefits could result in increased costs, decreases in the revenues of the combined company and diversion of management's time and energy, and could materially impact the combined company's business, cash flows, financial condition or results of operations. If the combined company is not able to successfully achieve these objectives, the anticipated cost savings, synergies, growth opportunities and other benefits that we expect to achieve as a result of the merger may not be realized fully, or at all, or may take longer than expected to realize.

The combined company will have to devote significant management attention and resources to integrating the business practices and our operations and the operations of PSA. Potential difficulties that the combined company may encounter as part of the integration process include complexities associated with managing the business of the combined company, such as difficulty integrating manufacturing processes, systems and technology, in a seamless manner, as well as integrating the workforces of the two companies. In addition, the integration of our business and PSA's business may result in additional and unforeseen expenses, capital investments and financial risks, such as the incurrence of unexpected write-offs, the possible effect of adverse tax treatments and unanticipated or unknown liabilities relating to PSA or the merger. All of these factors could decrease or delay the expected accretive effect of the merger.

It is possible that the integration process could take longer or be more costly than anticipated or could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of the combined company to maintain relationships with suppliers, customers and employees, to achieve the anticipated benefits of the merger or maintain quality standards. An inability to realize the full extent of, or any of, the anticipated benefits of the merger, as well as any delays encountered in the integration process, could have an adverse effect on the combined company's business, cash flows, financial condition or results of operations, which may affect the value of the combined company shares following the consummation of the merger.

The announcement and pendency of the merger could adversely affect our business, cash flows, financial condition or results of operations.

The announcement and pendency of the merger could cause disruptions in and create uncertainty surrounding our business, including with respect to our relationships with existing and future customers, suppliers and employees, which could have an adverse effect on our business, cash flows, financial condition or results of operations, irrespective of whether the merger is completed. Our business relationships may be subject to disruption as customers, suppliers and other persons with whom we have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationships with us or consider entering into business relationships with parties other than us or the combined company. The risk, and adverse effect, of any such disruptions could be exacerbated by a delay in the consummation of the merger.

We will incur significant transaction costs in connection with the merger and, if the merger is consummated, the combined company will incur significant integration costs.

We have incurred, and expect to continue to incur, significant costs in connection with the merger, including the fees of our professional advisors. We may also incur unanticipated costs associated with the transaction and the listings on the NYSE, the Euronext Paris and the MTA of the combined company's common shares as required in connection with the merger, and these unanticipated costs may have an adverse impact on the results of operations of the combined company following the effectiveness of the merger. In addition, if the merger is consummated, the combined company will incur significant integration costs following the consummation of the merger. We cannot provide assurance that the realization of efficiencies related to the integration of our business with the business of PSA will offset the incremental transaction and integration costs in the near term, if at all.

Uncertainties associated with the merger may cause a loss of management personnel or other key employees which could adversely affect the future business and operations of the combined company.

We depend on the experience and industry knowledge of our officers and other key employees to execute our business plan. The combined company's success after the consummation of the merger will also depend, in part, upon the ability of the combined company to attract and retain key management personnel and other key employees. Current employees may experience uncertainty about their roles within the combined company following the consummation of the merger, which may have an adverse effect on our ability to retain key management and other key personnel.

While the merger is pending, we are subject to restrictions on our business activities.

Under the combination agreement, we are subject to certain restrictions on the conduct of our business and generally must operate in the ordinary course and consistent with past practice (subject to certain exceptions agreed between FCA and PSA in the combination agreement), which may restrict our ability to carry out certain business strategies. These restrictions may prevent us from pursuing otherwise attractive business opportunities, making certain investments or acquisitions, selling assets, engaging in capital expenditures in excess of certain agreed limits, incurring certain indebtedness or making changes to our business prior to the completion of the merger or termination of the combination agreement, as applicable. These restrictions could have an adverse effect on our business, cash flows, financial condition, results of operations or share price.

Certain of our directors and executive officers have benefit arrangements and other interests that may result in their interests in the merger being different from those of other shareholders.
Some of our directors who recommend that shareholders vote in favor of the merger and the transactions contemplated thereby, as well as some of our executive officers, have benefit arrangements that provide them with interests in the merger that may be different from those of our shareholders generally. The receipt of compensation or other benefits in connection with the merger may influence these persons in making their recommendation that shareholders vote in favor of approval of the merger and the transactions contemplated thereby.

We may not have discovered certain liabilities or other matters related to PSA, which may adversely affect the future financial performance of the combined company.
In the course of the due diligence review that we conducted prior to the execution of the combination agreement, we may not have discovered, or may have been unable to properly quantify, issues relating to PSA which may lead the combined company to write-down or write-off assets or incur impairment or other charges that could result in losses that may be significant. In addition, even if the due diligence review we conducted successfully identified certain risks, unexpected risks may arise and previously known risks may materialize in a manner not consistent with our preliminary risk analysis. Our shareholders would not be compensated for any such losses.

Resales of the combined company's common shares following the merger may cause the market value of the combined company's common shares to decline.
Several reference shareholders of the combined company will be subject to restrictions on share sales for a three year period following the merger, but will be free to sell once those restrictions expire. All other shareholders, which will own the majority of the combined company common shares following the merger, are not subject to any resale restrictions. The resale of such shares in the public market from time to time or the perception that such resales may occur could have the effect of depressing the market value for the combined company's common shares.

Risks Related to Our Liquidity and Existing Indebtedness

Limitations on our liquidity and access to funding, as well as our significant outstanding indebtedness, may limit our financial and operating flexibility and our ability to execute our business strategies, obtain additional funding on competitive terms and improve our financial condition and results of operations.
Our performance depends on, among other things, our ability to finance debt repayment obligations and planned investments from operating cash flow, available liquidity, the renewal or refinancing of existing bank loans and/or facilities and possible access to capital markets or other sources of financing. We substantially completed the de-leveraging of our balance sheet in 2018, however the extent of our indebtedness may still have important consequences on our operations and financial results, including:

- we may not be able to secure additional funds for working capital, capital expenditures, debt service requirements or general corporate purposes;
- we may need to use a portion of our projected future cash flow from operations to pay principal and interest on our indebtedness, which may reduce the amount of funds available to us for other purposes, including product development;
- we are generally more financially leveraged than our competitors, which may put us at a competitive disadvantage; and
- we may not be able to adjust rapidly to changing market conditions, which may make us more vulnerable to a downturn in general economic conditions or our business.

Although we have measures in place that are designed to ensure adequate liquidity levels, our liquidity is subject to significant potential absorption if our vehicle shipments decline materially as we operate with negative working capital. For a discussion of these factors, see *FINANCIAL OVERVIEW-Liquidity and Capital Resources*. In addition, the majority of our credit ratings are below investment grade and any deterioration may significantly affect our funding and prospects.

We could, therefore, find ourselves in the position of having to seek additional financing and/or having to refinance existing debt, including in unfavorable market conditions, with limited availability of funding and a general increase in funding costs. Any limitations on our liquidity, due to a decrease in vehicle shipments, the amount of or restrictions in our existing indebtedness, conditions in the credit markets, general economic conditions or otherwise, may adversely impact our ability to execute our business strategies and impair our financial condition and results of operations. In addition, any actual or perceived limitations of our liquidity may limit the ability or willingness of counterparties, including dealers, consumers, suppliers, lenders and financial service providers, to do business with us, which could have a material adverse effect on our business, financial condition and results of operations.

We may be exposed to shortfalls in our pension plans.

Certain of our defined benefit pension plans are currently underfunded. As of December 31, 2019, our defined benefit pension plans were underfunded by approximately €4.3 billion and may be subject to significant minimum contributions in future years. Our pension funding obligations may increase significantly if the investment performance of plan assets does not keep pace with benefit payment obligations. Mandatory funding obligations may increase because of lower than anticipated returns on plan assets, whether as a result of overall weak market performance or particular investment decisions, changes in the level of interest rates used to determine required funding levels, changes in the level of benefits provided for by the plans, or any changes in applicable law related to funding requirements. Our defined benefit plans currently hold significant investments in equity and fixed income securities, as well as investments in less liquid instruments such as private equity, real estate and certain hedge funds. Due to the complexity and magnitude of certain investments, additional risks may exist, including the effects of significant changes in investment policy, insufficient market capacity to complete a particular investment strategy and an inherent divergence in objectives between the ability to manage risk in the short term and the ability to quickly re-balance illiquid and long-term investments.

To determine the appropriate level of funding and contributions to our defined benefit plans, as well as the investment strategy for the plans, we are required to make various assumptions, including an expected rate of return on plan assets and a discount rate used to measure the obligations under defined benefit pension plans. Interest rate increases generally will result in a decline in the value of investments in fixed income securities and the present value of the obligations. Conversely, interest rate decreases will generally increase the value of investments in fixed income securities and the present value of the obligations. See Note *2, Basis of preparation-Significant accounting policies—Employee benefits* within the Consolidated Financial Statements included elsewhere in this report.

Any reduction in the discount rate or the value of plan assets, or any increase in the present value of obligations, may increase our pension expenses and required contributions and, as a result, could constrain liquidity and materially adversely affect our financial condition and results of operations. If we fail to make required minimum funding contributions, we could be subject to reportable event disclosure to the U.S. Pension Benefit Guaranty Corporation, as well as interest and excise taxes calculated based upon the amount of any funding deficiency.

Risks Related to our Common Shares

Our maintenance of multiple exchange listings may adversely affect liquidity in the market for our common shares and could result in pricing differentials of our common shares between the exchanges.

Our common shares are listed and traded on both the New York Stock Exchange and the *Mercato Telematico Azionario* operated by *Borsa Italiana*. The dual listing of our common shares may split trading between the two markets and may result in limited trading liquidity of the shares in one or both markets, which may adversely affect the development of an active trading market for our common shares on either or both exchanges and may result in price differentials between the exchanges. Differences in the trading schedules, as well as volatility in the exchange rate of the two trading currencies, among other factors, may result in different trading prices for our common shares on the two exchanges, which may contribute to volatility in the trading of our shares. In addition, in connection with the FCA-PSA Merger, the combined company will apply for admission to listing and trading of its common shared on Euronext Paris, subject to approval by the competent authorities. A third exchange listing may exacerbate certain of the risks set forth above.

We are a Dutch public company with limited liability, and our shareholders may have rights different from those of shareholders of companies organized in the U.S.

The rights of our shareholders may be different from the rights of shareholders governed by the laws of U.S. jurisdictions. We are a Dutch public company with limited liability (*naamloze vennootschap*). Our corporate affairs are governed by our articles of association and by the laws governing companies incorporated in the Netherlands. The rights of shareholders and the responsibilities of members of our board of directors may be different from the rights of shareholders and the responsibilities of members of our board of directors in companies governed by the laws of other jurisdictions including the U.S. In the performance of its duties, our board of directors is required by Dutch law to consider our interests and the interests of our shareholders, our employees and other stakeholders, in all cases with due observation of the principles of reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, your interests as a shareholder.

The loyalty voting structure may affect the liquidity of our common shares and reduce our common share price.

Our loyalty voting structure may limit the liquidity of our common shares and adversely affect the trading prices of our common shares. The loyalty voting structure is intended to reward shareholders for maintaining long-term share ownership by granting initial shareholders and persons holding our common shares continuously for at least three years at any time following the effectiveness of the 2014 Merger the option to elect to receive our special voting shares. Our special voting shares cannot be traded and, immediately prior to the deregistration of common shares from the FCA Loyalty Register, any corresponding special voting shares shall be transferred to us for no consideration (*om niet*). This loyalty voting structure is designed to encourage a stable shareholder base and, conversely, it may deter trading by those shareholders who are interested in gaining or retaining our special voting shares. Therefore, the loyalty voting structure may reduce liquidity in our common shares and adversely affect their trading price.

The loyalty voting structure may make it more difficult for shareholders to acquire a controlling interest, change our management or strategy or otherwise exercise influence over us, and the market price of our common shares may be lower as a result.

The provisions of our articles of association which establish the loyalty voting structure may make it more difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change of control were considered favorably by shareholders holding a majority of our common shares. As a result of the loyalty voting structure, a relatively large proportion of our voting power could be concentrated in a relatively small number of shareholders who would have significant influence over us. As of February 25, 2020, Exor N.V., which controls FCA, owns 28.66 percent of the FCA common shares, had a voting interest in FCA of 41.74 percent due to its participation in the loyalty voting structure and as a result will have the ability to exercise significant influence on matters involving our shareholders. Such shareholders participating in the loyalty voting structure could effectively prevent change of control transactions that may otherwise benefit our shareholders. The loyalty voting structure may also prevent or discourage shareholders' initiatives aimed at changing our management or strategy or otherwise exerting influence over us.

There may be potential Passive Foreign Investment Company tax considerations for U.S. Shareholders.

Shares of our stock held by a U.S. holder would be stock of a passive foreign investment company ("PFIC") for U.S. federal income tax purposes with respect to a U.S. shareholder if for any taxable year in which such U.S. shareholder held our common shares, after the application of applicable look-through rules (i) 75 percent or more of our gross income for the taxable year consists of passive income (including dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business, as defined in applicable Treasury Regulations), or (ii) at least 50 percent of its assets for the taxable year (averaged over the year and determined based upon value) produce or are held for the production of passive income. U.S. persons who own shares of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the dividends they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

While we believe that shares of our stock are not stock of a PFIC for U.S. federal income tax purposes, this conclusion is based on a factual determination made annually and thus is subject to change. Moreover, shares of our stock may become stock of a PFIC in future taxable years if there were to be changes in our assets, income or operations.

Tax consequences of our loyalty voting structure are uncertain.

No statutory, judicial or administrative authority directly discusses how the receipt, ownership, or disposition of special voting shares should be treated for Italian, UK or U.S. tax purposes and as a result, the tax consequences in those jurisdictions are uncertain.

The fair market value of our special voting shares, which may be relevant to the tax consequences, is a factual determination and is not governed by any guidance that directly addresses such a situation. Because, among other things, the special voting shares are not transferable (other than, in very limited circumstances, together with our associated common shares) and a shareholder will receive amounts in respect of the special voting shares only if we are liquidated, we believe and intend to take the position that the fair market value of each special voting share is minimal. However, the relevant tax authorities could assert that the value of the special voting shares as determined by us is incorrect.

The tax treatment of the loyalty voting structure is unclear and shareholders are urged to consult their tax advisors in respect of the consequences of acquiring, owning and disposing of special voting shares.

Tax may be required to be withheld from dividend payments.

Although the UK and Dutch competent authorities have ruled that we should be treated as solely resident in the UK for the purposes of the Netherlands-UK double tax treaty, under Dutch domestic law dividend payments made by us to Dutch residents are still subject to Dutch dividend withholding tax and we would have no obligation to pay additional amounts in respect of such payments.

Should Dutch or Italian withholding taxes be imposed on future dividends or distributions with respect to our common shares, whether such withholding taxes are creditable against a tax liability to which a shareholder is otherwise subject depends on the laws of such shareholder's jurisdiction and such shareholder's particular circumstances. Shareholders are urged to consult their tax advisors in respect of the consequences of the potential imposition of Dutch and/or Italian withholding taxes. See "*We operate so as to be treated as exclusively resident in the UK for tax purposes, but the relevant tax authorities may treat us as also being tax resident elsewhere.*" in the section *Risks Related to Our Business, Strategy and Operations* above.

2020 Guidance

Adjusted EBIT	> €7.0 billion
Adjusted diluted EPS	> €2.80 per share
Industrial free cash flows	> €2.0 billion

The above guidance is based on the following assumptions:

Tailwinds

- Dealer stock reduction actions completed in 2019 for North America and Maserati;
- Full year of all-new Jeep Gladiator and Ram Heavy Duty;
- Reduced cash outlay for U.S. diesel emissions matters; and
- Brazil industry expected to increase 5%.

Headwinds

- Production downtime for Ram 1500 Classic to re-tool plant for all-new Jeep Grand Wagoneer and Wagoneer launches;
- Higher compliance costs;
- Planned capex spending increase;
- Completion of EMEA dealer stock reduction plan; and
- U.S. and Europe industries both expected to decrease 3%.

In addition, we are monitoring recent developments, which may affect our ability to achieve the above guidance, including:

- Significant increase in certain commodity prices; and
- Global impact of coronavirus on either market demand or on the global supply chain's ability to avoid disruption in supply.

February 25, 2020

The Board of Directors

John Elkann
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