

Overview of Our Business

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

- (i) NAFTA: 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 28 members of the European Union 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.

The results of our Magneti Marelli business were previously reported within the Components segment along with our industrial automation systems design and production business and our cast iron and aluminum components business. Following the classification of Magneti Marelli as a discontinued operation for the years ended December 31, 2018, 2017 and 2016, (refer to Note 3, *Scope of consolidation*), the remaining activities within the Components segment are no longer considered a separate reportable segment as defined by IFRS 8 - *Operating Segments* and are reported within “Other activities” described below.

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.

Definitions and abbreviations

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. 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.

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 light commercial vehicle markets. Our SUV and CUV portfolio includes the Jeep Grand Cherokee, Jeep Cherokee, Jeep Wrangler, Jeep Renegade, Jeep Compass, all-new Jeep Grand Commander, Dodge Durango, Dodge Journey and Alfa Romeo Stelvio. Our passenger car product portfolio includes vehicles such as the Fiat 500, Alfa Romeo Giulia, Dodge Challenger and Charger and minivans such as the Chrysler Pacifica. We sell light and heavy-duty pickup trucks such as the Ram 1500 and 2500/3500, the Fiat Toro and Fiat Fullback, chassis cabs such as the Ram 3500/4500/5500 and our light commercial vehicles include vans such as the Fiat Professional Doblò, Fiat Professional Ducato and Ram ProMaster.

Our efforts to respond to customer demand have led to a number of important initiatives, including localized production of Jeep vehicles in Italy, China, India and Brazil.

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, 2018, we operated 46 research and development centers worldwide with a combined headcount of approximately 18 thousand employees supporting our research and development efforts.⁽¹⁾

Historically, we have concentrated 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 efforts on autonomous driving and connectivity technologies.

(1) Excluding facilities relating to Magneti Marelli.

Vehicle Energy Demand

Our research 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 CO₂ 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.

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). When fully deployed these engine families will cover a large range of vehicle applications and introduce 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 (“NVH”) behavior.

Both a 1.0L three cylinder and a 1.3L four cylinder naturally aspirated Firefly global small engine were launched in the LATAM region in the third quarter of 2016 and in the second quarter of 2018 turbocharged variants of the global small engine launched in the EMEA region (in the Jeep Renegade and Fiat 500X). Additionally, the first global medium engine application (a 2.0L turbo four cylinder engine) launched in the Alfa Romeo Giulia in the fourth quarter of 2016 and in 2018 a dual overhead camshaft version of the global medium engine (with cooled exhaust gas recirculation) became available in the Jeep Cherokee and Jeep Wrangler. To meet increasingly more stringent air quality standards, we have employed the use of gasoline particulate filters with both global engine families in some EMEA and APAC markets.

Looking to the future, FCA is participating in the development of new and improved aluminum alloys for engine use. This work has demonstrated an aluminum alloy capable of a 50 percent increase in strength at 300° Celsius when compared to other currently used aluminum alloys. While still in very early development, this type of alloy strength behavior has the potential to provide increased design flexibility for cylinder heads and cylinder blocks and help to enable increased engine efficiency.

Transmissions and Driveline

Our transmission portfolio includes manual transmissions, dual dry clutch transmissions and automatic transmissions.

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 CO₂ requirements, we have developed our first dedicated hybrid transmission (the eFlite), used in the Chrysler Pacifica Hybrid. 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. We expect future hybrid vehicle portfolio growth with the eFlite transmission and similar electrified propulsion systems.

Electric and Hybrid Technologies

FCA has developed a suite of electrification technologies, including: 12 volt engine stop/start, 48 volt mild hybrid, plug-in hybrid, and full battery electric vehicles. These developments have occurred at FCA 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 2018 was used in approximately 42 percent of FCA's global production volume.

In 2018 FCA launched three applications of mild hybrids using belt starter generator (“BSG”) technology. BSG technology offers improvements in fuel economy and a reduction in CO₂ emissions. This new 48 volt mild hybrid technology is marketed as “eTorque” in the all-new 2018 Jeep Wrangler equipped with the 2.0L turbo engine and the all-new 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. For example, the 2019 Ram 1500 5.7L HEMI V8 equipped with eTorque has a 13 percent improvement in city fuel economy and 10 percent reduction in combined CO₂ over the base HEMI in a 4x2 Crew Cab model.

The Chrysler Pacifica 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% reduction in CO₂ 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 3.6-liter V-6 engine and the new eFlite hybrid transmission.

The Fiat 500e is FCA's full electric vehicle offering and is available only in the NAFTA market. It has an all-electric range of 84 miles and achieves 121 MPGe City, 103 MPGe Highway and 112 MPGe Combined. Since its introduction in the 2013 model year approximately 25,000 units have been sold.

We also supplement our internal research and development activities 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.

Alternative Fuels

FCA is among the EU-market leaders in compressed natural gas (“CNG”) propulsion. From 1997 to 2018, the Company's output of CNG-powered vehicles in Europe exceeded 750,000 vehicles. In an experimental project, Company researchers in Europe built a Fiat Panda that runs on biomethane derived from sewage sludge and waste water.

Autonomous Driving Technology

In 2016, we announced a collaboration with Waymo (formerly the Google self-driving car project) to integrate its self-driving technology into the Chrysler Pacifica Hybrid. Production of the first 100 Chrysler Pacifica Hybrid minivans built

to enable fully self-driving operations was completed in late 2016. In 2018, we announced that we would expand our partnership with an agreement to add up to 62,000 Chrysler Pacifica Hybrid minivans to Waymo's self-driving fleet.

We have launched Highway Assist autonomous vehicle technology on several Maserati models. This system includes Mobileye vision technology to enable autonomous driving on designated highways. We are also partnering with BMW in the development of a Level 3 autonomous driving platform.

In 2017, we also revealed the Chrysler Portal concept, a semi-autonomous electric-powered vehicle that is designed with a suite of sensing technologies that enable Level 3 autonomous driving, with the potential to be upgraded as advances in technology enable higher levels of autonomy.

Connectivity

FCA is working with its suppliers to develop a cloud-based global connectivity solution that will connect to the Internet and an FCA-specific service delivery platform and allow the driver and passengers to interact with the car and the outside world. The solution is intended to be scalable, increase safety and security and provide real time availability of services and information.

Compliance-focused Initiatives by Region

The regulatory environment outlook across our four major regions shows continued consistent CO₂ reductions, ranging from 25-30 percent between 2018 and 2024. This anticipated regulatory stringency balanced with customer preferences guides research and development for future products and will be highlighted below by region and key product segment.

NAFTA

The U.S. policy is complex with three separate CO₂ 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 consumers of up to \$7,500 to jump start demand, which is required given relatively low fuel prices and increasing consumer preference for SUV and trucks in the market.

American consumers tend to have long commutes and ready access to charging capability at home. FCA plans, by 2022, for 20 percent of its overall fleet (including commercial vehicles) to be high voltage, with a focus on plug-in systems. 15 percent of the fleet to be equipped with mild hybrid systems and 65 percent to retain conventional internal combustion engines.

LATAM

With its ability to grow sugar cane in high volume, Brazil is able to address CO₂ 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 CO₂ 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 FCA are working very closely on research and development opportunities to further reduce CO₂ emissions through improvements to ethanol-fueled engines.

Brazilian consumers already widely use ethanol fuel, readily available in the current retail fuel market. FCA believes that Brazilian CO₂ fleet reduction targets will be met through 2025 with increased usage and efficiency of its 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 in the next decade. The regulatory policies include credit multipliers 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.

FCA's plan is, by 2022, for 15 percent of the overall fleet (including commercial vehicles) to use high voltage electrification, with the highest penetration of full battery electric of any region, 20 percent of the fleet to be equipped with a hybrid system and 65 percent of the fleet to retain conventional internal combustion engines.

In contrast to China, India continues to be a very cost sensitive market with a developing infrastructure. As a result, increased regulatory requirements are expected to be met through application of shared conventional technologies with limited dependence on electrification.

EMEA

Europe represents the most challenging combination of regulatory stringency and consumer price sensitivity. The EU is driving a step function reduction in CO₂ 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 CO₂ 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, FCA intends 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.

FCA's plan is, by 2022, for 20 percent of the overall fleet (including commercial vehicles) to use high voltage electrification, 40 percent of the fleet to be equipped with a mild hybrid system and 40 percent to retain conventional internal combustion engines.

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, 2018, we operated 102 manufacturing facilities (including vehicle and light commercial vehicle assembly, powertrain and components plants, excluding joint ventures and Magneti Marelli facilities), of which 27 were located in Italy, 13 in the rest of Europe, 26 in the U.S., 12 in Brazil, 9 in Mexico, 6 in Canada, 3 in Argentina and the remaining plants in 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, 2018 was €26.3 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, 2018, our property, plant and equipment reported as pledged as collateral for loans amounted to approximately €2.2 billion (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. We have also agreed to a multi-year supply agreement with Magneti Marelli in connection with our expected 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, 2018, we had a total of 198,545 employees (excluding employees of certain joint ventures and of the Magneti Marelli discontinued operation), a 1.0 percent increase from December 31, 2017 and a 2.9 percent increase over December 31, 2016. The following table provides a breakdown of these employees as of December 31, 2018, 2017 and 2016, indicated by type of contract and region.

	Hourly			Salaried			Total		
	2018	2017 ⁽¹⁾	2016 ⁽¹⁾	2018	2017 ⁽¹⁾	2016 ⁽¹⁾	2018	2017 ⁽¹⁾	2016 ⁽¹⁾
Europe	40,446	40,910	42,257	24,170	24,920	25,306	64,616	65,830	67,563
North America	74,703	71,414	64,981	22,326	22,778	22,313	97,029	94,192	87,294
Latin America	26,004	25,634	26,171	7,062	6,917	8,138	33,066	32,551	34,309
Asia	253	271	266	3,313	3,486	3,394	3,566	3,757	3,660
Rest of the world	46	4	4	222	177	160	268	181	164
Total	141,452	138,233	133,679	57,093	58,278	59,311	198,545	196,511	192,990

(1) Previously reported employee numbers for 2017 and 2016 have been re-presented to exclude the Magneti Marelli discontinued operation.

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

FCA 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, we provide an additional service to our Italian employees by paying the trade union dues on their behalf.

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), 88.8 percent of our employees worldwide are covered by collective bargaining agreements.

In Italy, all of our employees are covered by collective bargaining agreements. In April 2015, a four-year compensation agreement was signed by FCA companies within the automobiles business in Italy. The new compensation agreement was subsequently included into the labor agreement and was extended to all FCA companies in Italy on July 7, 2015. The compensation arrangement was effective retrospectively from January 1, 2015 through December 31, 2018 and incentivized all employees towards achievement of the productivity, quality and profitability targets established in the 2015-2018 period of the Group's business plan by including a continuous shift cycle (with a total of 20 shifts per week) and adding two variable additional elements to base pay:

- an annual bonus, calculated on the basis of production efficiencies achieved and the plant's WCM audit status; and
- a component linked to achievement of the financial targets established in the 2015-2018 period of the business plan for the EMEA region, including the activities of the premium brands Alfa Romeo and Maserati.

Negotiations for the renewal of this labor contract commenced on November 29, 2018. As of February 22, 2019, negotiations are ongoing.

In October 2015, FCA US and the UAW agreed to a four-year national collective bargaining agreement, which will expire in September 2019. The provisions of the agreement continue certain opportunities for success-based compensation upon meeting certain quality and financial performance metrics. The agreement closes the pay gap between "Traditional" and "In-progression" employees over an eight-year period and will continue to provide UAW-represented employees with a simplified adjusted profit sharing plan. The adjusted profit sharing plan was effective for 2016 and was directly aligned with NAFTA profitability. The agreement included lump-sum payments in lieu of further wage increases of primarily U.S.\$4,000 for "Traditional" employees and U.S.\$3,000 for "In-progression" employees totaling approximately \$141 million (€126 million) that was paid to UAW members on November 6, 2015.

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 expires September 2020.

Both the Unifor and UAW lump-sum payments are being amortized ratably over the respective four-year labor agreement periods.

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.

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 our plans to meet consumer demand. Consumer demand for vehicles 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. 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 generally not directly correlated with retail sales by dealers, which may be affected by other factors including dealer decisions as to their 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 such amortization is recognized and reported as Research and development costs in our Consolidated Income Statement. If vehicle production is planned to be terminated prior to the expected end date, amortization of capitalized development expenditures is accelerated over the remaining useful economic life of that vehicle model or platform. If vehicle production is terminated in the current period, all unamortized capitalized development expenditures are expensed during that period.

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 cyclicity 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 beginning 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 also 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 competitive 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.

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 NAFTA segment, our larger vehicles such as our larger SUVs and pickup trucks have historically been more profitable than other vehicles and accounted for approximately 68 percent of our total U.S. retail vehicle shipments in 2018. 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 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, as the retail consumers typically 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. For example, the recent economic deterioration and hyperinflationary conditions in Argentina have significantly impacted our shipments in the LATAM segment. 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. For example, the recent transition to World harmonized Light vehicles Test Procedure (“WLTP”) significantly impacted our shipments in the EMEA segment. 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 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. 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 2018, 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 - 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.* for more information.

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 United States-Mexico-Canada Agreement or the U.S.'s withdrawal from the North American Free Trade Agreement, 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.

Magneti Marelli. On October 22, 2018, we announced that we have entered into a definitive agreement with CK Holdings, Ltd., a holding company of Calsonic Kansei Corporation, pursuant to which CK Holdings, Ltd. will acquire our automotive components business, Magneti Marelli. The agreement represents a transaction value of €6.2 billion, subject to certain adjustments. The transaction is expected to close in the second quarter of 2019, subject to regulatory approvals and other customary closing conditions.

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. 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 either through 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.

Dealer and Customer Financing. Because dealers and retail customers finance their purchases of a large percentage of the vehicles we sell worldwide, 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 positive 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 U.S. Federal Reserve has recently raised interest rates, which may impact consumer financing rates, and the availability and terms of financing will 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. Foreign exchange rates, including the U.S. Dollar/Euro exchange rate, have fluctuated significantly in 2018, and may continue to do so in the future. 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. 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 debt 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 (NAFTA, 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.

(thousands of units)	Years ended December 31		
	2018	2017	2016
NAFTA	2,633	2,401	2,587
LATAM	585	521	456
APAC	84	85	91
EMEA	1,318	1,365	1,306
Maserati	35	51	42
Total Consolidated shipments	4,655	4,423	4,482
Joint venture shipments	187	317	238
Total Combined shipments	4,842	4,740	4,720

For discussion of shipments for NAFTA, LATAM, APAC, EMEA and Maserati for 2018 as compared to 2017 and for 2017 as compared to 2016, 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: Net cash/(debt), Net industrial cash/(debt), Adjusted Earnings Before Interest and Taxes (“Adjusted EBIT”), Adjusted net profit 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 and financial position. 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 and financial position 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/(loss) 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 for the Chief Executive Officer of the Group and other eligible employees, including members of the Group Executive Council.

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/(loss) 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 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.

Net Cash/(Debt) and Net Industrial Cash/(Debt): We believe Net cash/(debt) is useful in providing a measure of the Group's net indebtedness after consideration of cash and cash equivalents and current securities.

Due to different sources of cash flows used for the repayment of the financial debt between industrial activities and financial services (by cash from operations for industrial activities and by collection of financial receivables for financial services) and the different business structure and leverage implications, we provide a separate analysis of Net cash/(debt) between industrial activities and financial services.

The division between industrial activities and financial services represents a sub-consolidation based on the core business activities (industrial or financial services) of each Group company. The sub-consolidation for industrial activities also includes companies that perform centralized treasury activities, such as raising funding in the market and financing Group companies, but do not, however, provide financing to third parties. Financial services includes companies that provide retail and dealer financing as well as leasing and rental services in support of the mass-market vehicle brands in certain geographical segments and for the Maserati luxury brand. In addition, activities of financial services include providing factoring services to industrial activities, as an alternative to factoring from third parties. Operating results of such financial services activities are included within the respective region or sector in which they operate.

Net industrial cash/(debt) (i.e., Net cash/(debt) of industrial activities) was management's primary measure for analyzing our financial leverage and capital structure until the substantial completion of our balance sheet de-leveraging this year and remains one of the key targets used to measure our performance. Net industrial cash/(debt) is computed as: debt plus derivative financial liabilities related to industrial activities less (i) cash and cash equivalents, (ii) certain current debt securities, (iii) current financial receivables from Group or jointly controlled financial services entities and (iv) derivative financial assets and collateral deposits; therefore, debt, cash and cash equivalents and other financial assets/liabilities pertaining to financial services entities are excluded from the computation of Net industrial cash/(debt). Net industrial cash/(debt) should not be considered as a substitute for cash flows or other financial measures under IFRS; in addition, Net industrial cash/(debt) depends on the amount of cash and cash equivalents at each balance sheet date, which 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. Net industrial cash/(debt) should therefore be evaluated alongside these other measures as reported under IFRS for a more complete view of the Company's capital structure and liquidity. In addition, Net industrial cash/(debt) is one of the metrics used in the determination of the annual performance bonus for the Chief Executive Officer of the Group and other eligible employees, including members of the Group Executive Council.

Refer to *Liquidity and Capital Resources—Net Cash/(Debt)* below for further information and the reconciliation of these non-GAAP measures to Debt, which is the most directly comparable measure included in our Consolidated Statement of Financial Position.

Industrial free cash flows: historically, due to our leveraged position, we used Net industrial cash/(debt) as a key metric to focus our team on the fundamental task of de-leveraging the balance sheet. As our balance sheet de-leveraging was substantially completed this year, we have substituted this key metric with a cash flow metric going forward, specifically Industrial free cash flows, which we define as Cash flows from operating activities less: cash flows from operating activities related to financial services, net of eliminations; investment in property, plant and equipment and intangible assets for industrial activities; 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 constant exchange rates ("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 – 2018 compared to 2017 and 2017 compared to 2016

The following is a discussion of the Group's results of operations for the year ended December 31, 2018 as compared to the year ended December 31, 2017 and for the year ended December 31, 2017 as compared to the year ended December 31, 2016.

(€ million)	Years ended December 31,		
	2018	2017	2016
Net revenues	€ 110,412	€ 105,730	€ 105,798
Cost of revenues	95,011	89,710	90,927
Selling, general and other costs	7,318	7,177	7,388
Research and development costs	3,051	2,903	2,930
Result from investments	235	399	310
Reversal of a Brazilian indirect tax liability	—	895	—
Gains on disposal of investments	—	76	13
Restructuring costs	103	86	68
Net financial expenses	1,056	1,345	1,858
Profit before taxes	4,108	5,879	2,950
Tax expense	778	2,588	1,237
Net profit from continuing operations	3,330	3,291	1,713
Profit from discontinued operations, net of tax	302	219	101
Net profit	€ 3,632	€ 3,510	€ 1,814
Net profit attributable to:			
Owners of the parent	€ 3,608	€ 3,491	€ 1,803
Non-controlling interests	€ 24	€ 19	€ 11
Net profit from continuing operations attributable to:			
Owners of the parent	€ 3,323	€ 3,281	€ 1,708
Non-controlling interests	€ 7	€ 10	€ 5
Net profit from discontinued operations attributable to:			
Owners of the parent	€ 285	€ 210	€ 95
Non-controlling interests	€ 17	€ 9	€ 6

As of January 1, 2018 the Group adopted IFRS 15 - *Revenue from Contracts with Customers* and IFRS 9 - *Financial Instruments*. The impact of the adoption of these new standards was not material, and the Group does not expect a material impact from the adoption of these new standards on an ongoing basis. Refer to Note 2, *Basis of preparation*, within our Consolidated Financial Statements included elsewhere in this report, for further information.

As a result of the presentation of Magneti Marelli as a discontinued operation, the remaining Components activities are no longer considered a separate reportable segment and are included within “Other activities”. Refer to Note 3, *Scope of consolidation*, within our Consolidated Financial Statements included elsewhere in this report, for further information.

Net revenues

(€ million)	Years ended December 31,			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Net revenues	€ 110,412	€ 105,730	€ 105,798	4.4%	9.3%	(0.1)%	0.1%

For a discussion of Net revenues for each of our five reportable segments (NAFTA, LATAM, APAC, EMEA and Maserati) for 2018 as compared to 2017 and for 2017 as compared to 2016, see *Results by Segment* below.

Cost of revenues

(€ million)	Years ended December 31,			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Cost of revenues	€ 95,011	€ 89,710	€ 90,927	5.9%	10.8%	(1.3)%	(0.3)%
Cost of revenues as % of Net revenues	86.1%	84.8%	85.9%				

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

The increase in Cost of revenues in 2018 compared to 2017 was primarily related to (i) an increase in NAFTA, with higher volumes and product costs for content and technology enhancements attributable to new models; (ii) an increase in LATAM due to higher volumes and (iii) vehicle mix in EMEA, which were partially offset by decreases resulting from (iv) foreign currency translation effects, primarily in NAFTA and LATAM and (v) lower volumes for Maserati.

The decrease in Cost of revenues in 2017 compared to 2016 was primarily related to (i) lower volumes, (ii) foreign exchange translation effects, (iii) purchasing efficiencies, and (iv) the charges recognized in 2016, which were higher than the charges recognized in 2017, for the estimated costs of recall campaigns related to an industry-wide recall for airbag inflators manufactured by Takata Corporation. These were partially offset by (v) vehicle mix and (vi) higher product costs for content and technology enhancements. The decrease in Cost of revenues was primarily attributable to decreases in NAFTA and APAC, which were partially offset by increases in LATAM, EMEA, and Maserati.

Selling, general and other costs

(€ million)	Years ended December 31,			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Selling, general and other costs	€ 7,318	€ 7,177	€ 7,388	2.0%	6.1%	(2.9)%	(2.1)%
Selling, general and other costs as % of Net revenues	6.6%	6.8%	7.0%				

Selling, general and other costs includes advertising, personnel and administrative costs. Advertising costs amounted to approximately 42 percent, 47 percent and 48 percent of total Selling, general and other costs for the years ended December 31, 2018, 2017 and 2016, respectively.

The increase in Selling, general and other costs in 2018 as compared with 2017 primarily relates to a provision for €748 million 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* within the Consolidated Financial Statements included elsewhere in this report), partially offset by lower advertising costs in NAFTA and positive foreign currency translation effects.

The decrease in Selling, general and other costs in 2017 as compared with 2016 primarily relates to (i) lower advertising and marketing costs, primarily in NAFTA, (ii) foreign exchange translation effects and (iii) cost efficiencies, mainly in NAFTA and EMEA, which were partially offset by increased advertising costs in EMEA.

Research and development costs

(€ million)	Years ended December 31,			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Research and development expenditures expensed	€ 1,448	€ 1,506	€ 1,467	(3.9)%	0.2%	2.7%	4.0%
Amortization of capitalized development expenditures	1,456	1,294	1,357	12.5%	16.8%	(4.6)%	(4.6)%
Impairment and write-off of capitalized development expenditures	147	103	106	42.7%	43.7%	(2.8)%	(2.8)%
Total Research and development costs	€ 3,051	€ 2,903	€ 2,930	5.1%	9.1%	(0.9)%	(0.2)%

	Years ended December 31,		
	2018	2017	2016
Research and development expenditures expensed as % of Net revenues	1.3%	1.4%	1.4%
Amortization of capitalized development expenditures as % of Net revenues	1.3%	1.2%	1.3%
Impairment and write-off of capitalized development expenditures as % of Net revenues	0.1%	0.1%	0.1%
Total Research and development costs as % of Net revenues	2.8%	2.7%	2.8%

The following table summarizes our research and development expenditures for the years ended December 31, 2018, 2017 and 2016:

(€ million)	Years ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Capitalized development expenditures	€ 2,079	€ 2,431	€ 2,395	(14.5)%	1.5%
Research and development expenditures expensed	1,448	1,506	1,467	(3.9)%	2.7%
Total Research and development expenditures	€ 3,527	€ 3,937	€ 3,862	(10.4)%	1.9%
Capitalized development expenditures as % of Total Research and development expenditures	58.9%	61.7%	62.0%		
Total Research and development expenditures as % of Net revenues	3.2%	3.7%	3.7%		

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 increase in amortization of capitalized development expenditure in 2018 compared to 2017 was mainly due to higher amortization in NAFTA, primarily attributable to the all-new Ram 1500, all-new Jeep Wrangler and the new Jeep Cherokee.

The impairment and write-off of capitalized development expenditures during 2018, primarily in EMEA, was due to changes in product plans in connection with the 2018-2022 business plan.

The decrease in amortization of capitalized development expenditures in 2017 compared to 2016 was mainly attributable to changes in the expected lifecycle of certain models and foreign exchange translation effects, which was partially offset by the increase attributable to all-new Maserati Levante, all-new Alfa Romeo Giulia, and Stelvio, all-new Jeep Compass, and all-new Fiat Argo in LATAM.

The impairment and write-off of capitalized development expenditures during the year ended December 31, 2017 mainly related to global product portfolio changes in EMEA and changes in the LATAM product portfolio.

Result from investments

(€ million)	Years ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Result from investments	€ 235	€ 399	€ 310	(41.1)%	28.7%

The decrease in Result from investments in 2018 compared to 2017 was primarily attributable to lower results from the GAC FCA JV in APAC and Tofas JV in EMEA, partially offset by improved results from FCA Bank in EMEA.

The increase in Results from investments in 2017 compared to 2016 was primarily attributable to improved results from the GAC FCA JV in APAC, due to the increased localized production in China, as well as improved results from the FCA Bank.

Reversal of a Brazilian indirect tax liability

In June 2017, the Group reversed a Brazilian indirect tax liability of €895 million, reflecting certain court decisions. As this liability related to the Group's Brazilian operations in multiple segments and given the significant and unusual nature of the item, it was not attributed to the results of the related segments and was excluded from Group Adjusted EBIT (refer to Note 22, *Other liabilities and Tax payables*) for the year ended December 31, 2017.

Net financial expenses

(€ million)	Years ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Net financial expenses	€ 1,056	€ 1,345	€ 1,858	(21.5)%	(27.6)%

The decrease in Net financial expenses in 2018 compared to 2017, and in 2017 compared to 2016 was primarily due to the continuation of the planned reduction in gross debt.

Tax expense

(€ million)	Years ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Tax expense	€ 778	€ 2,588	€ 1,237	(69.9)%	109.2%
Effective tax rate	18.5%	44.2%	40.5%	-2570 bps	+370 bps

The decrease in Tax expense in 2018 compared to 2017 was primarily attributable to: (i) €734 million tax expense recorded in 2017 as a result of the decrease in recognized deferred tax assets in Brazil; (ii) net €88 million for the estimated tax expense recorded in 2017 for the December 2017 U.S. Tax Cuts and Jobs Act (the "Tax Act"); (iii) €673 million decrease recognized in 2018 as a result of the Tax Act, and (iv) net €334 million tax benefits for 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); partially offset by (v) tax impacts from the recognition of a provision for costs related to final settlements reached on civil, environmental and consumer claims related to U.S. diesel emissions matters; and (vi) lower operating results in APAC. Refer to Note 7, *Tax expense* within our Consolidated Financial Statement for additional details.

The net tax benefits of €334 million for prior years' tax positions finalized in 2018 is composed of: (i) tax benefit of €447 million for U.S. provision to return adjustments (including a reduction to the estimated 2017 U.S. one-time deemed repatriation tax expense of €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); partially offset by (ii) net tax expense of €113 million primarily for the impact of uncertain tax positions and other prior years' tax positions.

The decrease in the deferred tax assets in Brazil in 2017 was composed of:

- €281 million related to the reversal of the Brazilian indirect tax liability mentioned above; and
- €453 million that was written off as the Group revised its outlook on Brazil to reflect the slower pace of recovery and outlook for the subsequent years, largely resulting from increased political uncertainty, and concluded that a portion of the deferred tax assets in Brazil was no longer recoverable.

The above items were excluded from Adjusted net profit.

The decrease in the effective tax rate to 19 percent in 2018 from 44 percent in 2017 was mainly due to: (i) tax expense recorded in 2017 as a result of the decrease in recognized deferred tax assets in Brazil; (ii) net tax benefits recognized for impacts of the Tax Act; and (iii) net tax benefits recognized for prior years' tax positions finalized in 2018; partially offset by (iv) tax impacts from the recognition of a provision for costs related to final settlements reached on civil, environmental and consumer claims related to U.S. diesel emissions matters.

The increase in Tax expense in 2017 compared to 2016 was primarily attributable; to (i) higher profit before taxes, particularly in NAFTA, (ii) net decreases in generation and usage of tax credits; (iii) the impact of the December 2017 U.S. tax reform of €88 million, as noted above; and (iv) a decrease in Brazilian deferred tax assets of €734 million, as noted above.

The increase in the effective tax rate to 44.2 percent in 2017 from 40.5 percent in 2016 was mainly due to the expense recorded in 2017 as a result of the decrease in recognized deferred tax assets in Brazil.

Profit from discontinued operations, net of tax

(€ million)	Years ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Profit from discontinued operations, net of tax	€ 302	€ 219	€ 101	n.m.	n.m.

n.m. = Number is not meaningful

Magneti Marelli is presented as a discontinued operation in the Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016. 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 €96 million, net of tax of €20 million.

Net profit from continuing operations

(€ million)	Years ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Net profit from continuing operations	€ 3,330	€ 3,291	€ 1,713	1.2%	92.1%

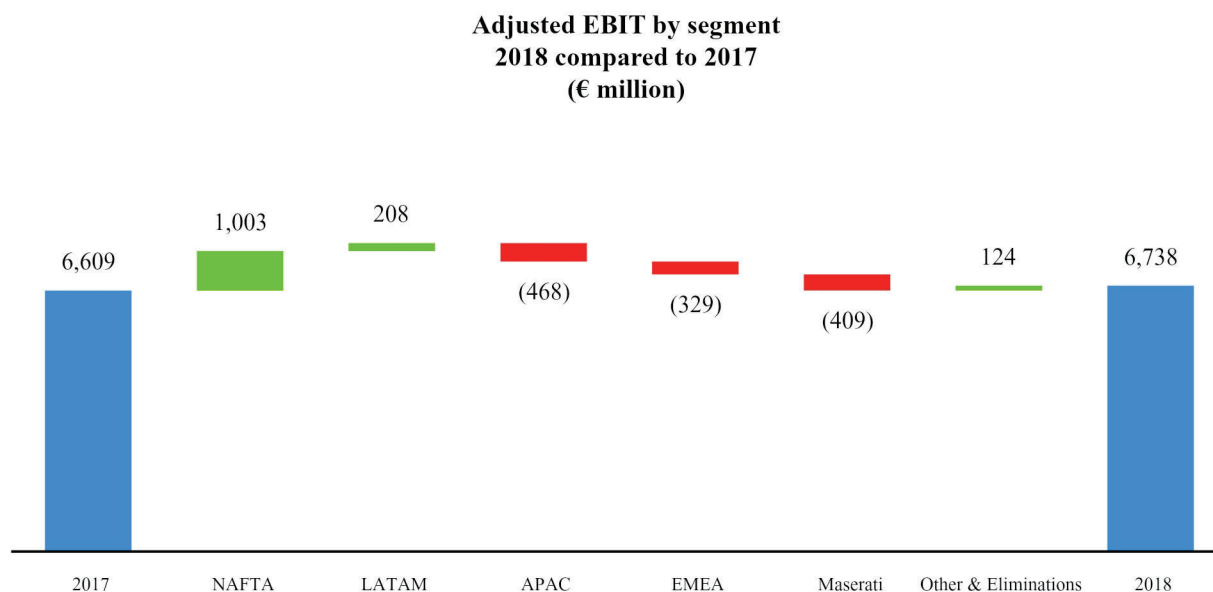
The increase in Net profit from continuing operations in 2018 compared to 2017 was mainly driven by (i) lower Tax and Net financial expenses, and (ii) improved NAFTA and LATAM operating performance net of lower results in APAC, Maserati and EMEA. These were partially offset by (iii) a provision for €748 million recognized for costs related to final settlements reached on civil, environmental and consumer claims related to U.S. diesel emissions matters and (iv) the €895 million reversal in 2017 of a liability related to Brazilian indirect taxes previously accrued by the Group's Brazilian subsidiaries.

The increase in Net profit from continuing operations in 2017 compared to 2016 was mainly driven by improved operating performance in 2017, lower financial expenses, as well as the €895 million gain from the reversal of a Brazilian indirect tax liability, which were partially offset by higher income taxes for the year, including the decrease in deferred tax assets in Brazil discussed above.

Adjusted EBIT

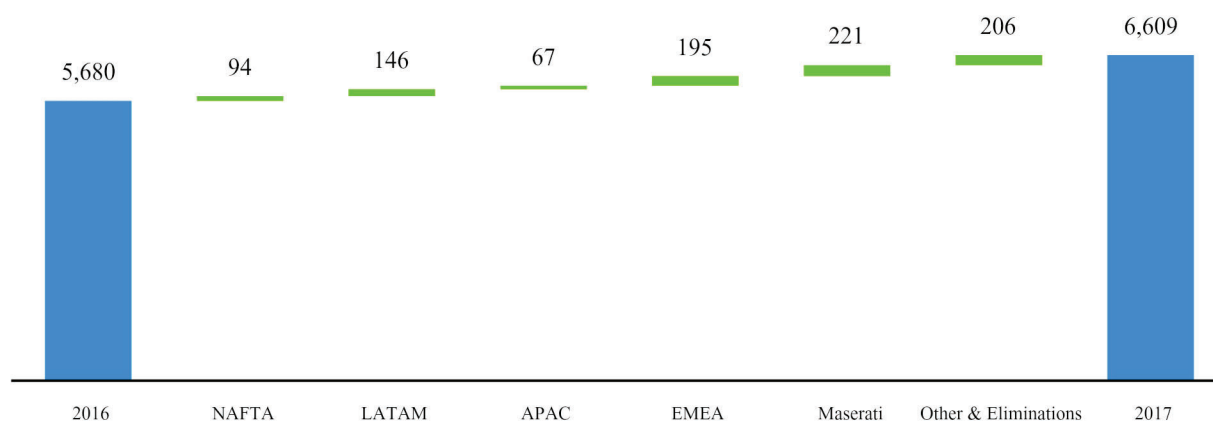
(€ million)	Years ended December 31,			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Adjusted EBIT	€ 6,738	€ 6,609	€ 5,680	2.0%	7.9%	16.4%	25.5%
Adjusted EBIT margin (%)	6.1%	6.3%	5.4%	-20 bps	—	+90 bps	—

The following charts present our Adjusted EBIT walk by segment for 2018 as compared to 2017 and for 2017 as compared to 2016:



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.

**Adjusted EBIT by segment
2017 compared to 2016
(€ million)**



For the year ended December 31, 2017, the Adjusted EBIT related to Magneti Marelli that was excluded from the Group's Adjusted EBIT result was €445 million, net of intercompany eliminations. For the year ended December 31, 2016, the Adjusted EBIT related to Magneti Marelli that was excluded from the Group's Adjusted EBIT result was €376 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 (NAFTA, LATAM, APAC, EMEA and Maserati) in 2018 as compared to 2017 and for 2017 as compared to 2016, see *Results by Segment* below.

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

(€ million)	Years ended December 31,		
	2018	2017	2016
Net profit from continuing operations	€ 3,330	€ 3,291	€ 1,713
Tax expense	778	2,588	1,237
Net financial expenses	1,056	1,345	1,858
Adjustments:			
Charge for U.S. diesel emissions matters	748	—	—
Impairment expense and supplier obligations	353	219	177
China inventory impairment	129	—	—
Costs for recall, net of recovery - airbag inflators	114	102	414
U.S. special bonus payment	111	—	—
Restructuring costs, net of reversals	103	86	68
Employee benefits settlement losses	92	—	—
Port of Savona (Italy) flood and fire	43	—	—
Deconsolidation of Venezuela	—	42	—
Currency devaluations	—	—	19
Tianjin (China) port explosions insurance recoveries	—	(68)	(55)
Gains on disposal of investments	—	(76)	(13)
(Recovery of)/costs for recall - contested with supplier	(50)	—	132
NAFTA capacity realignment	(60)	(38)	156
Brazilian indirect tax - reversal of liability/recognition of credits	(72)	(895)	—
Other	63	13	(26)
Total Adjustments	1,574	(615)	872
Adjusted EBIT	€ 6,738	€ 6,609	€ 5,680

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 NAFTA and €73 million related to the preventative safety campaigns in LATAM. During 2016, estimated costs of recall campaigns related to Takata airbag inflators of €414 million were recorded within Cost of revenues in the Consolidated Income Statement for the year ended December 31, 2016, to adjust the warranty provision for an expansion in May 2016 of the population recalled. 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 2016, 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 \$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 NAFTA;
- €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 NAFTA capacity realignment plan. During the year ended December 31, 2015, as part of the plan to improve margins in NAFTA, 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. During the year ended December 31, 2016, net incremental costs of €156 million from the implementation of the plan were recognized and also excluded from Adjusted EBIT. During the year ended December 31, 2017, €38 million income related to adjustments to reserves were recognized and excluded from Adjusted EBIT; 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.

During the year ended December 31, 2017 Adjusted EBIT excluded adjustments primarily related to:

- €219 million charge relating to asset impairments, primarily in LATAM and EMEA, resulting from changes in the product portfolio, as well as, impairments of certain real estate assets in Venezuela;
- €102 million charge for the estimated costs of recall campaigns related to Takata airbag inflators, referred to above;
- €86 million restructuring costs, primarily of which €75 million related to workforce restructuring costs in LATAM;
- €42 million net loss resulting from deconsolidation of our operations in Venezuela. Refer to Note 3 - *Scope of consolidation*;
- €68 million income reflecting final insurance recoveries related to the explosions at the Port of Tianjin, China. On August 12, 2015, a series of explosions which occurred at a container storage station at the Port of Tianjin impacted several storage areas containing approximately 25,000 FCA branded vehicles, of which approximately 13,300 were owned by FCA and approximately 11,400 vehicles were previously sold to our distributor. As a result of the explosions, nearly all of the vehicles at the Port of Tianjin were affected and some were destroyed. During the year ended December 31, 2016, €55 million of insurance recoveries relating to Tianjin were excluded from Adjusted EBIT. Insurance recoveries related to losses incurred in connection with the explosions at the Port of Tianjin are excluded from Adjusted EBIT to the extent the insured loss to which the recovery relates was excluded from Adjusted EBIT. Insurance recoveries are included in Adjusted EBIT to the extent they relate to costs, increased incentives or business interruption losses that were included in Adjusted EBIT;
- €76 million gain on disposal of investments, primarily related to a €49 million gain on the disposal of the Group's publishing business;
- €38 million income related to adjustments to reserves for the NAFTA capacity realignment plan referred to above; and
- €895 million gain on the reversal of a liability for Brazilian indirect taxes, as reported above.

During the year ended December 31, 2016 Adjusted EBIT excluded adjustments primarily related to:

- €177 million charges relating to asset impairments, primarily resulting from the Group's capacity realignment to SUV production in China, which resulted in an impairment charge of €90 million for locally-produced Fiat Viaggio and Ottimo vehicles, and €73 million of impairment losses and asset write-offs, of which €43 million related to certain of FCA Venezuela's assets due to the continued deterioration of the economic conditions in Venezuela;
- €414 million charge for the estimated costs of recall campaigns related to Takata airbag inflators, referred to above;
- €68 million restructuring costs, primarily relating to LATAM and Components;
- €55 million insurance recoveries relating to the Tianjin port explosions referred to above;
- €156 million relating to the NAFTA capacity alignment referred to above; and
- €132 million which was recorded within Cost of revenues in the Consolidated Income Statement, related to estimated costs associated with a recall for which costs were contested with a supplier. Although FCA believed the supplier has responsibility for the recall, only a partial recovery of the estimated costs was recognized pursuant to a cost sharing agreement.

Adjusted net profit

(€ million)	Years ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Adjusted net profit	€ 4,707	€ 3,512	€ 2,353	34.0%	49.3%

The increase in Adjusted net profit in 2018 compared to 2017 was driven by improved operating performance and the reduction in Net financial expenses and Tax expense.

The increase in Adjusted net profit in 2017 compared to 2016, was driven by improved operating performance and the reduction in Net financial expenses, which were partially offset by the increase in Tax expense.

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

(€ million)	Years ended December 31,		
	2018	2017	2016
Net profit from continuing operations	€ 3,330	€ 3,291	€ 1,713
Adjustments (as above)	1,574	(615)	872
Tax impact on adjustments	(125)	14	(232)
Brazil deferred tax assets write-off	—	453	—
Reduction of deferred tax assets related to reversal of a Brazilian indirect tax liability	—	281	—
Impact of U.S. tax reform	(72)	88	—
Total adjustments, net of taxes	1,377	221	640
Adjusted net profit	€ 4,707	€ 3,512	€ 2,353

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.

During the year ended December 31, 2017 Adjusted net profit excluded adjustments related to:

- €14 million expense reflecting the tax impact on the items excluded from Adjusted EBIT above;
- €453 million expense relating to the write-off of deferred tax assets in Brazil as reported above;
- €281 million expense arising on decrease in deferred tax assets related to the release of the Brazilian indirect tax liability noted above; and
- €88 million expense relating to the impact of December 2017 U.S. tax reform.

During the year ended December 31, 2016 Adjusted net profit excluded adjustments related to:

- €232 million gain, reflecting the tax impact on the items excluded from Adjusted EBIT above.

Results by Segment – 2018 compared to 2017 and 2017 compared to 2016

(€ million, except shipments which are in thousands of units)	Net revenues			Adjusted EBIT			Shipments		
	Years ended December 31								
	2018	2017	2016	2018	2017	2016	2018	2017	2016
NAFTA	€ 72,384	€ 66,094	€ 69,094	€ 6,230	€ 5,227	€ 5,133	2,633	2,401	2,587
LATAM	8,152	8,004	6,197	359	151	5	585	521	456
APAC	2,703	3,250	3,662	(296)	172	105	84	85	91
EMEA	22,815	22,700	21,860	406	735	540	1,318	1,365	1,306
Maserati	2,663	4,058	3,479	151	560	339	35	51	42
Other activities	2,888	3,248	3,116	(40)	(98)	(175)	—	—	—
Unallocated items & eliminations ⁽¹⁾	(1,193)	(1,624)	(1,610)	(72)	(138)	(267)	—	—	—
Total	€ 110,412	€ 105,730	€ 105,798	€ 6,738	€ 6,609	€ 5,680	4,655	4,423	4,482

(1) Primarily includes intercompany transactions which are eliminated in consolidation; also includes, primarily in 2017, costs related to the launch of the Alfa Romeo Giulia platform, which were not allocated to the mass-market vehicle segments due to the limited number of shipments.

The following is a discussion of Net revenues, Adjusted EBIT and shipments for each segment for the year ended December 31, 2018 as compared to the year ended December 31, 2017, and for the year ended December 31, 2017 as compared to the year ended December 31, 2016. 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.

NAFTA

	Years ended December 31			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Shipments (thousands of units)	2,633	2,401	2,587	9.7%		(7.2)%	—
Net revenues (€ million)	€ 72,384	€ 66,094	€ 69,094	9.5%	14.5%	(4.3)%	(2.6)%
Adjusted EBIT (€ million)	€ 6,230	€ 5,227	€ 5,133	19.2%	24.9%	1.8 %	4.0 %
Adjusted EBIT margin (%)	8.6%	7.9%	7.4%	+70 bps	—	+50 bps	—

Shipments

The increase in vehicle shipments in 2018 compared to 2017 was primarily driven by the all-new Jeep Wrangler and the all-new Ram 1500, as well as increased shipments of new Jeep Cherokee and Jeep Compass. Shipments reflected increases in (i) the U.S. of 311 thousand units (+15 percent), which were partially offset by decreases in (ii) Canada of 60 thousand units (-22 percent) and (iii) Mexico of 22 thousand units (-25 percent).

The decrease in vehicle shipments in 2017 compared to 2016 was primarily driven by lower fleet volumes as a result of planned fleet sales reductions, primarily for Jeep, and the discontinuance of the Jeep Patriot, Dodge Dart and Chrysler 200, which was partially offset by increased shipments for the Ram and Alfa Romeo brands, Jeep Grand Cherokee and the all-new Jeep Compass. Shipments reflected decreases in (i) the U.S. of 189 thousand units (-9 percent), which were partially offset by increases in (ii) Mexico of 4 thousand units (+4 percent), with shipments in (iii) Canada remaining flat during the period.

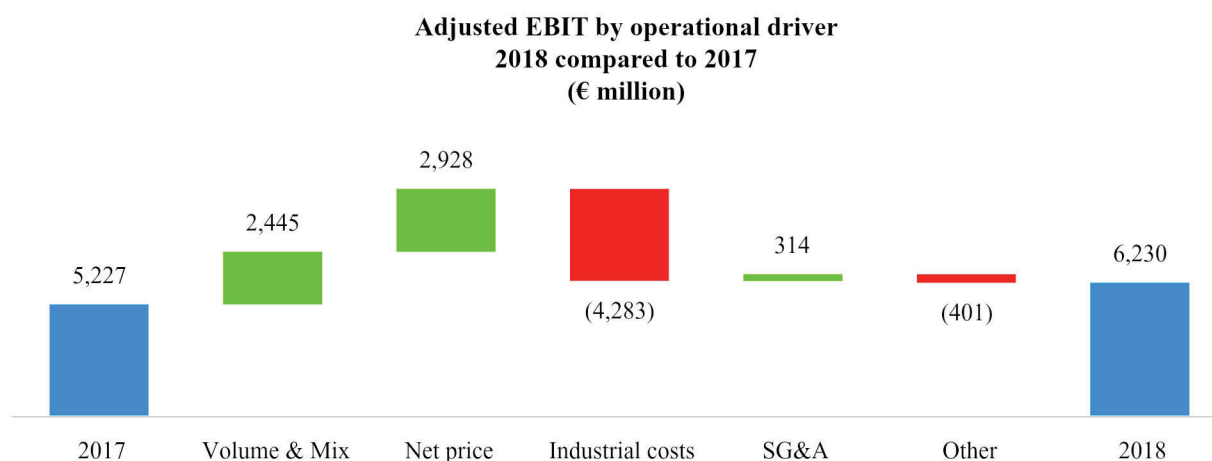
Net revenues

The increase in NAFTA Net revenues in 2018 compared to 2017 was primarily due to €6.6 billion from an increase in volumes and positive mix and €2.9 billion from positive net pricing, partially offset by €3.3 billion due to negative foreign exchange translation effects.

The decrease in NAFTA Net revenues in 2017 compared to 2016 was primarily attributable to a €1.7 billion net decrease resulting from lower shipments (as described above), net of favorable vehicle and channel mix and €1.2 billion from negative foreign currency translation effects.

Adjusted EBIT

The following charts reflect the change in NAFTA Adjusted EBIT by operational driver for 2018 as compared to 2017 and for 2017 as compared to 2016:

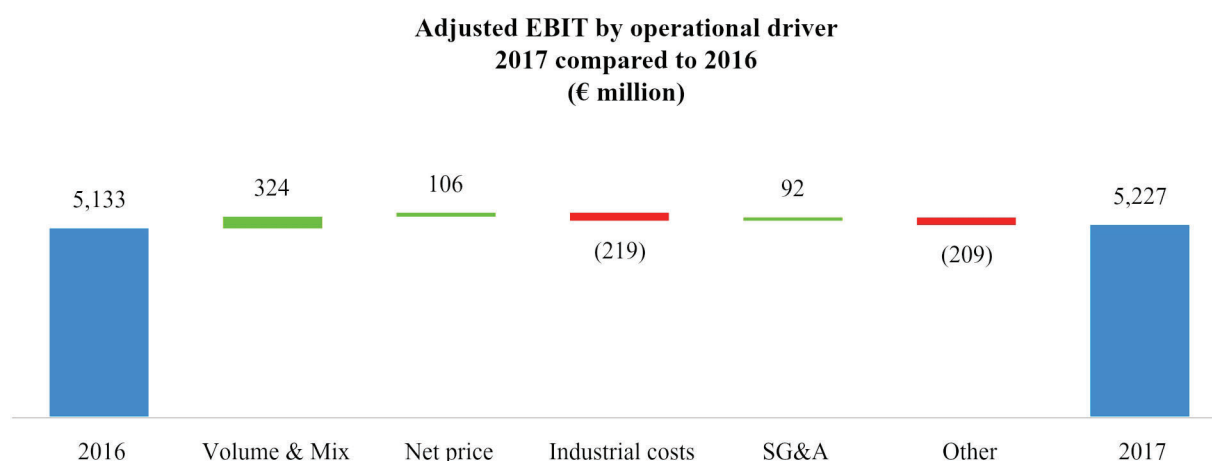


The increase in NAFTA Adjusted EBIT in 2018 compared to 2017 was primarily attributable to:

- higher shipments and favorable vehicle and market mix;
- positive net pricing, primarily for new vehicles and pricing actions on existing vehicles, net of higher incentives; and
- lower selling, general and administrative expenses primarily due to lower advertising expense.

These were partially offset by:

- higher industrial costs, which mainly related to product content for approximately €3 billion, launch costs, logistic costs for approximately €1 billion and depreciation and amortization related to new vehicles, partially offset by purchasing efficiencies and lower warranties; and
- negative foreign currency translation effects.



The increase in NAFTA Adjusted EBIT in 2017 compared to 2016 was primarily attributable to:

- favorable mix, net of lower shipments, as described above;
- positive pricing, partially offset by higher incentives and foreign exchange impacts due to the Canadian Dollar; and
- lower SG&A expenditures, primarily due to lower advertising costs.

These were partially offset by:

- higher industrial costs due to higher product costs for content enhancements and increased costs for the capacity realignment plan, partially offset by purchasing efficiencies and lower warranty costs;
- negative foreign exchange translation effects; and
- a prior year one-off residual values adjustment, included within Other above.

LATAM

	Years ended December 31			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Shipments (thousands of units)	585	521	456	12.3%	—	14.3%	—
Net revenues (€ million)	€ 8,152	€ 8,004	€ 6,197	1.8%	21.0%	29.2%	23.6%
Adjusted EBIT (€ million)	€ 359	€ 151	€ 5	137.7%	197.5%	n.m.	n.m.
Adjusted EBIT margin (%)	4.4%	1.9%	0.1%	+250 bps	—	+180 bps	—

n.m. = Number is not meaningful.

Shipments

The increase in vehicle shipments in 2018 compared to 2017 was primarily attributable to higher demand in Brazil partially offset by the impact of Argentina economic downturn, with the all-new Fiat Argo and Cronos and Fiat Strada, as well as Pernambuco-built vehicles, partially offset by discontinued vehicles. Shipments reflected (i) an increase of 72 thousand units (+19 percent) in Brazil, (ii) a decrease of 20 thousand units (-18 percent) in Argentina and (iii) other LATAM markets increasing by 12 thousand units (+41 percent).

The increase in vehicle shipments in 2017 compared to 2016 was primarily attributable to improving market conditions and the success of the Fiat Mobi, the all-new Fiat Argo and Jeep Compass, partially offset by the discontinued Fiat Palio Family. Shipments reflected (i) an increase of 31 thousand units (+9 percent) in Brazil and (ii) an increase of 30 thousand units (+37 percent) in Argentina.

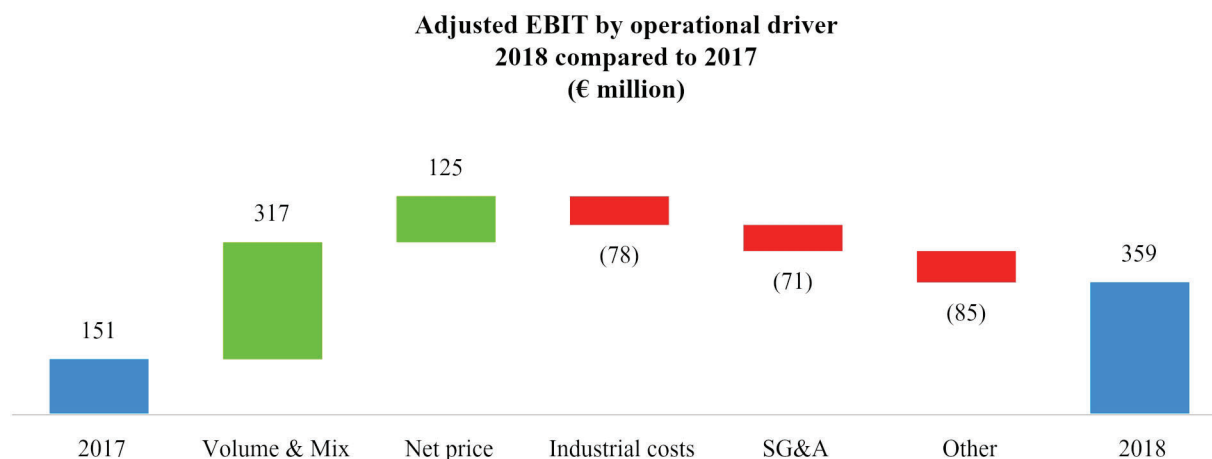
Net revenues

LATAM Net revenues slightly increased in 2018 compared to 2017 with €1.6 billion benefit from higher volumes, favorable vehicle mix and positive net pricing, which were partially offset by €1.5 billion from negative foreign exchange translation effects and the weakening Argentine Peso.

The increase in LATAM Net revenues in 2017 compared to 2016 was primarily attributable to €1.4 billion from higher shipments (as described above) and favorable vehicle mix, €0.2 billion from positive net pricing, partially offset by increased incentives, and €0.3 billion from favorable foreign currency translation effects.

Adjusted EBIT

The following charts reflect the change in LATAM Adjusted EBIT by operational driver for 2018 as compared to 2017 and for 2017 as compared to 2016:

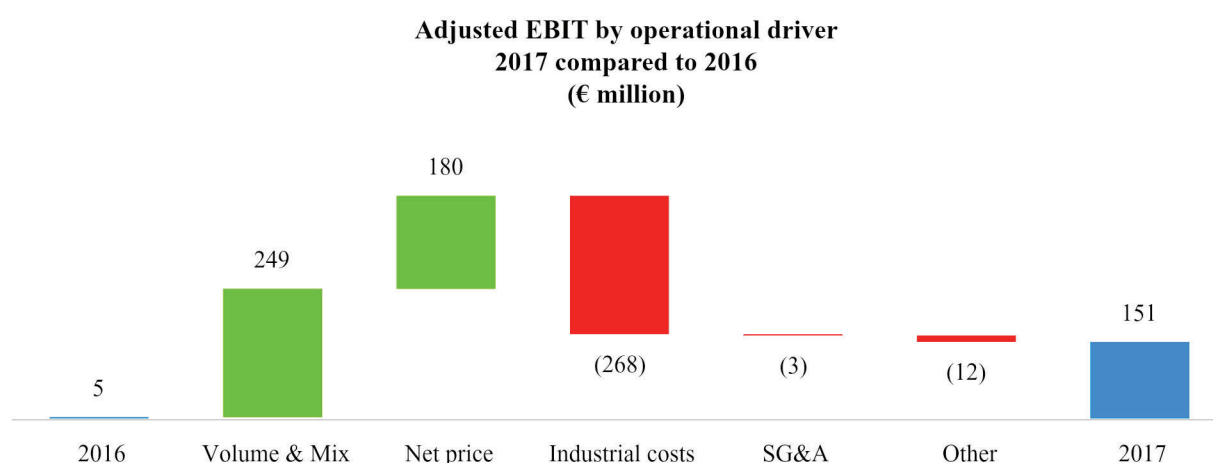


The increase in LATAM Adjusted EBIT in 2018 compared to 2017 was primarily attributable to:

- higher volumes and favorable mix; and
- positive net pricing in Brazil

These were partially offset by:

- higher industrial costs, primarily from higher depreciation and amortization and research and development costs on new vehicles;
- higher advertising costs related to new vehicles; and
- negative foreign currency effects.



The increase in LATAM Adjusted EBIT in 2017 compared to 2016 was primarily attributable to:

- increased volumes and favorable vehicle mix;
- favorable net pricing, partially offset by increased incentives; and
- lower indirect taxes in Brazil.

These were partially offset by:

- higher industrial costs due to input cost inflation; and
- higher depreciation and amortization related to new vehicles.

APAC

	Years ended December 31			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Combined shipments (thousands of units)	209	290	233	(27.9)%	—	24.5 %	—
Consolidated shipments (thousands of units)	84	85	91	(1.2)%	—	(6.6)%	—
Net revenues (€ million)	€ 2,703	€ 3,250	€ 3,662	(16.8)%	(12.8)%	(11.3)%	(9.2)%
Adjusted EBIT (€ million)	€ (296)	€ 172	€ 105	(272.1)%	(274.1)%	63.8 %	71.8 %
Adjusted EBIT margin (%)	(11.0)%	5.3%	2.9%	-1630 bps	—	+240 bps	—

We locally produce and distribute the Jeep Cherokee, Jeep Renegade, Jeep Compass and all-new Jeep Grand Commander through the 50 percent owned GAC Fiat Chrysler Automobiles Co. (“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 investment” within the Consolidated Income Statement. We also produce the all-new 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.

The GAC FCA JV was fully operational by 2017, producing four Jeep sport utility vehicle (“SUV”) models (all-new Grand Commander, Cherokee, Renegade and Compass) by 2018 as compared to the production of only one Jeep SUV model (Cherokee) in 2016.

Shipments

The slight decrease in consolidated shipments in 2018 compared to 2017 was primarily attributable to lower import volumes, partially offset by increased shipments of the all-new Jeep Compass in India. These factors including the weakness of the Chinese market, with increased competition, particularly in the SUV segments, drove the decrease in combined shipments in 2018 compared to 2017.

The slight decrease in consolidated shipments in 2017 compared to 2016 was primarily attributable to planned reductions of Jeep imports in China, partially offset by the launch of Alfa Romeo in the region and Jeep Compass production in India. The increase in combined shipments in 2017 as compared to 2016 was due to the ramp up in localized Jeep production through the GAC FCA JV.

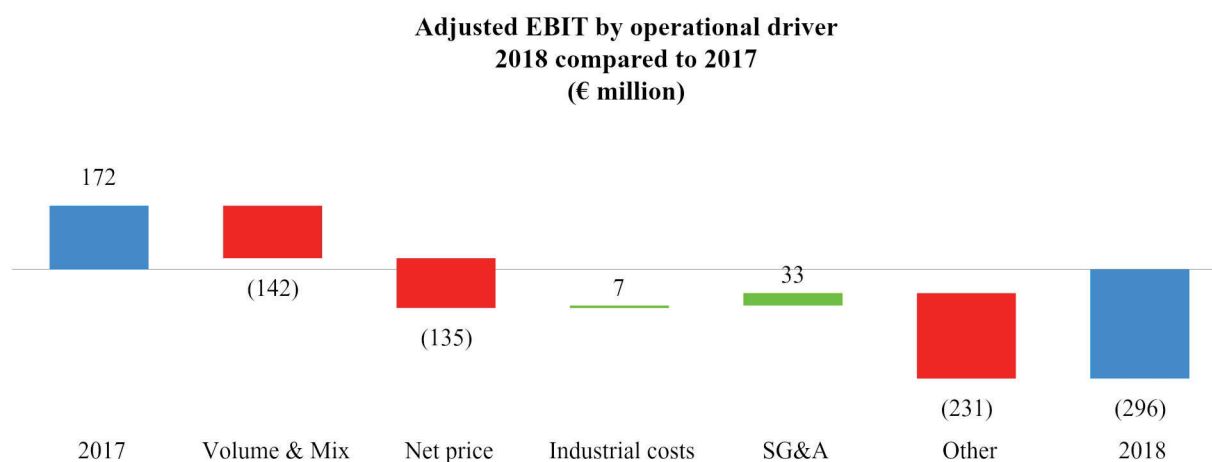
Net revenues

The decrease in APAC Net revenues in 2018 compared to 2017 was primarily due to unfavorable mix and pricing actions, lower import volumes in China and in addition to negative foreign exchange translation effects. These were partially offset by increased shipments in India.

The decrease in APAC Net revenues in 2017 compared to 2016 was primarily due to lower consolidated shipments, as described above, lower parts and components sales, and negative foreign exchange effects.

Adjusted EBIT

The following charts reflect the change in APAC Adjusted EBIT by operational driver for 2018 as compared to 2017 and for 2017 as compared to 2016:

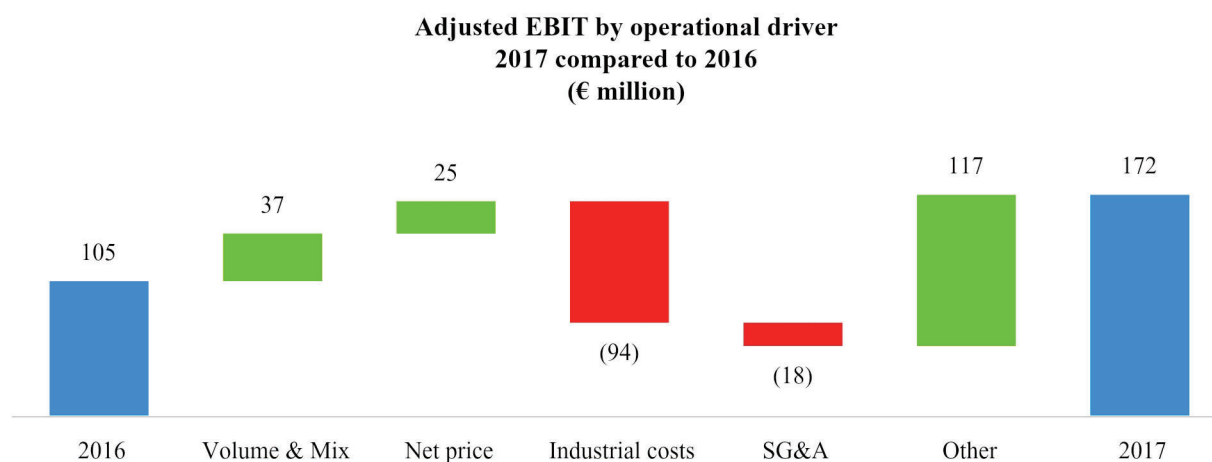


The decrease in APAC Adjusted EBIT in 2018 compared to 2017 was primarily attributable to:

- lower Net revenues, as described above;
- lower results from the GAC FCA JV (included in Other above); and
- the benefit of the Tianjin port explosions final insurance recovery of €93 million included in the prior year results (included in Other above).

These were partially offset by:

- lower advertising and selling, general and administrative expenses mainly related to China Jeep imports.



The increase in APAC Adjusted EBIT in 2017 compared to 2016 was primarily attributable to:

- insurance recoveries included within Adjusted EBIT of €93 million relating to the Tianjin (China) port explosions;

- favorable vehicle mix and lower incentives; and
- improved results from the GAC FCA JV (included in Other above).

These were partially offset by:

- launch costs related to the Alfa Romeo brand; and
- higher industrial costs from negative foreign exchange transaction effects.

EMEA

	Years ended December 31			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Shipments (thousands of units)	1,318	1,365	1,306	(3.4)%	—	4.5%	—
Net revenues (€ million)	€ 22,815	€ 22,700	€ 21,860	0.5 %	1.0 %	3.8%	4.4%
Adjusted EBIT (€ million)	€ 406	€ 735	€ 540	(44.8)%	(46.2)%	36.1%	35.6%
Adjusted EBIT margin (%)	1.8%	3.2%	2.5%	-140 bps	—	+70 bps	—

Shipments

The decrease in vehicle shipments in 2018 compared to 2017 was primarily attributable to lower Fiat shipments, partially offset by increased shipments of the Jeep Compass and the all-new Jeep Wrangler. Shipments reflected (i) a decrease in passenger car shipments to 1,031 thousand units (-4%) and (ii) a decrease in shipments of light commercial vehicles (“LCVs”) to 287 thousand units (-3%).

The increase in vehicle shipments in 2017 compared to 2016 was primarily attributable to the all-new Alfa Romeo Stelvio and Jeep Compass, as well as the Fiat Tipo family. Shipments reflected (i) an increase in passenger car shipments to 1,068 thousand units (+6 percent) and (ii) an increase in shipments of LCVs to 297 thousand units (+1 percent)

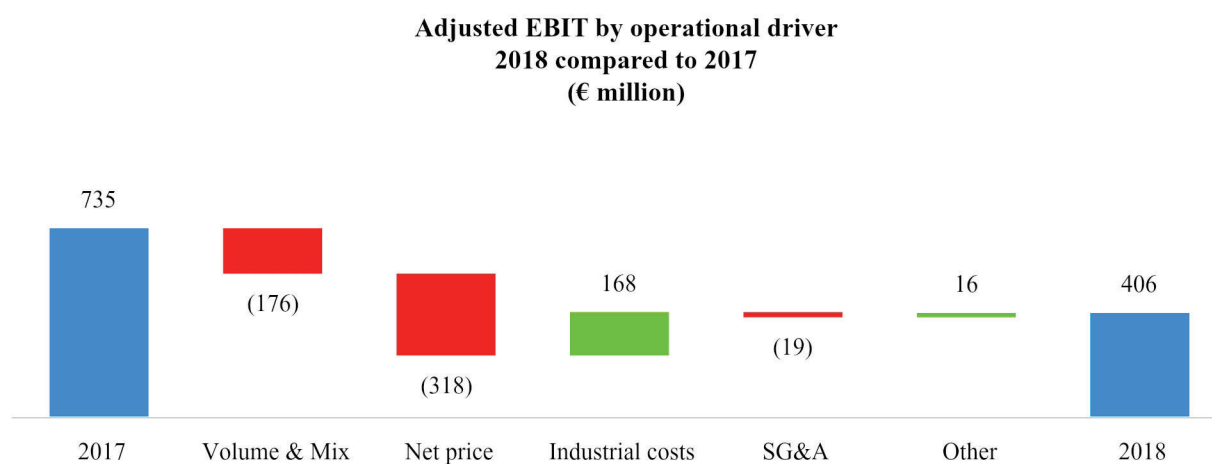
Net revenues

EMEA Net revenues in 2018 were in line with 2017, with favorable vehicle mix being offset by lower volumes, negative net pricing and foreign exchange effects.

The increase in EMEA Net revenues in 2017 compared to 2016 was primarily attributable to a positive effect of €1.6 billion related to increases in volumes (as described above) and favorable mix. This was partially offset by negative net pricing and by negative foreign currency exchange impacts including depreciation of the British Pound sterling.

Adjusted EBIT

The following charts reflect the change in EMEA Adjusted EBIT by operational driver for 2018 as compared to 2017 and for 2017 as compared to 2016:

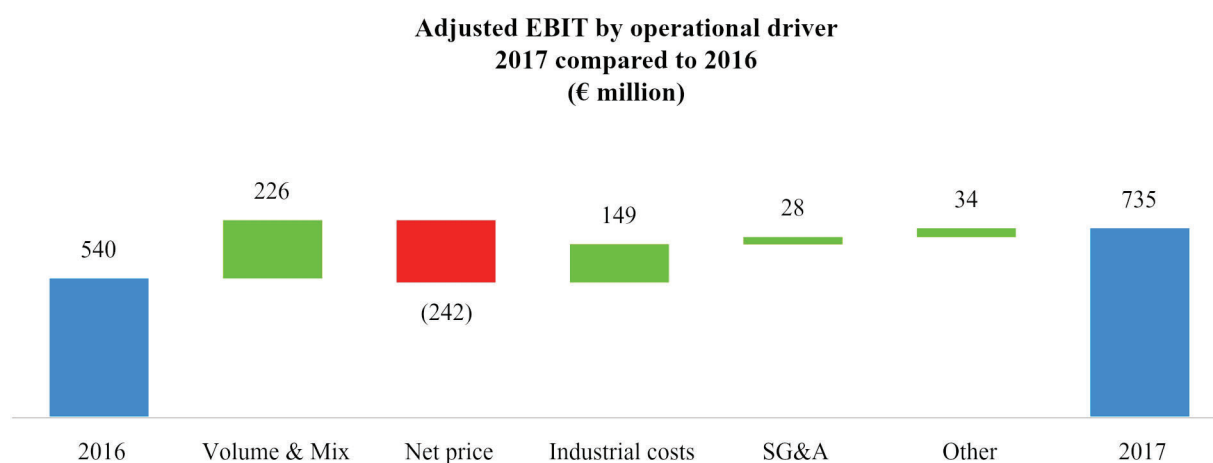


The decrease in EMEA Adjusted EBIT in 2018 compared to 2017 was primarily attributable to:

- negative net pricing, also impacted by the transition to WLTP, higher incentives and foreign exchange transaction impacts;
- lower volumes and unfavorable trim and channel mix, and
- higher advertising costs.

These were partially offset by:

- lower industrial costs, primarily due to purchasing and manufacturing efficiencies; and
- continued cost containment actions.



The increase in EMEA Adjusted EBIT in 2017 compared to 2016 was primarily attributable to:

- higher volumes and favorable vehicle mix, as described above;
- lower industrial costs mainly due to purchasing and manufacturing cost efficiencies, partially offset by higher amortization and depreciation costs related to new vehicles; and
- improved results from the FCA Bank joint venture (included in Other above).

These were partially offset by:

- unfavorable net pricing, primarily due to higher incentives and negative foreign exchange effects, including depreciation of the British Pound sterling.

Maserati

	Years ended December 31			Increase/(Decrease)			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	% Actual	% CER	% Actual	% CER
Shipments (thousands of units)	35	51	42	(31.4)%	—	21.4%	—
Net revenues (€ million)	€ 2,663	€ 4,058	€ 3,479	(34.4)%	(33.0)%	16.6%	19.3%
Adjusted EBIT (€ million)	€ 151	€ 560	€ 339	(73.0)%	(72.6)%	65.2%	67.7%
Adjusted EBIT margin (%)	5.7%	13.8%	9.7%	-810 bps	—	+410 bps	—

Shipments

The decrease in Maserati shipments in 2018 compared to 2017 was mainly due to China (-52 percent), as well as lower volumes in North America (-26 percent) and Europe (-21 percent).

The increase in Maserati shipments in 2017 compared to 2016 was primarily attributable to increase in shipments for the Maserati Levante, partially offset by lower Maserati Ghibli and Quattroporte volumes, which drove higher shipments in China (+31 percent), Europe (+25 percent) and North America (+11 percent).

Net revenues

The decrease in Maserati Net revenues in 2018 compared to 2017 was primarily due to lower volumes and unfavorable mix.

The increase in Maserati Net revenues in 2017 compared to 2016 was primarily driven by higher shipments, partially offset by negative foreign exchange effects.

Adjusted EBIT

The decrease in Maserati Adjusted EBIT in 2018 compared to 2017 was primarily due to lower shipments and unfavorable market mix, increased depreciation and amortization expense and foreign exchange. These were partially offset by lower advertising and marketing spend.

The increase in Maserati Adjusted EBIT in 2017 compared to 2016 was primarily due to higher shipments (as described above) and lower industrial costs primarily due to manufacturing and purchasing efficiencies. These were partially offset by negative foreign currency exchange effects.

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 2019 are expected to be approximately €8.5 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) through the offering of receivable 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 companies raise capital in the financial markets through various funding sources.

On March 6, 2017, Fiat Chrysler Finance US Inc. ("FCF US"), a finance subsidiary, was incorporated under the laws of Delaware and became an indirect, 100 percent owned subsidiary of the Company. On May 9, 2017, FCF US and the Company filed an automatically effective shelf registration statement with the SEC on Form F-3. If FCF US issues debt securities, they will be fully and unconditionally guaranteed by the Company. No other subsidiary of the Company will guarantee such indebtedness.

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*.

Available Liquidity

The following table summarizes our available liquidity, and includes Magneti Marelli for comparability with prior periods:

(€ million)	At December 31		
	2018	2017	2016
Cash, cash equivalents and current securities ⁽¹⁾	€ 13,397	€ 12,814	€ 17,559
Undrawn committed credit lines ⁽²⁾	7,728	7,563	6,242
Total Available liquidity⁽³⁾	€ 21,125	€ 20,377	€ 23,801

(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) Excludes the undrawn €0.1 billion long-term dedicated credit lines available to fund scheduled investments at December 31, 2018 (€0.1 billion was undrawn at December 31, 2017 and €0.3 billion was undrawn at December 31, 2016).

(3) 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 liquidity is principally denominated in U.S. Dollar and Euro. Out of the total €13.4 billion of cash, cash equivalents and current securities available at December 31, 2018 (€12.8 billion at December 31, 2017, €17.6 billion at December 31, 2016), €7.8 billion or 58.2 percent were denominated in U.S. Dollar (€7 billion, or 54.7 percent, at December 31, 2017 and €9.8 billion, or 55.7 percent, at December 31, 2016) and €1.9 billion, or 14.2 percent, were denominated in Euro (€2.3 billion, or 18.0 percent, at December 31, 2017 and €3.3 billion, or 18.8 percent, at December 31, 2016).

In March 2018, the Group amended its syndicated revolving credit facility originally signed in June 2015 and previously amended in March 2017 (as amended, the "RCF"). The amendment extended the RCF's final maturity to March 2023. The RCF, which is available for general corporate purposes and for the working capital needs of the Group, is structured in two tranches: €3.125 billion, with a 37-month tenor and two extension options of 1-year and of 11-months exercisable on the first and second anniversary of the amendment signing date, respectively, and €3.125 billion, with a 60-month tenor. The amendment was accounted for as a debt modification and, as a result, the new costs associated with the March 2018 amendment as well as the remaining unamortized debt issuance costs related to the original €5.0 billion RCF and the previous March 2017 amendment will be amortized over the life of the amended RCF. At December 31, 2018, the €6.25 billion RCF was undrawn.

In the March 2017 amendment, the original RCF was increased from €5.0 billion to €6.25 billion and the final maturity extended to March 2022. The amendment was accounted for as a debt modification and, as a result, the remaining unamortized debt issuance costs related to the original €5.0 billion RCF and the new costs associated with the amendment were amortized over the life of the RCF.

At December 31, 2018, undrawn committed credit lines totaling €7.7 billion included the €6.25 billion RCF and approximately €1.5 billion of other revolving credit facilities. At December 31, 2017, undrawn committed credit lines totaling €7.6 billion included the €6.25 billion RCF and approximately €1.3 billion of other revolving credit facilities.

The €0.7 billion increase in total available liquidity from December 31, 2017 to December 31, 2018 primarily reflects positive net cash flow for the year, which is cash flow from operating activities, net of cash used in investing activities and cash used in financing activities, for the year. Refer to the section *Cash Flows* below for additional information.

Cash Flows

Year Ended December 31, 2018 compared to the Years Ended December 31, 2017 and 2016

The following table summarizes the cash flows from operating, investing and financing activities for each of the years ended December 31, 2018, 2017 and 2016. 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.

(€ million)	Years ended December 31,		
	2018 ⁽¹⁾	2017 ⁽¹⁾	2016 ⁽¹⁾
Cash flows from operating activities - continuing operations	€ 9,464	€ 9,680	€ 9,912
Cash flows from operating activities - discontinued operations	484	705	682
Cash flows used in investing activities - continuing operations	(6,106)	(8,726)	(8,490)
Cash flows used in investing activities - discontinued operations	(632)	(570)	(549)
Cash flows used in financing activities - continuing operations	(2,695)	(4,287)	(5,126)
Cash flows used in financing activities - discontinued operations	(90)	(186)	(1)
Translation exchange differences	106	(1,296)	228
Total change in cash and cash equivalents	531	(4,680)	(3,344)
Cash and cash equivalents at beginning of the period	12,638	17,318	20,662
Total change in cash and cash equivalents	531	(4,680)	(3,344)
Less: Cash and cash equivalents at end of the period included within Assets held for sale	719	—	—
Cash and cash equivalents at end of the period	€ 12,450	€ 12,638	€ 17,318

(1) The cash flows of the Group for the years ended December 31, 2018, 2017 and 2016 have been re-presented following the classification of Magneti Marelli as a discontinued operation for the year ended December 31, 2018; Magneti Marelli operating results were excluded from the Group's continuing operations and are presented as a single line item within the Consolidated Income Statement for the each of the periods presented. 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, while the assets and liabilities of Magneti Marelli have not been classified as such within the comparative Consolidated Statement of Financial Position for any of the periods presented. Amounts exclude transactions and balances between Magneti Marelli and other companies of the Group, refer to Note 3, Scope of consolidation within our Consolidated Financial Statements included elsewhere within the report for additional information.

Operating Activities — Year Ended December 31, 2018

For the year ended December 31, 2018, net cash from operating activities of €9,948 million was primarily the result of: (i) net profit from continuing operations of €3,330 million adjusted to add back €5,507 million for depreciation and amortization expense; in addition to (ii) a net increase of €913 million in provisions primarily due to a provision of €748 million recognized for costs related to final settlements reached on civil, environmental and consumer claims related to U.S. diesel emissions matters; (iii) €457 million in relation to the decrease in net deferred tax assets, mainly due to increased deferred tax liabilities in NAFTA and (iii) cash flow from operating activities of discontinued operations of €484 million. These positive impacts were partially offset by the negative effect of the change in working capital of €1,106 million primarily driven by (a) a decrease in trade payables of €1,240 million related to lower production volumes in EMEA during the three months ended December 31, 2018 compared to the same period in 2017, (b) decrease in other payables, net of receivables of €1,284 million mainly as a result of higher indirect tax receivables in LATAM, decreased income tax payables in NAFTA and lower advance from customers in LATAM and EMEA, and partially offset by (c) a decrease in inventories of €1,399 million due to inventory management actions across all the regions.

Operating Activities — Year Ended December 31, 2017

For the year ended December 31, 2017, net cash from operating activities of €10,385 million was primarily the result of: (i) net profit from continuing operations of €3,291 million adjusted to add back €5,474 million for depreciation and amortization expense, in addition to a net decrease of €1,075 million in deferred tax assets mainly related to LATAM, and other non-cash items of €197 million; (ii) €102 million dividends received mainly from our equity method investments; and (iii) the negative effect of the change in working capital of €539 million primarily driven by (a) €1,596 million increase in inventories related to ramp-up of new models at year end, including the all-new Alfa Romeo Stelvio and the new Jeep Wrangler, as well as volume increases in LATAM and Maserati, and (b) increase in trade receivables of €157 million, which were partially offset by (c) increase in trade payables of €937 million primarily related to increased production volumes in NAFTA and LATAM in the fourth quarter of 2017 as compared to the same period in 2016, and (d) a €277 million positive impact from increases in other payables and receivables, primarily related to tax payables and higher deferred revenue.

Operating Activities — Year Ended December 31, 2016

For the year ended December 31, 2016, net cash from operating activities of €10,594 million was primarily the result of (i) net profit from continuing operations of €1,713 million adjusted to add back €5,549 million for depreciation and amortization expense and other non-cash items of €87 million, (ii) a net increase of €1,453 million in provisions mainly due to the increase in the warranty provision of €414 million in NAFTA for recall campaigns related to an industry wide recall for airbag inflators resulting from parts manufactured by Takata, estimated net costs of €132 million associated with a recall for which costs are being contested with a supplier, and an increase in accrued sales incentives primarily related to NAFTA and EMEA; (iii) €123 million dividends received mainly from our equity method investments and (iv) the positive effect of the change in working capital of €646 million that was primarily driven by (a) decrease in trade receivables of €131 million, (b) increase in trade payables of €729 million mainly related to increased production levels in EMEA, that was partially offset by reduced activity in LATAM and the effect of localized Jeep production in China, (c) €280 million increase in other payables and receivables primarily related to the net payment of taxes and deferred expenses, which were partially offset by (d) €494 million increase in inventories mainly related to the increased production of new vehicle models in EMEA.

Investing Activities — Year Ended December 31, 2018

For the year ended December 31, 2018, net cash used in investing activities of €6,738 million was primarily the result of (i) €5,392 million of capital expenditures, including €2,079 million of capitalized development expenditures primarily related to NAFTA and EMEA, that supported investments in existing and future products, including investments in electrification and autonomous driving, and (ii) a €676 million net increase in receivables from financing activities primarily related to the increase in the lending portfolio of the financial services activities in LATAM, EMEA and in APAC.

Investing Activities — Year Ended December 31, 2017

For the year ended December 31, 2017, net cash used in investing activities of €9,296 million was primarily the result of (i) €8,105 million of capital expenditures, including €2,431 million of capitalized development expenditures primarily related to NAFTA and EMEA, that supported investments in existing and future products, including investments in electrification and autonomous driving, and (ii) an €836 million net increase in receivables from financing activities primarily related to the increase in the lending portfolio of the financial services activities of the Group in China and Europe, which were partially offset by (iii) proceeds received of €144 million from the sale of FCA's investment in CNH Industrial N.V. ("CNHI"), which were recognized in the line Change in securities within the Statement of Cash Flows (refer to Note 13, *Other Financial assets* in the Consolidated Financial Statements included elsewhere in this report).

Investing Activities — Year Ended December 31, 2016

For the year ended December 31, 2016, net cash used in investing activities of €9,039 million was primarily the result of (i) €8,241 million of capital expenditures, including €2,395 million of capitalized development expenditures that supported investments in existing and future products, which primarily related to the mass-market vehicle operations in NAFTA and EMEA as well as the investment in the Alfa Romeo brand, (ii) a total of €113 million for investments in joint ventures, associates and unconsolidated subsidiaries that primarily related to an additional investment in the GAC FCA JV and (iii) €488 million of a net increase in receivables from financing activities that primarily related to the increase in lending portfolio of the financial services activities of the Group in China and Europe.

Financing Activities —Year Ended December 31, 2018

For the year ended December 31, 2018, net cash used in financing activities of €2,785 million was primarily the result of (i) the payment in November 2018 of the outstanding principal and accrued interest of U.S. \$1,009 million (€893 million) FCA US's tranche B term loan maturing December 31, 2018 (the “Tranche B Term Loan due 2018”), (ii) the repayment at maturity of two notes under the Medium Term Note Programme (“MTN Programme”, previously referred to as the Global Medium Term Note Programme, or “GMTN” Programme), one with a principal amount of €1,250 million and one with a principal amount of €600 million.

Financing Activities —Year Ended December 31, 2017

For the year ended December 31, 2017, net cash used in financing activities of €4,473 million was primarily the result of (i) the voluntary prepayment in February 2017 of the outstanding principal and accrued interest of U.S.\$1,826 million (€1,721 million) FCA US's tranche B term loan maturing May 24, 2017 (the “Tranche B Term Loan due 2017”), (ii) the repayment at maturity of three notes under the MTN Programme, one with a principal amount of €850 million, one with a principal amount of €1,000 million and one with a principal amount of CHF 450 million (€385 million), and (iii) the repayment of other long-term debt, net of proceeds, of a principal amount of €889 million.

Financing Activities —Year Ended December 31, 2016

For the year ended December 31, 2016, net cash used in financing activities of €5,127 million was primarily the result of (i) the repayment at maturity of three notes issued under the MTN Programme, two of which were for an aggregate principal amount of €2,000 million and one for a principal amount of CHF 400 million (€373 million) and (ii) the repayment of other long-term debt for a total of €4,605 million, which included the (a) €1,800 million (U.S.\$2.0 billion) of cash used for the voluntary prepayments of principal of FCA US's Tranche B Term Loans (refer to the section *Capital Market and Other Financing Transactions* below), (b) the payment of the financial liability related to the mandatory convertible securities of €213 million upon their conversion to FCA shares and (c) repayments at maturity of other long-term debt of €2,605 million primarily in Brazil, which were partially offset by (iii) the issuance of a new note under the MTN Programme for a principal amount of €1,250 million (refer to the section *Capital Market and Other Financing Transactions* below) and (iv) proceeds from other long-term debt for a total of €1,309 million, which included the proceeds from the €250 million loan entered into with the European Investment Bank (“EIB”) in December 2016 (refer to the section *Capital Market and Other Financing Transactions* below).

Net Cash/(Debt)

The following table details our Net cash/(debt) at December 31, 2018 and 2017 and provides a reconciliation of this non-GAAP measure to Debt, which is the most directly comparable measure included in our Consolidated Statement of Financial Position.

(€ million)	At December 31					
	2018 ⁽¹⁾			2017 ⁽¹⁾		
	Industrial Activities	Financial Services	Consolidated	Industrial Activities	Financial Services	Consolidated
Third parties debt (principal)	€ (12,174)	€ (2,406)	€ (14,580)	€ (16,375)	€ (1,647)	€ (18,022)
<i>Capital market</i> ⁽²⁾	(7,699)	(413)	(8,112)	(9,443)	(308)	(9,751)
<i>Bank debt</i>	(3,850)	(1,548)	(5,398)	(6,219)	(986)	(7,205)
<i>Other debt</i> ⁽³⁾	(625)	(445)	(1,070)	(713)	(353)	(1,066)
Accrued interest and other adjustments ⁽⁴⁾	52	—	52	53	(2)	51
Debt with third parties, from continuing operations	(12,122)	(2,406)	(14,528)	(16,322)	(1,649)	(17,971)
Debt classified as held for sale	(177)	—	(177)	—	—	—
Debt with third parties including discontinued operations	(12,299)	(2,406)	(14,705)	(16,322)	(1,649)	(17,971)
Intercompany, net ⁽⁵⁾	560	(560)	—	844	(844)	—
Current financial receivables from jointly-controlled financial services companies ⁽⁶⁾	242	—	242	285	—	285
Debt, net of intercompany and current financial receivables from jointly-controlled financial services companies including discontinued operations	(11,497)	(2,966)	(14,463)	(15,193)	(2,493)	(17,686)
Derivative financial assets/(liabilities), net and collateral deposits ⁽⁷⁾	150	1	151	204	2	206
Current debt securities ⁽⁸⁾	219	—	219	176	—	176
Cash and cash equivalents	12,275	175	12,450	12,423	215	12,638
Cash and cash equivalents, current debt securities and derivative financial assets/(liabilities), net classified as held for sale ⁽⁹⁾	725	—	725	—	—	—
Total Net cash/(debt)	€ 1,872	€ (2,790)	€ (918)	€ (2,390)	€ (2,276)	€ (4,666)

(1) 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, while the assets and liabilities of Magneti Marelli have not been classified as such within the comparative Consolidated Statement of Financial Position for any of the periods presented. Amounts above at December 31, 2018, exclude balances between Magneti Marelli and other companies of the Group (net financial payables due from Magneti Marelli to other group companies of €444 million as at December 31, 2018). Refer to Note 3, Scope of consolidation within our Consolidated Financial Statements included elsewhere within the report for additional information.

(2) Includes notes issued under the Medium Term Programme, or MTN Programme, and other notes (€7,699 million at December 31, 2018 and €9,422 million at December 31, 2017) and other debt instruments (€413 million at December 31, 2018 and €329 million at December 31, 2017) issued in financial markets, mainly from LATAM financial services companies.

(3) Includes asset-backed financing, i.e. sales of receivables for which de-recognition is not allowed under IFRS (€464 million December 31, 2018 and €360 million at December 31, 2017) and arrangements accounted for as a lease under IFRIC 4 - Determining whether an arrangement contains a lease, and other debt.

(4) Includes adjustments for fair value accounting on debt and net (accrued)/deferred interest and other amortizing cost adjustments.

(5) Net amount between industrial activities entities' financial receivables due from financial services entities (€958 million at December 31, 2018 and €983 million at December 31, 2017) and industrial activities entities' financial payables due to financial services entities (€398 million at December 31, 2018 and €139 million at December 31, 2017).

(6) Financial receivables due from FCA Bank.

(7) Fair value of derivative financial instruments (net positive €90 million at December 31, 2018 and net positive €145 million at December 31, 2017) and collateral deposits (€61 million at December 31, 2018 and €61 million at December 31, 2017).

(8) Excludes certain debt securities held pursuant to applicable regulations (€72 million at December 31, 2018 and €59 million December 31, 2017).

(9) Includes €9 million of current debt securities. There were no collateral deposits classified as held for sale.

As of December 31, 2018, Net debt was €0.9 billion, €3.7 billion lower as compared to €4.7 billion as at December 31, 2017. Net debt from industrial activities improved by €4.3 billion (refer to *Change in Net Industrial Cash/(Debt)*, below), which was partially offset by an increase of €0.5 billion in net debt from financial services that was used to support the increase in financing activities in LATAM, EMEA and, to a lesser extent, APAC.

Change in Net Industrial Cash/(Debt)

As described in *Non-GAAP Financial Measures*, Net industrial cash/(debt) is a measure for analyzing our financial leverage and capital structure. The following section sets forth an explanation of the changes in our Net industrial cash/(debt) during 2018 and 2017, including discontinued operations.

At December 31, 2018, Net industrial cash of €1,872 million improved by €4,262 million from a Net industrial debt position of €(2,390) million at December 31, 2017 primarily as a result of (i) cash flow from industrial operating activities of €9,889 million, which represents the majority of the consolidated cash flow from operating activities of €9,948 million (refer to the section *Cash Flows* above), (ii) investments in property, plant and equipment and intangible assets of industrial activities of €6,025 million and (iii) positive foreign exchange translation effects of €351 million.

At December 31, 2017, Net industrial debt of €2,390 million decreased by €2,195 million from €4,585 million at December 31, 2017 primarily as a result of (i) cash flow from industrial operating activities of €10,239 million, which represents the majority of the consolidated cash flow from operating activities of €10,385 million (refer to the section *Cash Flows* above), (ii) proceeds received of €144 million from the sale of FCA's investment in CNHI as noted above, (iii) €165 million positive change in hedging derivatives positions, and (iv) a €276 million change in the scope of activities, which were partially offset by (v) investments in industrial activities of €8,663 representing investments in property, plant and equipment and intangible assets.

Capital Market and Other Financing Transactions

Notes Issued Through The MTN Programme

Certain notes issued by the Group are governed by the terms and conditions of the MTN Programme (previously known as the Global Medium Term Note Programme, or “GMTN” Programme). A maximum of €20 billion may be used under this programme, of which notes of €5.1 billion were outstanding at December 31, 2018 (€6.9 billion at December 31, 2017). Notes under the MTN Programme are issued, or otherwise guaranteed, by FCA NV. We may from time to time buy back notes in the market that have been issued. Such buybacks, if made, depend upon market conditions, the Group's financial situation and other factors which could affect such decisions.

Changes in notes issued under the MTN Programme during 2018 were due to the:

- repayment at maturity of a note in March 2018 with a principal amount of €1,250 million; and
- repayment at maturity of a note in July 2018 with a principal amount of €600 million.

Changes in notes issued under the MTN Programme during 2017 were due to the:

- repayment at maturity of a note in March 2017 with a principal amount of €850 million;
- repayment at maturity of a note in June 2017 with a principal amount of €1,000 million; and
- repayment at maturity of a note in November 2017 with a principal amount of CHF 450 million (€385 million).

As of December 31, 2018, FCA was in compliance with the covenants of the notes issued under the MTN Programme (refer to Note 21, *Debt*, within our Consolidated Financial Statements included elsewhere in this report, for information related to the outstanding notes at December 31, 2018 and 2017 under the MTN Programme and the related covenants).

Other Notes

In 2015, FCA NV issued U.S.\$1.5 billion (€1.4 billion) principal amount of 4.5 percent unsecured senior debt securities due April 15, 2020 (the “2020 Notes”) and U.S.\$1.5 billion (€1.4 billion) principal amount of 5.25 percent unsecured senior debt securities due April 15, 2023 (the “2023 Notes”) at an issue price of 100 percent of their principal amount. The 2020 Notes and the 2023 Notes, collectively referred to as the “Notes”, rank *pari passu* in right of payment with respect to all of FCA's existing and future senior unsecured indebtedness and senior in right of payment to any of FCA's future subordinated indebtedness and existing indebtedness, which is by its terms subordinated in right of payment to the Notes. Interest on the 2020 Notes and the 2023 Notes is payable semi-annually in April and October.

Bank Debt

FCA US Tranche B Term Loans

On November 13, 2018, FCA US prepaid the U.S.\$1,009 million (€893 million) outstanding principal and accrued interest on its Tranche B term loan maturing December 31, 2018 (the “Tranche B Term Loan due 2018”). The prepayment was made with cash on hand and resulted in a €1 million loss on extinguishment.

At December 31, 2017, €836 million, including accrued interest, was outstanding under FCA US's Tranche B Term Loan maturing December 31, 2018. On February 24, 2017, FCA US prepaid the U.S.\$1,826 million (€1,721 million) outstanding principal and accrued interest on its tranche B term loan maturing May 24, 2017 (the “Tranche B Term Loan due 2017”). The prepayment was made with cash on hand and resulted in a €3 million loss on extinguishment. On April 12, 2017, FCA US amended the credit agreement that governs the Tranche B Term Loan due 2018, reducing the applicable interest rate spreads by 0.50 percent per annum and reduced the LIBOR floor by 0.75 percent per annum, to 0.00 percent. For the years ended December 31, 2018, 2017 and 2016, interest was accrued based on LIBOR.

On March 15, 2016, FCA US entered into amendments to the credit agreements that govern the Tranche B Term Loans, to, among other items, eliminate covenants restricting the provision of guarantees and payment of dividends by FCA US for the benefit of the rest of the Group, to enable a unified financing platform and to provide free flow of capital within the Group. In conjunction with these amendments, FCA US made a U.S.\$2.0 billion (€1.8 billion) voluntary prepayment of principal at par with cash on hand, of which U.S.\$1,288 million (€1,159 million) was applied to the Tranche B Term Loan due 2017 and U.S.\$712 million (€641 million) was applied to the Tranche B Term Loan due 2018. Accrued interest related to the portion of principal prepaid of the Tranche B Term Loans and related transaction fees were also paid.

The prepayments of principal were accounted for as debt extinguishments, and as a result, a non-cash charge of €10 million was recorded within Net financial expenses in the Consolidated Income Statement for the year ended December 31, 2016, which consisted of the write-off of the remaining unamortized debt issuance costs. The amendments to the remaining principal balance were analyzed on a lender-by-lender basis and accounted for as debt modifications in accordance with IAS 39 - *Financial Instruments: Recognition and Measurement*. As such, the debt issuance costs for each of the amendments were capitalized and amortized over the respective remaining terms of the Tranche B Term Loans.

European Investment Bank Borrowings

FCA has financing agreements with the European Investment Bank (“EIB”) for a total of €0.7 billion outstanding at December 31, 2018 (€1.1 billion outstanding at December 31, 2017), which included the residual debt due under the following facilities:

- the facility for €250 million (maturing in December 2019) entered into in December 2016 to support the Group's investment plan (2017-2019) in research and development centers in Italy, which includes a number of key objectives such as greater fuel efficiency, a reduction in CO₂ emissions by petrol and alternative fuel engines and the study of new hybrid architectures, as well as certain capital expenditures for facilities located in southern Italy;
- the facility for €500 million (maturing in June 2021), entered into in May 2011 (guaranteed by SACE and the Serbian Authorities) for an investment program relating to the modernization and expansion of production capacity of an automotive plant in Serbia; and

- the facility for €420 million (maturing in June 2022), entered into in June 2018 to support research and development projects to be implemented by FCA during the period 2018-2020.

Brazil

Our Brazilian subsidiaries have access to various local bank facilities in order to fund investments and operations. Total debt outstanding under those facilities amounted to a principal amount of €2.3 billion at December 31, 2018 (€3.2 billion at December 31, 2017). The loans primarily include subsidized loans granted by public financing institutions such as Banco Nacional do Desenvolvimento (“BNDES”), with the aim to support industrial projects in certain areas. This provided the Group the opportunity to fund large investments in Brazil with loans of sizeable amounts at attractive rates. At December 31, 2018, outstanding subsidized loans amounted to €1.4 billion (€2.1 billion at December 31, 2017), of which approximately €1.0 billion (€1.3 billion at December 31, 2017), related to the construction of the plant in Pernambuco (Brazil), which has been supported by subsidized credit lines totaling Brazilian Real (“BRL”) 6.5 billion (€1.5 billion). Approximately €0.1 billion (€0.1 billion at December 31, 2017), of committed credit lines contracted to fund scheduled investments in the area were undrawn at December 31, 2018.

Mexico Bank Loan

FCA Mexico, S.A. de C.V., (“FCA Mexico”), our principal operating subsidiary in Mexico, has a USD-denominated non-revolving loan agreement (“Mexico Bank Loan”) maturing on March 20, 2022 and bears interest at one-month LIBOR plus 3.35 percent per annum. At December 31, 2018, the Mexico Bank Loan had an outstanding balance of €0.3 billion (€0.4 billion at December 31, 2017). As of December 31, 2018, we may prepay all or any portion of the loan without premium or penalty. The Mexico Bank Loan requires FCA Mexico to maintain certain fixed assets as collateral, and comply with certain covenants, including, but not limited to, financial maintenance covenants, limitations on liens, incurrence of debt and asset sales. As of December 31, 2018, FCA Mexico was in compliance with all covenants under the Mexico Bank Loan (refer to Note 21, *Debt*, within our Consolidated Financial Statements included elsewhere in this report, for information related to the covenants).

Other Debt

During the year ended December 31, 2018, Other debt remained in line with the year ended December 31, 2017.

During the year ended December 31, 2017, FCA US's Canadian subsidiary made payments on the Canada Health Care Trust (“HCT”) Tranche B Note totaling €272 million, which included a scheduled payment of principal and accrued interest, and the prepayment of the remaining scheduled payments due on the Canada HCT Tranche B Note. The prepayment, of €226 million, was accounted for as a debt extinguishment, and as a result, a gain on extinguishment of €9 million was recorded within Net financial expenses in the Consolidated Income Statement for the year ended December 31, 2017. This Canada HCT Note represented FCA US's principal Canadian subsidiary's remaining financial liability to the Canadian Health Care Trust arising from the settlement of its obligations for postretirement health care benefits for National Automobile, Aerospace, Transportation and General Workers Union of Canada “CAW” (now part of Unifor), which represented employees, retirees and dependents.

Debt secured by assets

At December 31, 2018, debt secured by assets of the Group amounted to €1,095 million (€1,348 million at December 31, 2017), of which €261 million (€281 million at December 31, 2017) was due to creditors for assets acquired under finance leases and the remaining amount mainly related to subsidized financing in Latin America.

The total carrying amount of assets acting as security for loans for the Group (excluding the amounts secured in relation to the Tranche B Term Loan) amounted to €2,214 million at December 31, 2018 (€2,372 million at December 31, 2017) (Note 11, *Property, plant and equipment*). At December 31, 2017, debt secured by assets of FCA US, in relation the Tranche B Term Loan amounted to €836 million.

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, 2018, 2017 and 2016. The amounts below include Magneti Marelli for comparability with prior periods and previously provided guidance:

(€ million)	Years ended December 31,		
	2018	2017	2016
Cash flows from operating activities	€ 9,464	€ 9,680	€ 9,912
Less: Operating activities not attributable to industrial activities	(59)	(159)	(67)
Less: Capital expenditures for industrial activities	(6,025)	(8,663)	(8,812)
Add back: Discretionary pension contribution, net of tax	478	—	—
Industrial free cash flows	€ 4,342	€ 1,563	€ 1,715

Excluding impacts from discretionary pensions contributions, net of tax, cash flows from operating activities were €9,942 million in 2018, €268 million higher than in 2017. Capital expenditures for industrial activities decreased €2,638 million as compared to 2017.

The decrease in Industrial free cash flows of €152 million in 2017 as compared to 2016 primarily related to lower cash flows from continuing operations.

FINANCIAL STATEMENTS

FCA CONSOLIDATED FINANCIAL STATEMENTS

FIAT CHRYSLER AUTOMOBILES N.V. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Fiat Chrysler Automobiles N.V.

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial position of Fiat Chrysler Automobiles N.V. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board, as well as International Financial Reporting Standards as adopted by the European Union.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EY S.p.A.

We have served as the Company's auditor since 2012.

Turin, Italy
February 22, 2019

FIAT CHRYSLER AUTOMOBILES N.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(in € million, except per share amounts)

	Note	Years ended December 31,		
		2018	2017	2016
Net revenues	4	€ 110,412	€ 105,730	€ 105,798
Cost of revenues		95,011	89,710	90,927
Selling, general and other costs		7,318	7,177	7,388
Research and development costs	5	3,051	2,903	2,930
Result from investments:		235	399	310
<i>Share of the profit of equity method investees</i>	12	240	400	308
<i>Other income from investments</i>		(5)	(1)	2
Reversal of a Brazilian indirect tax liability	22	—	895	—
Gains on disposal of investments		—	76	13
Restructuring costs		103	86	68
Net financial expenses	6	1,056	1,345	1,858
Profit before taxes		4,108	5,879	2,950
Tax expense	7	778	2,588	1,237
Net profit from continuing operations		3,330	3,291	1,713
Profit from discontinued operations, net of tax	3	302	219	101
Net profit		€ 3,632	€ 3,510	€ 1,814
Net profit attributable to:				
Owners of the parent		€ 3,608	€ 3,491	€ 1,803
Non-controlling interests		24	19	11
		<u>€ 3,632</u>	<u>€ 3,510</u>	<u>€ 1,814</u>
Net profit from continuing operations attributable to:				
Owners of the parent		€ 3,323	€ 3,281	€ 1,708
Non-controlling interests		7	10	5
		<u>€ 3,330</u>	<u>€ 3,291</u>	<u>€ 1,713</u>
Earnings per share:				
	27			
Basic earnings per share		€ 2.33	€ 2.27	€ 1.19
Diluted earnings per share		€ 2.30	€ 2.24	€ 1.18
Earnings per share for Net profit from continuing operations:				
	27			
Basic earnings per share		€ 2.15	€ 2.14	€ 1.13
Diluted earnings per share		€ 2.12	€ 2.11	€ 1.12

The accompanying notes are an integral part of the Consolidated Financial Statements.

FIAT CHRYSLER AUTOMOBILES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in € million)

	Note	Years ended December 31,		
		2018	2017	2016
Net profit (A)		€ 3,632	€ 3,510	€ 1,814
Items that will not be reclassified to the Consolidated Income Statement in subsequent periods:	26			
Gains/(losses) on remeasurement of defined benefit plans		317	(72)	616
Share of gains/(losses) on remeasurement of defined benefit plans for equity method investees		—	2	(5)
Gains/(losses) on equity instruments measured at fair value through other comprehensive income		(4)	14	15
Related tax impact		(76)	(18)	(265)
Items relating to discontinued operations, net of tax		2	5	(28)
Total items that will not be reclassified to the Consolidated Income Statement in subsequent periods (B1)		239	(69)	333
Items that may be reclassified to the Consolidated Income Statements in subsequent periods:	26			
Gains/(losses) on cash flow hedging instruments		(9)	129	(240)
Exchange (losses)/gains on translating foreign operations		126	(1,982)	509
Share of Other comprehensive (loss) for equity method investees		(103)	(121)	(122)
Related tax impact		(6)	(12)	69
Items relating to discontinued operations, net of tax		(91)	60	(60)
Total items that may be reclassified to the Consolidated Income Statement in subsequent periods (B2)		(83)	(1,926)	156
Total Other comprehensive income/(loss), net of tax (B1)+(B2)=(B)		156	(1,995)	489
Total Comprehensive income (A)+(B)		€ 3,788	€ 1,515	€ 2,303
Total Comprehensive income attributable to:				
Owners of the parent		€ 3,763	€ 1,491	€ 2,288
Non-controlling interests		25	24	15
		€ 3,788	€ 1,515	€ 2,303
Total Comprehensive income attributable to owners of the parent:				
Continuing operations		€ 3,558	€ 1,212	€ 2,281
Discontinued operations		205	279	7
		€ 3,763	€ 1,491	€ 2,288

The accompanying notes are an integral part of the Consolidated Financial Statements.

FIAT CHRYSLER AUTOMOBILES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in € million)

	Note	At December 31	
		2018	2017
Assets			
Goodwill and intangible assets with indefinite useful lives	9	€ 13,970	€ 13,390
Other intangible assets	10	11,749	11,542
Property, plant and equipment	11	26,307	29,014
Investments accounted for using the equity method	12	2,002	2,008
Other financial assets	13	362	482
Deferred tax assets	7	1,814	2,004
Other receivables	15	1,484	666
Tax receivables	15	71	83
Prepaid expenses and other assets		266	328
Other non-current assets		556	508
Total Non-current assets		58,581	60,025
Inventories	14	10,694	12,922
Assets sold with a buy-back commitment		1,707	1,748
Trade and other receivables	15	7,188	7,887
Tax receivables	15	419	215
Prepaid expenses and other assets		418	377
Other financial assets	13	615	487
Cash and cash equivalents	17	12,450	12,638
Assets held for sale	3	4,801	—
Total Current assets		38,292	36,274
Total Assets		€ 96,873	€ 96,299
Equity and liabilities			
Equity			
Equity attributable to owners of the parent	26	€ 24,702	€ 20,819
Non-controlling interests		201	168
Total Equity		24,903	20,987
Liabilities			
Long-term debt	21	8,667	10,726
Employee benefits liabilities	19	7,875	8,584
Provisions	20	5,561	5,770
Other financial liabilities	16	3	1
Deferred tax liabilities	7	937	388
Tax payables	22	1	74
Other liabilities	22	2,452	2,500
Total Non-current liabilities		25,496	28,043
Trade payables		19,229	21,939
Short-term debt and current portion of long-term debt	21	5,861	7,245
Employee benefit liabilities	19	595	694
Provisions	20	10,483	9,009
Other financial liabilities	16	204	138
Tax payables	22	114	309
Other liabilities	22	7,057	7,935
Liabilities held for sale	3	2,931	—
Total Current liabilities		46,474	47,269
Total Equity and liabilities		€ 96,873	€ 96,299

The accompanying notes are an integral part of the Consolidated Financial Statements.

FIAT CHRYSLER AUTOMOBILES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(in € million)

	Note	Years ended December 31,		
		2018	2017	2016
Cash flows from operating activities:				
Net profit from continuing operations		€ 3,330	€ 3,291	€ 1,713
Amortization and depreciation		5,507	5,474	5,549
Net losses on disposal of tangible and intangible assets		1	16	14
Net gains on disposal of investments		—	(76)	(13)
Other non-cash items	29	129	(197)	87
Dividends received		75	102	123
Change in provisions		913	545	1,453
Change in deferred taxes		457	1,075	435
Change due to assets sold with buy-back commitments and GDP vehicles		158	(11)	(95)
Change in inventories		1,399	(1,596)	(494)
Change in trade receivables		19	(157)	131
Change in trade payables		(1,240)	937	729
Change in other payables and receivables		(1,284)	277	280
Cash flows from operating activities - discontinued operations		484	705	682
Total		9,948	10,385	10,594
Cash flows used in investing activities:				
Investments in property, plant and equipment and intangible assets		(5,392)	(8,105)	(8,241)
Investments in joint ventures, associates and unconsolidated subsidiaries		(3)	(9)	(113)
Proceeds from the sale of tangible and intangible assets		47	54	25
Proceeds from disposal of other investments		—	4	55
Net change in receivables from financing activities		(676)	(836)	(488)
Change in securities		(75)	174	301
Other changes		(7)	(8)	(29)
Cash flows used in investing activities - discontinued operations		(632)	(570)	(549)
Total		(6,738)	(9,296)	(9,039)
Cash flows used in financing activities:				
	29			
Issuance of notes		—	—	1,250
Repayment of notes		(1,850)	(2,235)	(2,373)
Proceeds of other long-term debt		935	811	1,309
Repayment of other long-term debt		(2,852)	(3,421)	(4,605)
Net change in short-term debt and other financial assets/liabilities		1,062	561	(570)
Distributions paid		(1)	(1)	(18)
Other changes		11	(2)	(119)
Cash flows used in financing activities - discontinued operations		(90)	(186)	(1)
Total		(2,785)	(4,473)	(5,127)
Translation exchange differences		106	(1,296)	228
Total change in Cash and cash equivalents		531	(4,680)	(3,344)
Cash and cash equivalents at beginning of the period		12,638	17,318	20,662
Total change in Cash and cash equivalents		531	(4,680)	(3,344)
Less: Cash and cash equivalents at end of the period - included within Assets held for sale		719	—	—
Cash and cash equivalents at end of the period	17	€ 12,450	€ 12,638	€ 17,318

The accompanying notes are an integral part of the Consolidated Financial Statements.

FIAT CHRYSLER AUTOMOBILES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in € million)

	Attributable to owners of the parent								
	Share capital	Other reserves	Cash flow hedge reserve	Currency translation differences	Financial Assets measured at FVOCI	Remeasurement of defined benefit plans	Cumulative share of OCI of equity method investees	Non-controlling interests	Total
At December 31, 2015	€ 17	€ 15,455	€ 70	€ 2,492	€ (26)	€ (1,098)	€ (105)	€ 163	€ 16,968
Capital Increase	—	—	—	—	—	—	—	18	18
Mandatory Convertible Securities (Note 26)	2	(2)	—	—	—	—	—	—	—
Share-based compensation	—	98	—	—	—	—	—	—	98
Net profit	—	1,803	—	—	—	—	—	11	1,814
Other comprehensive income/(loss)	—	—	(182)	456	15	324	(128)	4	489
Other changes	—	(42)	49	(36)	—	6	—	(11)	(34)
At December 31, 2016	19	17,312	(63)	2,912	(11)	(768)	(233)	185	19,353
Capital increase	—	—	—	—	—	—	—	3	3
Demerger of Itedi S.p.A	—	(64)	—	—	—	5	—	(28)	(87)
Distributions	—	—	—	—	—	—	—	(1)	(1)
Share-based compensation	—	115	—	—	—	—	—	—	115
Net profit	—	3,491	—	—	—	—	—	19	3,510
Other comprehensive income/(loss)	—	—	131	(1,942)	14	(84)	(119)	5	(1,995)
Other changes	—	67	—	—	—	37	—	(15)	89
At December 31, 2017	19	20,921	68	970	3	(810)	(352)	168	20,987
Impact from the adoption of IFRS 15 and IFRS 9	—	21	—	—	—	—	—	—	21
At January 1, 2018	19	20,942	68	970	3	(810)	(352)	168	21,008
Capital increase	—	—	—	—	—	—	—	11	11
Distributions	—	—	—	—	—	—	—	(1)	(1)
Share-based compensation	—	82	—	—	—	—	—	—	82
Net profit	—	3,608	—	—	—	—	—	24	3,632
Other comprehensive income/(loss)	—	—	(22)	41	(4)	243	(103)	1	156
Other changes ⁽¹⁾	—	18	(1)	—	—	—	—	(2)	15
At December 31, 2018	€ 19	€ 24,650	€ 45	€ 1,011	€ (1)	€ (567)	€ (455)	€ 201	€ 24,903

(1) Includes €1 million of deferred hedging gains transferred to inventory, net of tax

The accompanying notes are an integral part of the Consolidated Financial Statements.

FIAT CHRYSLER AUTOMOBILES N.V. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activities

On January 29, 2014, the Board of Directors of Fiat S.p.A. (“Fiat”) approved a proposed corporate reorganization resulting in the formation of Fiat Chrysler Automobiles N.V. and establishing Fiat Chrysler Automobiles N.V., organized in the Netherlands, as the parent of the Group with its principal executive offices located at 25 St. James’s Street, London SW1A 1HA, United Kingdom. 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 under the name Fiat Investments N.V.

On October 12, 2014, the cross-border legal merger of Fiat into its 100 percent owned direct subsidiary Fiat Investments N.V. (the “Merger”) became effective. The Merger, which took the form of a reverse merger, resulted in Fiat Investments N.V. being the surviving entity and it was renamed Fiat Chrysler Automobiles N.V. (“FCA NV”).

Unless otherwise specified, the terms “Group”, “FCA Group”, “Company” and “FCA”, refer to FCA NV, together with its subsidiaries and its predecessor prior to the completion of the Merger, or any one or more of them, as the context may require. Any references to “Fiat” refer solely to Fiat S.p.A., the predecessor of FCA NV prior to the Merger.

The Group and its subsidiaries, of which the most significant is FCA US LLC (“FCA US”), together with its subsidiaries, are engaged in the design, engineering, manufacturing, distribution and sale of automobiles and light commercial vehicles, engines, transmission systems, metallurgical products and production systems. In addition, the Group is also involved in certain other activities, including (mainly captive) services, which represent an insignificant portion of the Group’s business. Refer to Note 3, *Scope of consolidation* for information on the presentation of Magneti Marelli as a discontinued operation.

FCA has filed a list of subsidiaries and associated companies, prepared in accordance with Sections 379 and 414, Book 2, Dutch Civil Code, at the Dutch trade register of Amsterdam.

All references in this report to “Euro” and “€” refer to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended. 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.”).

2. Basis of preparation

Authorization of Consolidated Financial Statements and compliance with International Financial Reporting Standards

The Consolidated Financial Statements, together with the notes thereto, of FCA as of and for the year ended December 31, 2018 were authorized for issuance by the Board of Directors on February 22, 2019 and have been prepared in accordance with the 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. The designation “IFRS” includes International Accounting Standards (“IAS”) as well as all interpretations of the IFRS Interpretations Committee (“IFRIC”).

Basis of preparation

The Consolidated Financial Statements are prepared under the historical cost method, modified for the measurement of certain financial instruments as required, as well as on a going concern basis. In this respect, the Group’s assessment is that no material uncertainties (as defined in IAS 1 - *Presentation of Financial Statements*) exist about its ability to continue as a going concern.

For presentation of the Consolidated Income Statement, the Group uses a classification based on the function of expenses rather than based on their nature as it is more representative of the format used for internal reporting and management purposes and is consistent with international practice in the automotive sector.

Significant accounting policies

Basis of consolidation

Subsidiaries

Subsidiaries are entities over which the Group has control. Control is achieved when the Group has power over the investee, when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns. Subsidiaries are consolidated on a line by line basis from the date which control is achieved by the Group. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Group recognizes a non-controlling interest in the acquiree on a transaction-by-transaction basis, either at fair value or at the non-controlling interest's share of the recognized amounts of the acquiree's identifiable net assets. Net profit or loss and each component of Other comprehensive income/(loss) are attributed to Equity attributable to owners of the parent and to Non-controlling interests. Total comprehensive income/(loss) of subsidiaries is attributed to Equity attributable to the owners of the parent and to the non-controlling interest even if this results in a deficit balance in Non-controlling interests.

Changes in the Group's ownership interests in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of Equity attributable to owners of the parent and Non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received in the transaction is recognized directly in Equity attributable to the owners of the parent.

Subsidiaries are deconsolidated from the date on which control ceases. When the Group ceases to have control over a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts, derecognizes the carrying amount of non-controlling interests in the former subsidiary and recognizes the fair value of any consideration received from the transaction. Any retained interest in the former subsidiary is then remeasured to its fair value.

All intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

Interests in Joint Ventures and Associates

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies.

Joint ventures and associates are accounted for using the equity method of accounting from the date joint control or significant influence is obtained. On acquisition, any excess of the investment over the share of the net fair value of the investee's identifiable assets and liabilities is recognized as goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the investee's profit/(loss) in the acquisition period.

Under the equity method, investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit/(loss) and other comprehensive income/(loss) of the investee. The Group's share of the investee's profit/(loss) is recognized in the Consolidated Income Statement. Distributions received from an investee reduce the carrying amount of the investment. Post-acquisition movements in Other comprehensive income/(loss) are recognized in Other comprehensive income/(loss) with a corresponding adjustment to the carrying amount of the investment.

Unrealized gains arising on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in the joint venture or associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

When the Group's share of the losses of a joint venture or associate exceeds the Group's interest in that joint venture or associate, the Group discontinues recognizing its share of further losses. Additional losses are provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

The Group discontinues the use of the equity method from the date the investment ceases to be an associate or a joint venture, or when it is classified as available-for-sale.

Interests in Joint Operations

A joint operation is a type of joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When the Group undertakes its activities under joint operations, it recognizes its related interest in the joint operation including: (i) its assets, including its share of any assets held jointly, (ii) its liabilities, including its share of any liabilities incurred jointly, (iii) its revenue from the sale of its share of the output arising from the joint operation, (iv) its share of the revenue from the sale of the output by the joint operation and (v) its expenses, including its share of any expenses incurred jointly.

Assets held for sale, Assets held for distribution and Discontinued Operations

Pursuant to IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*, non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset or disposal group is available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such an asset or disposal group, and the sale is highly probable, with the sale expected to be completed within one year from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are presented separately in the Consolidated Statement of Financial Position. Non-current assets and disposal groups are not classified as held for sale within the comparative period presented for the Consolidated Statement of Financial Position.

A discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale and (i) represents either a separate major line of business or a geographical area of operations, (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (iii) is a subsidiary acquired exclusively with a view to resell and the disposal involves loss of control.

Classification as a discontinued operation occurs upon disposal or, if earlier, when the asset or disposal group meets the criteria to be classified as held for sale. When the asset or disposal group is classified as a discontinued operation, the comparative information is reclassified within the Consolidated Income Statement and the Consolidated Statement of Cash Flows as if the asset or disposal group had been discontinued from the start of the earliest comparative period presented. In addition, when an asset or disposal group is classified as held for sale, depreciation and amortization cease.

The classification, presentation and measurement requirements of IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations* outlined above also apply to an asset or disposal group that is classified as held for distribution to owners, whereby there must be commitment to the distribution, the asset or disposal group must be available for immediate distribution and the distribution must be highly probable.

Foreign currency

The functional currency of the Group's entities is the currency used in their respective primary economic environments. In individual companies, transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the date of the Consolidated Statement of Financial Position. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those initially recorded, are recognized in the Consolidated Income Statement.

All assets and liabilities of foreign consolidated companies with a functional currency other than the Euro are translated using the closing rates as at the date of the Consolidated Statement of Financial Position. Income and expenses are translated into Euro at the average exchange rate for the period. Translation differences arising from the application of this method are classified within Other comprehensive income/(loss) until the disposal of the subsidiary. Average exchange rates for the period are used in preparing the Consolidated Statement of Cash Flows to translate the cash flows of foreign subsidiaries.

The principal exchange rates used to translate other currencies into Euro were as follows:

	2018		2017		2016	
	Average	At December 31	Average	At December 31	Average	At December 31
U.S. Dollar (U.S.\$)	1.181	1.145	1.130	1.199	1.107	1.054
Brazilian Real (BRL)	4.308	4.444	3.605	3.973	3.857	3.431
Chinese Renminbi (CNY)	7.808	7.875	7.629	7.804	7.352	7.320
Canadian Dollar (CAD)	1.529	1.561	1.465	1.504	1.466	1.419
Mexican Peso (MXN)	22.705	22.492	21.329	23.661	20.664	21.772
Polish Zloty (PLN)	4.261	4.301	4.257	4.177	4.363	4.410
Argentine Peso (ARS) ⁽¹⁾	43.074	43.074	18.683	22.595	16.327	16.707
Pound Sterling (GBP)	0.885	0.895	0.877	0.887	0.819	0.856
Swiss Franc (CHF)	1.155	1.127	1.112	1.170	1.090	1.074

(1) From July 1, 2018, Argentina's economy was considered to be hyperinflationary. Transactions after July 1, 2018 for entities with the Argentinian Peso as the functional currency were translated using the December 31, 2018 closing spot rate.

Intangible assets

Goodwill

Goodwill represents the excess of the fair value of consideration paid in a business combination over the fair value of net tangible and identifiable intangible assets acquired. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives consist principally of brands which have no legal, contractual, competitive, economic or other factors that limit their useful lives. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Development expenditures

Development expenditures for vehicle production and related components, engines and production systems are recognized as an asset if both of the following conditions within IAS 38 – *Intangible assets* are met: (i) that development expenditure can be measured reliably and (ii) that the technical feasibility of the product, projected volumes and pricing support the view that the development expenditure will generate future economic benefits. Capitalized development expenditures include all direct and indirect costs that may be directly attributed to the development process. All other development expenditures are expensed as incurred.

Capitalized development expenditures are amortized on a straight-line basis from the beginning of production over the expected life cycle of the models (generally 5-6 years) or powertrains (generally 10-12 years) developed.

Property, plant and equipment

Cost

Property, plant and equipment is initially recognized at cost and includes the purchase price, any costs directly attributable to bringing the assets to the location and condition necessary to be capable of operating in the manner intended by management and any initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Self-constructed assets are initially recognized at production cost. Subsequent expenditures and the cost of replacing parts of an asset are capitalized only if they increase the future economic benefits embodied in that asset. All other expenditures are expensed as incurred. When such replacement costs are capitalized, the carrying amount of the parts that are replaced is expensed to the Consolidated Income Statement.

Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position within Debt.

Depreciation

During the years ended December 31, 2018, 2017 and 2016, assets depreciated on a straight-line basis over their estimated useful lives used the following depreciation rates:

	Depreciation rates
Buildings	3% - 8%
Plant, machinery and equipment	3% - 33%
Other assets	5% - 33%

Leases under which the lessor retains substantially all the risks and rewards of ownership of the leased assets are classified as operating leases. Operating lease expenditures are expensed on a straight-line basis over the respective lease term.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of property, plant or equipment or an intangible asset that is deemed to be a qualifying asset as defined in IAS 23 - *Borrowing Costs* are capitalized. The amount of borrowing costs eligible for capitalization corresponds to the actual borrowing costs incurred during the period, less any investment income on the temporary investment of any borrowed funds not yet used. The amount of borrowing costs capitalized in the year ended December 31, 2018 and 2017 was €155 million and €225 million, respectively.

Impairment of long-lived assets

Annually, or more frequently if facts or circumstances indicate otherwise, the Group assesses whether there is any indication that its finite-lived intangible assets (including capitalized development expenditures) and its property, plant and equipment may be impaired.

If indications of impairment are present, the carrying amount of the asset is reduced to its recoverable amount which is the higher of fair value less costs of disposal and its value in use. The recoverable amount is determined for the individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of the cash-generating unit (“CGU”) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In assessing the value in use of an asset or CGU, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the recoverable amount is lower than the carrying amount.

When an impairment loss for assets no longer exists or has decreased, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount but not in excess of the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized in the Consolidated Income Statement. Refer to the section *Use of estimates* below for additional information.

Financial assets and liabilities

Refer to *New standards and amendments effective January 1, 2018* below for information on the Group's adoption of IFRS 9 - *Financial Instruments*.

Transfers of financial assets

Refer to *New standards and amendments effective January 1, 2018* below for information on the Group's adoption of IFRS 9 - *Financial Instruments*.

Inventories

Raw materials, semi-finished products and finished goods inventories are stated at the lower of cost and net realizable value, with cost being determined on a first-in, first-out (“FIFO”) basis. The measurement of Inventories includes the direct cost of materials and labor as well as indirect costs (variable and fixed). A provision is made for obsolete and slow-moving raw materials, finished goods, spare parts and other supplies based on their expected future use and realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs for sale and distribution.

The measurement of production systems construction contracts is based on the stage of completion, which is determined as the proportion of cost incurred at the balance sheet date over the estimated total contract cost. These items are presented net of progress billings received from customers. Any losses on such contracts are recorded in the Consolidated Income Statement in the period in which they are identified.

Employee benefits

Defined contribution plans

Costs arising from defined contribution plans are expensed as incurred.

Defined benefit plans

The Group's net obligations are determined separately for each defined benefit plan by estimating the present value of future benefits that employees have earned and deducting the fair value of any plan assets. The present value of defined benefit obligations is measured using actuarial techniques and actuarial assumptions that are unbiased, mutually compatible and attribute benefits to periods in which the obligation to provide post-employment benefits arise by using the Projected Unit Credit Method. Plan assets are recognized and measured at fair value.

When the net obligation is a potential asset, the recognized amount is limited to the present value of any economic benefits available in the form of future refunds or reductions in future contributions to the plan (asset ceiling).

The components of defined benefit cost are recognized as follows:

- Service cost is recognized in the Consolidated Income Statement by function and is presented within the relevant line items (Cost of revenues, Selling, general and other costs, and Research and development costs);
- Net interest expense on the defined benefit liability/(asset) is recognized in the Consolidated Income Statement within Net financial expenses and is determined by multiplying the net liability/(asset) by the discount rate used to discount obligations taking into account the effect of contributions and benefit payments made during the year; and
- Remeasurement components of the net obligation, which comprise actuarial gains and losses, the return on plan assets (excluding interest income recognized in the Consolidated Income Statement) and any change in the effect of the asset ceiling are recognized immediately in Other comprehensive income/(loss). These remeasurement components are not reclassified to the Consolidated Income Statement in a subsequent period.

Past service costs arising from plan amendments and curtailments and gains and losses on the settlement of a plan are recognized immediately in the Consolidated Income Statement.

Other long term employee benefits

The Group's obligations represent the present value of future benefits that employees have earned in return for their service. Remeasurement components on other long term employee benefits are recognized in the Consolidated Income Statement in the period in which they arise.

Share-based compensation

The Group has several compensation plans that provide for the granting of share-based compensation to certain employees and directors. Share-based compensation plans are accounted for in accordance with IFRS 2 - *Share-based Payment*, which requires the recognition of share-based compensation expense based on fair value. Compensation expense for equity-classified awards is measured at the grant date based on the fair value of the award using the Monte Carlo simulation model, which requires the input of subjective assumptions, including the expected volatility of our common shares, interest rates and a correlation coefficient between our common shares and the relevant market index. For those awards with post-vesting contingencies, we apply an adjustment to account for the probability of meeting the contingencies.

Management uses its best estimates incorporating both publicly observable data and discounted cash flow methodologies in the measurement of fair value for liability-classified awards, which are remeasured to fair value at each balance sheet date until the award is settled.

Compensation expense is recognized over the vesting period with an offsetting increase to equity or other liabilities depending on the nature of the award. Share-based compensation expense related to plans with graded vesting is recognized using the graded vesting method. Share-based compensation expense is recognized within Selling, general and other costs within the Consolidated Income Statement.

Revenue recognition

Refer to *New standards and amendments effective January 1, 2018* below for information on the Group's adoption of IFRS 15 - *Revenue from contracts with customers*.

Cost of revenues

Cost of revenues comprises expenses incurred in the manufacturing and distribution of vehicles and parts. The most significant element is the cost of materials and components and the remaining costs include labor (consisting of direct and indirect wages), transportation costs, depreciation of property, plant and equipment and amortization of other intangible assets relating to production. In addition, expenses which are directly attributable to the financial services companies, including interest expense related to their financing as a whole and provisions for risks and write-downs of assets, are recorded within Cost of revenues (€75 million, €68 million and €91 million for the years ended December 31, 2018, 2017 and 2016, respectively). Cost of revenues also included €293 million, €397 million and €384 million related to the decrease in value for assets sold with buy-back commitments for the years ended December 31, 2018, 2017 and 2016, respectively. In addition, estimated costs related to product warranty and recall campaigns are recorded within Cost of revenues (refer to the section *Use of estimates* below for further information).

Government Grants

Government grants are recognized in the Consolidated Financial Statements when there is reasonable assurance of the Group's compliance with the conditions for receiving such grants and that the grants will be received. Government grants are recognized as income over the same periods as the related costs which they are intended to offset.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying amount of the loan (fair value plus transaction costs) and the proceeds received, and it is accounted for in accordance with the policies used for the recognition of government grants.

Taxes

Income taxes include all taxes which are based on the taxable profits of the Group. Current and deferred taxes are recognized as a benefit or expense and are included in the Consolidated Income Statement for the period, except for tax arising from (i) a transaction or event which is recognized, in the same or a different period, either in Other comprehensive income/(loss) or directly in Equity, or (ii) a business combination.

Deferred taxes are accounted for under the full liability method. Deferred tax liabilities are recognized for all taxable temporary differences between the carrying amounts of assets or liabilities and their tax base, except to the extent that the deferred tax liabilities arise from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax assets arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the substantively enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to the period when the asset is realized or liability is settled.

The Group recognizes deferred tax liabilities associated with the existence of a subsidiary's undistributed profits when it is probable that this temporary difference will not reverse in the foreseeable future, except when it is able to control the timing of the reversal of the temporary difference. The Group recognizes deferred tax assets associated with the deductible temporary differences on investments in subsidiaries only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets relating to the carry-forward of unused tax losses and tax credits, as well as those arising from deductible temporary differences, are recognized to the extent that it is probable that future profits will be available against which they can be utilized. The Group monitors unrecognized deferred tax assets at each reporting date and recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current income taxes and deferred taxes are offset when they relate to the same taxation jurisdiction and there is a legally enforceable right of offset. Other taxes not based on income, such as property taxes and capital taxes, are included within Selling, general and other costs.

Refer to Note 7, *Tax expense*, for additional information on tax expense and deferred tax assets.

Fair Value Measurement

Fair value for measurement and disclosure purposes is determined as the consideration that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their own economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. In estimating fair value, we use market-observable data to the extent it is available. When market-observable data is not available, we use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

IFRS 13 - *Fair Value Measurement* establishes a hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs). In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy at the lowest level input that is significant to the entire measurement.

Levels used in the hierarchy are as follows:

- Level 1 inputs include quoted prices (unadjusted) in active markets for identical assets and liabilities that the Group can access at the measurement date. Level 1 primarily consists of financial instruments such as cash and cash equivalents and certain available-for-sale and held-for-trading securities.
- Level 2 inputs include those which are directly or indirectly observable as of the measurement date. Level 2 instruments include commercial paper and non-exchange-traded derivatives such as over-the-counter currency and commodity forwards, swaps and option contracts, which are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for similar instruments in active markets, quoted prices for identical or similar inputs not in active markets, and observable inputs.
- Level 3 inputs are unobservable from objective sources in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments. Instruments in this category include non-exchange-traded derivatives such as certain over-the-counter commodity option and swap contracts.

Refer to Note 23, *Fair value measurement*, for additional information on fair value measurements.

Use of estimates

The Consolidated Financial Statements are prepared in accordance with IFRS which requires the use of estimates, judgments and assumptions that affect the carrying amount of assets and liabilities, the disclosure of contingent assets and liabilities and the amounts of income and expenses recognized. The estimates and associated assumptions are based on management's best judgment of elements that are known when the financial statements are prepared, on historical experience and on any other factors that are considered to be relevant.

Estimates and underlying assumptions are reviewed by the Group periodically and when circumstances require. Actual results could differ from the estimates, which would require adjustment accordingly. The effects of any changes in estimates are recognized in the Consolidated Income Statement in the period in which the adjustment is made, or in future periods.

Items requiring estimates for which there is a risk that a material difference may arise in the future in respect of the carrying amounts of assets and liabilities are discussed below.

Employee Benefits

The Group provides post-employment benefits for certain of its active employees and retirees, which vary according to the legal, fiscal and economic conditions of each country in which the Group operates and may change periodically. The plans are classified by the Group on the basis of the type of benefit provided as follows: pension benefits, health care and life insurance plans and other post-employment benefits.

Group companies provide certain post-employment benefits, such as pension or health care benefits, to their employees under defined contribution plans whereby the Group pays contributions to public or private plans on a legally mandatory, contractual, or voluntary basis. The Group recognizes the cost for defined contribution plans as incurred and classifies this by function within Cost of revenues, Selling, general and other costs, and Research and development costs in the Consolidated Income Statement.

Pension plans

The Group sponsors both non-contributory and contributory defined benefit pension plans primarily in the U.S. and Canada, the majority of which are funded. Non-contributory pension plans cover certain hourly and salaried employees and the benefits are based on a fixed rate for each year of service. Additionally, contributory benefits are provided to certain salaried employees under the salaried employees' retirement plans.

The Group's defined benefit pension plans are accounted for on an actuarial basis, which requires the use of estimates and assumptions to determine the net liability or net asset. The Group estimates the present value of the projected future payments to all participants by taking into consideration parameters of a financial nature such as discount rates, the rate of salary increases and the likelihood of potential future events estimated by using demographic assumptions, which may have an effect on the amount and timing of future payments, such as mortality, dismissal and retirement rates, which are developed to reflect actual and projected plan experience. Mortality rates are developed using our plan-specific populations, recent mortality information published by recognized experts in this field, primarily the U.S. Society of Actuaries and the Canadian Institute of Actuaries, and other data where appropriate to reflect actual and projected plan experience. The expected amount and timing of contributions is based on an assessment of minimum funding requirements. From time to time, contributions are made beyond those that are legally required.

Plan obligations and costs are based on existing retirement plan provisions. Assumptions regarding any potential future changes to benefit provisions beyond those to which the Group is presently committed are not made. Significant differences in actual experience or significant changes in the following key assumption may affect the pension obligations and pension expense:

- *Discount rates.* Our discount rates are based on yields of high-quality (AA-rated) fixed income investments for which the timing and amounts of maturities match the timing and amounts of the projected benefit payments.

The effects of actual results differing from assumptions and of amended assumptions are included in Other comprehensive income/(loss). The weighted average discount rates used to determine the defined benefit obligation for the defined benefit plans were 4.3 percent and 3.7 percent at December 31, 2018 and 2017, respectively.

At December 31, 2018, the effect on the defined benefit obligation of a decrease or increase in the discount rate, holding all other assumptions constant, is as follows:

	Effect on pension benefit obligation increase/(decrease) in Net liability
	(€ million)
10 basis point decrease in discount rate	257
10 basis point increase in discount rate	(252)

Refer to Note 19, *Employee benefits liabilities*, for additional information on the Group's pension plans.

Other post-employment benefits

The Group provides health care, legal, severance, indemnity life insurance benefits and other post-retirement benefits to certain hourly and salaried employees. Upon retirement, these employees may become eligible for a continuation of certain benefits. Benefits and eligibility rules may be modified periodically.

These other post-employment benefits ("OPEB") are accounted for on an actuarial basis, which requires the selection of various assumptions. The estimation of the Group's obligations, costs and liabilities associated with OPEB requires the use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events estimated by using demographic assumptions, which may have an effect on the amount and timing of future payments, such as mortality, dismissal and retirement rates, which are developed to reflect actual and projected plan experience, as well as legal requirements for retirement in respective countries. Mortality rates are developed using our plan-specific populations, recent mortality information published by recognized experts in this field and other data where appropriate to reflect actual and projected plan experience.

Plan obligations and costs are based on existing plan provisions. Assumptions regarding any potential future changes to benefit provisions beyond those to which the Group is presently committed are not made.

Significant differences in actual experience or significant changes in the following key assumptions may affect the OPEB obligation and expense:

- *Discount rates.* Our discount rates are based on yields of high-quality (AA-rated) fixed income investments for which the timing and amounts of maturities match the timing and amounts of the projected benefit payments.
- *Health care cost trends.* The Group's health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends.

At December 31, 2018, the effect of a decrease or increase in the key assumptions affecting the health care, life insurance plans and Italian severance indemnity (*trattamento di fine rapporto* or “TFR”), holding all other assumptions constant, is shown below:

	Effect on health care and life insurance benefit obligation	Effect on the TFR benefit obligation
	(€ million)	
10 basis point / (100 basis point for TFR) decrease in discount rate	27	46
10 basis point / (100 basis point for TFR) increase in discount rate	(27)	(41)
100 basis point decrease in health care cost trend rate	(38)	—
100 basis point increase in health care cost trend rate	45	—

Refer to Note 19, *Employee benefits liabilities*, for additional information on the Group’s OPEB liabilities.

Recoverability of non-current assets with definite useful lives

Non-current assets with definite useful lives include property, plant and equipment, intangible assets and assets held for sale. Intangible assets with definite useful lives mainly consist of capitalized development expenditures primarily related to the NAFTA and EMEA segments. The Group periodically reviews the carrying amount of non-current assets with definite useful lives when events or circumstances indicate that an asset may be impaired. The recoverability of non-current assets with definite useful lives is based on the estimated future cash flows, using the Group’s current business plan, of the CGUs to which the assets relate.

The global automotive industry is experiencing significant change as a result of evolving regulatory requirements for fuel efficiency, greenhouse gas emissions and other tailpipe emissions and emerging technology changes, such as electrification and autonomous driving. Our business plan could change in response to these evolving requirements and emerging technologies. As we continue to assess the potential impacts of these evolving requirements, emerging technologies and 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 CGUs 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. 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. In addition, recoverability of certain vehicle platforms, particularly in EMEA, depends on the development and launch of additional vehicles with forecasted volumes and margins largely in line with our business plan. These uncertainties could result in either impairments of, or reductions to the expected useful lives of, these platforms, or both. Any change in recoverability would be accounted for at the time such change to the business plan occurs.

For the years ended December 31, 2018, 2017 and 2016, the impairment tests performed compared the carrying amount of the assets included in the respective CGUs to their value in use. The value in use of the CGUs was determined using a discounted cash flow methodology based primarily on unobservable inputs, including estimated pre-tax future cash flows attributable to the CGUs and a pre-tax discount rate reflecting a current market assessment of the time value of money and the risks specific to the CGUs.

During the year ended December 31, 2018, impairment losses totaling €297 million were recognized. The most significant component of this impairment loss was in EMEA, primarily resulting from changes in product plans in connection with the 2018-2022 business plan. It was determined that the carrying amount of the CGUs exceeded their value in use and accordingly, an impairment charge of €262 million was recognized in EMEA, €16 million in NAFTA, €11 million in APAC and €8 million in LATAM.

During the year ended December 31, 2017, impairment losses totaling €219 million were recognized. The most significant components of this impairment loss were in EMEA, related to changes in the global product portfolio, and in LATAM, related to product portfolio changes. It was determined that the carrying amount of the CGUs exceeded their value in use and accordingly, an impairment charge of €142 million was recognized in EMEA and €56 million in LATAM. In addition, during the second quarter of 2017, due to the continued deterioration of the economic conditions in Venezuela, certain of FCA Venezuela's assets were impaired to their fair value using a market approach, resulting in an impairment loss of €21 million.

During the year ended December 31, 2016, impairment losses totaling €177 million were recognized. The most significant component of this impairment loss related to the impairment of capitalized development expenditures for the locally produced Fiat Viaggio and Ottimo vehicles as a result of the Group's capacity realignment to SUV production in China. It was determined that the carrying amount of the CGUs exceeded their fair value in use resulting in an impairment charge of €90 million. In addition, due to the continued deterioration of the economic conditions in Venezuela, certain of FCA Venezuela's assets were impaired to their fair value using a market approach, resulting in an impairment charge of €43 million.

Recoverability of Goodwill and Intangible assets with indefinite useful lives

In accordance with IAS 36 - *Impairment of Assets*, goodwill and intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if facts or circumstances indicate that the asset may be impaired.

Goodwill and intangible assets with indefinite useful lives are allocated to operating segments or to CGUs within the operating segments. The impairment test is performed by comparing the carrying amount (which mainly comprises property, plant and equipment, goodwill, brands and capitalized development expenditures) and the recoverable amount of each CGU or group of CGUs to which Goodwill has been allocated. The recoverable amount of a CGU is the higher of its fair value less costs of disposal and its value in use. The balance of Goodwill and intangible assets with indefinite useful lives recognized by the Group primarily relates to the acquisition of FCA US. Goodwill from the acquisition of FCA US has been allocated to the NAFTA, EMEA, APAC and LATAM operating segments.

The assumptions used in the impairment test represent management's best estimate for the period under consideration.

- The estimate of the recoverable amount for purposes of performing the annual impairment test for each of the operating segments was determined using fair value less costs of disposal for the year ended December 31, 2018 and was based on the following assumptions:
 - The expected future cash flows covering the period from 2019 through 2022. These expected cash flows reflect the current expectations regarding economic conditions and market trends as well as the Group's initiatives for the period 2019 to 2022. These cash flows relate to the respective CGUs in their current condition when preparing the financial statements and exclude the estimated cash flows that might arise from restructuring plans or other structural changes. Volumes and sales mix used for estimating the future cash flow are based on assumptions that are considered reasonable and sustainable and represent the best estimate of expected conditions regarding market trends and segment, brand and model share for the respective operating segment over the period considered. With regards to:

- The APAC operating segment, expected future cash flows are sensitive to certain assumptions, primarily the expected margins for the terminal period, such that a reduction of 0.7 percent in the margin for the terminal period would reduce the fair value down to its carrying value. While the assumptions used are considered reasonable and achievable and represent the best estimate of expected conditions in the operating segment, management is actively implementing measures to improve operating results by addressing commercial performance and cost structure to allow the achievement of the expected margins and cash flow in APAC.
 - The LATAM operating segment, expected future cash flows also include the extension of tax benefits through 2025 and other government grants, which were signed into law in Brazil during the fourth quarter of 2018.
- The expected future cash flows include a normalized terminal period to estimate the future result beyond the time period explicitly considered which incorporates a long-term growth rate assumption of 2 percent. The long-term EBIT margins have been set considering the margins incorporated into the five-years plan, as adjusted for the stage in the economic cycle of the regions and any specific circumstances (for example, in LATAM, the long-term EBIT margin has been adjusted to assume no extension of the Brazilian tax benefits beyond 2025).
 - Post-tax cash flows have been discounted using a post-tax discount rate which reflects the current market assessment of the time value of money for the period being considered and the risks specific to the operating segment and cash flows under consideration. The Weighted Average Cost of Capital (“WACC”) ranged from approximately 13.7 percent to approximately 21.7 percent. The WACC was calculated using the Capital Asset Pricing Model technique.

The values estimated as described above were determined to be in excess of the book value of the net capital employed for each operating segment to which Goodwill has been allocated. As such, no impairment charges were recognized for Goodwill and Intangible assets with indefinite useful lives for the year ended December 31, 2018.

There were no impairment charges resulting from the impairment tests performed for the years ended December 31, 2017 and 2016.

Recoverability of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilized. The recoverability of deferred tax assets is dependent on the Group’s ability to generate sufficient future taxable income in the period in which it is assumed that the deductible temporary differences reverse and tax losses carried forward can be utilized. In making this assessment, the Group considers future taxable income arising based on the most recent business plan. Moreover, the Group estimates the impact of the reversal of taxable temporary differences on earnings and it also considers the period over which these deferred tax assets could be recovered.

The estimates and assumptions used in the assessment are subject to uncertainty especially as it relates to the Group’s future performance as compared to the business plan, particularly in LATAM and EMEA. Therefore, changes in current estimates due to unanticipated events could have a significant impact on our Consolidated Financial Statements.

Refer to Note 7, *Tax expense* for additional detail.

Sales incentives

The Group records the estimated cost of sales incentive programs offered to dealers and consumers as a reduction to revenue at the time of sale to the dealer. This estimated cost represents the incentive programs offered to dealers and consumers, as well as the expected modifications to these programs in order to facilitate sales of the dealer inventory. Subsequent adjustments to sales incentive programs related to vehicles previously sold to dealers are recognized as an adjustment to Net revenues in the period the adjustment is determinable.

The Group uses price discounts to adjust vehicle pricing in response to a number of market and product factors, including pricing actions and incentives offered by competitors, economic conditions, the amount of excess industry production capacity, the intensity of market competition, consumer demand for the product and the desire to support promotional campaigns. The Group may offer a variety of sales incentive programs at any given point in time, including cash offers to dealers and consumers and subvention programs offered to customers, or lease subsidies, which reduce the retail customer's monthly lease payment or cash due at the inception of the financing arrangement, or both. Sales incentive programs are generally brand, model and region specific for a defined period of time.

Multiple factors are used in estimating the future incentive expense by vehicle line, including the current incentive programs in the market, planned promotional programs and the normal incentive escalation incurred as the model year ages. The estimated incentive rates are reviewed monthly and changes to planned rates are adjusted accordingly, thereby impacting revenues. As there are a multitude of inputs affecting the calculation of the estimate for sales incentives, an increase or decrease of any of these variables could have a significant effect on Net revenues.

Product warranties, recall campaigns and product liabilities

The Group establishes reserves for product warranties at the time the related sale is recognized. The Group issues various types of product warranties under which the performance of products delivered is generally guaranteed for a certain period or term. The accrual for product warranties includes the expected costs of warranty obligations imposed by law or contract, as well as the expected costs for policy coverage, recall actions and buyback commitments. The estimated future costs of these actions are principally based on assumptions regarding the lifetime warranty costs of each vehicle line and each model year of that vehicle line, as well as historical claims experience for the Group's vehicles. In addition, the number and magnitude of additional service actions expected to be approved and policies related to additional service actions are taken into consideration. Due to the uncertainty and potential volatility of these estimated factors, changes in the assumptions used could materially affect the results of operations.

The Group periodically initiates voluntary service and recall actions to address various customer satisfaction as well as safety and emissions issues related to vehicles sold. Included in the reserve is the estimated cost of these service and recall actions. In NAFTA, we accrue estimated costs for recalls at the time of sale, which are based on historical claims experience as well as an additional actuarial analysis that gives greater weight to the more recent calendar year trends in recall campaign activity. In other regions and sectors, however, there generally is not sufficient historical data to support the application of an actuarial-based estimation technique. As a result, estimated recall costs for the other regions and sectors are accrued at the time when they are probable and reasonably estimable, which typically occurs once a specific recall campaign is approved and is announced.

Estimates of the future costs of these actions are subject to numerous uncertainties, including the enactment of new laws and regulations, the number of vehicles affected by a service or recall action and the nature of the corrective action. It is reasonably possible that the ultimate cost of these service and recall actions may require the Group to make expenditures in excess of (or less than) established reserves over an extended period of time and in a range of amounts that cannot be reasonably estimated. The estimate of warranty and additional service and recall action obligations is periodically reviewed during the year. Experience has shown that initial data for any given model year can be volatile; therefore, our process relies upon long-term historical averages until sufficient data is available. As actual experience becomes available, it is used to modify the historical averages to ensure that the forecast is within the range of likely outcomes. Resulting accruals are then compared with current spending rates to ensure that the balances are adequate to meet expected future obligations.

In addition, the Group makes provisions for estimated product liability costs arising from property damage and personal injuries including wrongful death, and potential exemplary or punitive damages alleged to be the result of product defects. By nature, these costs can be infrequent, difficult to predict and have the potential to vary significantly in amount. The valuation of the reserve is actuarially determined on an annual basis based on, among other factors, the number of vehicles sold and product liability claims incurred. Costs associated with these provisions are recorded in the Consolidated Income Statement and any subsequent adjustments are recorded in the period in which the adjustment is determined.

Litigation

Various legal proceedings, claims and governmental investigations are pending against the Group on a wide range of topics, including vehicle safety, emissions and fuel economy, competition, tax and securities laws, labor, dealer, supplier and other contractual relationships, intellectual property rights, product warranties and environmental matters. Some of these proceedings allege defects in specific component parts or systems (including airbags, seats, seat belts, brakes, ball joints, transmissions, engines and fuel systems), in various vehicle models or allege general design defects relating to vehicle handling and stability, sudden unintended movement or crashworthiness. These proceedings seek recovery for damage to property, personal injuries or wrongful death and in some cases include a claim for exemplary or punitive damages. Adverse decisions in one or more of these proceedings could require the Group to pay substantial damages, or undertake service actions, recall campaigns or other costly actions.

Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Moreover, the cases and claims against the Group are often derived from complex legal issues that are subject to differing degrees of uncertainty, including the facts and circumstances of each particular case, the manner in which the applicable law is likely to be interpreted and applied and the jurisdiction and the different laws involved. A provision is established in connection with pending or threatened litigation if it is probable there will be an outflow of funds and when the amount can be reasonably estimated. If an outflow of funds becomes probable, but the amount cannot be estimated, the matter is disclosed in the notes to the Consolidated Financial Statements. Since these provisions represent estimates, the resolution of some of these matters could require the Group to make payments in excess of the amounts accrued or may require the Group to make payments in an amount or range of amounts that could not be reasonably estimated.

The Group monitors the status of pending legal proceedings and consults with experts on legal and tax matters on a regular basis. As such, the provisions for the Group's legal proceedings and litigation may vary as a result of future developments in pending matters.

New standards and amendments effective January 1, 2018

The cumulative effect of the changes made to our Consolidated Statement of Financial Position as of January 1, 2018 for the adoption of IFRS 15 - *Revenue from Contracts with Customers* and IFRS 9 - *Financial Instruments* is as follows:

(€ million)	At December 31, 2017 (as previously reported)		IFRS 15 Adoption Effect		IFRS 9 Adoption Effect		At January 1, 2018 (as adjusted)	
Assets								
Goodwill and intangible assets with indefinite useful lives	€	13,390	€	—	€	—	€	13,390
Other intangible assets		11,542		—		—		11,542
Property, plant and equipment		29,014		—		—		29,014
Investments accounted for using the equity method		2,008		—		(9)		1,999
Other financial assets		482		—		(59)		423
Deferred tax assets		2,004		(5)		—		1,999
Trade and other receivables		666		—		—		666
Tax receivables		83		—		—		83
Prepaid expenses and other assets ⁽¹⁾		328		—		—		328
Other non-current assets		508		—		—		508
Total Non-current assets		60,025		(5)		(68)		59,952
Inventories		12,922		—		—		12,922
Assets sold with a buy-back commitment		1,748		(288)		—		1,460
Trade and other receivables		7,887		—		—		7,887
Tax receivables		215		—		—		215
Prepaid expenses and other assets ⁽¹⁾		377		—		—		377
Other financial assets		487		—		59		546
Cash and cash equivalents		12,638		—		—		12,638
Total Current assets		36,274		(288)		59		36,045
Total Assets	€	96,299	€	(293)	€	(9)	€	95,997
Equity and liabilities								
Equity								
Equity attributable to owners of the parent	€	20,819	€	30	€	(9)	€	20,840
Non-controlling interests		168		—		—		168
Total Equity		20,987		30		(9)		21,008
Liabilities								
Long-term debt		10,726		—		—		10,726
Employee benefits liabilities		8,584		—		—		8,584
Provisions		5,770		—		—		5,770
Other financial liabilities		1		—		—		1
Deferred tax liabilities		388		2		—		390
Tax payables		74		—		—		74
Other liabilities		2,500		(17)		—		2,483
Total Non-current liabilities		28,043		(15)		—		28,028
Trade payables		21,939		(73)		—		21,866
Short-term debt and current portion of long-term debt		7,245		—		—		7,245
Employee benefits liabilities		694		—		—		694
Provisions		9,009		1		—		9,010
Other financial liabilities		138		—		—		138
Tax payables		309		—		—		309
Other liabilities		7,935		(236)		—		7,699
Total Current liabilities		47,269		(308)		—		46,961
Total Equity and liabilities	€	96,299	€	(293)	€	(9)	€	95,997

(1) Caption previously reported as "Accrued income and prepaid expenses"

IFRS 15 - Revenue from contracts with customers

IFRS 15 - *Revenue from contracts with customers* (“IFRS 15”) requires companies to recognize revenue upon transfer of control of goods or services to a customer at an amount that reflects the consideration it expects to receive for those goods or services. The Group adopted IFRS 15 and all the related amendments using the modified retrospective method, with the cumulative effect of initially applying the standard recognized as an adjustment to the Group’s opening equity balance on January 1, 2018. The comparative period has not been restated and continues to be reported under the accounting standards in effect for periods prior to January 1, 2018. There was no material impact on our Consolidated Financial Statements from the adoption of this standard in 2018 and we do not expect a material impact on an ongoing basis.

The majority of our revenue continues to be recognized in a manner consistent with prior years. Revenue from the sale of vehicles and service parts is recognized upon transfer of control to our customers, which generally corresponds to the date when the vehicles and service parts are made available to dealers or distributors, or when the vehicles and service parts are released to the carrier responsible for transporting them to dealers or distributors. Under IFRS 15, however, new vehicle sales through our Guarantee Depreciation Program (“GDP”), under which the Group guarantees the residual value or otherwise assumes responsibility for the minimum resale value of the vehicle, as well as those vehicles which include a put option for which the customer does not have a significant economic incentive to exercise, will be recognized as revenue when the vehicles are shipped, rather than being accounted for as an operating lease.

The impact of adoption on our Consolidated Income Statement for the year ended December 31, 2018 and Consolidated Statement of Financial Position at December 31, 2018 was as follows:

	Year ended December 31, 2018		
	As reported	Amounts without adoption of IFRS 15	Effect of change higher/(lower)
		(€ million)	
Consolidated Income Statement			
Net revenues	110,412	110,533	(121)
Cost of revenues	95,011	95,127	(116)
Tax expense	778	779	(1)
Profit from discontinued operations, net of tax	302	303	(1)
Net profit	3,632	3,637	(5)

	At December 31, 2018		
	As reported	Balances without adoption of IFRS 15	Effect of change higher/(lower)
	(€ million)		
Consolidated Statement of Financial Position			
Assets			
Deferred tax assets	1,814	1,814	—
Inventories	10,694	10,694	—
Assets sold with a buy-back commitment	1,707	1,890	(183)
Assets held for sale	4,801	4,805	(4)
Equity			
Equity attributable to owners of the parent	24,702	24,679	23
Liabilities			
Deferred tax liabilities	937	937	—
Other liabilities (non-current)	2,452	2,453	(1)
Trade payables	19,229	19,280	(51)
Provisions (current)	10,483	10,483	—
Tax payables (current)	114	114	—
Other liabilities (current)	7,057	7,186	(129)
Liabilities held for sale	2,931	2,960	(29)

Revenue recognition

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. Revenue is measured as the amount of consideration the Group expects to receive in exchange for transferring goods or providing services. The timing of when the Group transfers the goods or services to the customer may differ from the timing of the customer's payment. The Group recognizes a contract liability when it invoices an amount to a customer prior to the transfer of the goods or services provided. When the Group gives our customers the right to return eligible goods, the Group estimates the expected returns based on an analysis of historical experiences. Sales, value added and other taxes that the Group collects on behalf of others concurrently with revenue generating activities are excluded from revenue and are recognized within the Other liabilities and the Tax payables line items in the Consolidated Statement of Financial Position. Incidental items that are immaterial in the context of the contract are recognized as expense.

The Group also enters into contracts with multiple performance obligations. For these contracts, the Group allocates revenue from the transaction price to the distinct goods and services in the contract on a relative standalone selling price basis. To the extent that the Group sells the good or service separately in the same market, the standalone selling price is the observable price at which the Group sells the good or service separately. For all other goods or services, the Group estimates the standalone selling price using a cost-plus-margin approach.

Sales of goods

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. This is also the point at which invoices are issued, with payment for vehicles typically due immediately and payment for service parts typically due in the following month. For component part sales, revenue recognition is consistent with that of service parts. The Group also sells tooling, with control transferring at the point in time when the customer accepts the tooling.

The cost of incentives, if any, is estimated at the inception of a contract at the expected amount that will ultimately be paid and is recognized as a reduction to revenue at the time of the sale. If a vehicle contract transaction has multiple performance obligations, the cost of incentives is allocated entirely to the vehicle as the intent of the incentives is to encourage sales of vehicles. If the estimate of the incentive changes following the sale to the customer, the change in estimate is recognized as an adjustment to revenue in the period of the change. Refer to the *Use of estimates - Sales incentives* for more information on these programs.

New vehicle sales through GDP are recognized as revenue when control of the vehicle transfers to the fleet customer, except in situations where the Group issues a put option for which there is a significant economic incentive to exercise, as discussed below. Upon recognition of the vehicle revenue, the Group establishes a liability equal to the estimated amount of any residual value guarantee.

The Group also sells vehicles where, in addition to guaranteeing the residual value, the contract includes a put option whereby the fleet customer can require the Group to repurchase the vehicles. For these types of arrangements, the Group assesses whether a significant economic incentive exists for the customer to exercise its put option. If the Group determines that a significant economic incentive does not exist for the customer to exercise its put option, then revenue is recognized when control of the vehicle transfers to the fleet customer and a liability is recognized equal to the estimated amount of the residual value guarantee. If the Group determines that a significant economic incentive exists, then the arrangement is accounted for similarly to a repurchase obligation, as described in *Lease installments from assets sold with buy-back commitments*.

Services provided

When control of a good transfers to the customer prior to the completion of shipping activities for which the Group is responsible, this represents a separate performance obligation for which the shipping revenue is recognized when the shipping service is complete. Other revenues from services provided are primarily comprised of maintenance plans and extended warranties, and are recognized over the contract period in proportion to the costs expected to be incurred based on our historical experience. These services are either included in the selling price of the vehicle or separately priced. Revenue for services is allocated based on the estimated stand-alone selling price. Costs associated with the sale of contracts are deferred and are subsequently amortized to expense consistent with how the related revenue is recognized. The Group had €200 million of deferred service contract costs at December 31, 2018 and recognized €88 million of amortization expense during the year ended December 31, 2018.

Contract revenues

Revenue from construction contracts, which is comprised of industrial automation systems, included within “Other activities”, is recognized as revenue over the contract period in proportion to the costs expected to be incurred based on our historical experience. A loss is recognized if the sum of the expected costs for services under the contract exceeds the transaction price.

Lease installments from assets sold with buy-back commitments

Vehicle sales to fleet customers can include a repurchase obligation, whereby the Group is required to repurchase the vehicles at a given point in time. The Group accounts for such sales as an operating lease. Upon the transfer of vehicles to the fleet customer, the Group records a liability equal to the proceeds received within Other liabilities in the Consolidated Statement of Financial Position. The difference between the proceeds received and the guaranteed repurchase amount is recognized as revenue over the contractual term on a straight-line basis. The cost of the vehicle is recorded within Assets sold with a buy-back commitment in the Consolidated Statement of Financial Position and the difference between the cost of the vehicle and the estimated residual value is recognized within Cost of revenues in the Consolidated Income Statement over the contractual term.

Interest income of financial services activities

Interest income, which is primarily generated from the Group by providing dealer and retail financing, is recognized using the effective interest method.

IFRS 9 - Financial Instruments

IFRS 9 - *Financial Instruments* (“IFRS 9”) replaces IAS 39 - *Financial Instruments* (“IAS 39”). In particular, it amends the previous guidance in three main areas:

- The classification and measurement of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held;
- The accounting for impairment of financial assets through the introduction of an “expected credit loss” impairment model, replacing the incurred loss method under IAS 39; and
- Hedge accounting, in particular removing some of the restrictions in applying hedge accounting under IAS 39 and to more closely align the accounting for hedge instruments with risk management policies.

In accordance with the transitional provisions in IFRS 9, the Group did not restate prior periods. For hedge accounting, the Group applied the standard prospectively. Comparative figures have not been restated for the classification and measurement provisions of the standard, including impairment, and continue to be reported under the accounting standards in effect for periods prior to January 1, 2018. The impact of adoption on our Consolidated Financial Statements was not material.

Financial assets and liabilities

Financial assets primarily include trade receivables, receivables from financing activities, investments in other companies, derivative financial instruments, cash and cash equivalents, and debt securities that represent temporary investments of available funds and do not satisfy the requirements for being classified as cash equivalents.

Financial liabilities primarily consist of debt, derivative financial instruments, trade payables and other liabilities. The classification of financial liabilities under IFRS 9 is unchanged compared with the previous accounting requirements under IAS 39.

Receivables from dealer financing activities are typically generated by sales of vehicles and are generally managed under dealer network financing programs as a component of the portfolio of the Group’s financial services companies. These receivables are interest bearing with the exception of an initial, limited, non-interest bearing period. The contractual terms governing the relationships with the dealer networks vary according to market and payment terms, which range from two to twelve months.

Classification and measurement (policy applicable from January 1, 2018)

The classification of a financial asset is dependent on the Group’s business model for managing such financial assets and their contractual cash flows. The Group considers whether the contractual cash flows represent solely payments of principal and interest that are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets are classified and measured at fair value through profit or loss (“FVPL”).

Financial asset cash flow business model	Initial measurement⁽¹⁾	Measurement category⁽³⁾
Solely to collect the contractual cash flows (Held to Collect)	Fair Value including transaction costs	Amortized Cost ⁽²⁾
Collect both the contractual cash flows and generate cash flows arising from the sale of assets (Held to Collect and Sell)	Fair Value including transaction costs	Fair value through other comprehensive income (“FVOCI”)
Generate cash flows primarily from the sale of assets (Held to Sell)	Fair Value	FVPL

(1) A trade receivable without a significant financing component, as defined by IFRS 15, is initially measured at the transaction price.

(2) Receivables with maturities of over one year, which bear no interest or have an interest rate significantly lower than market rates are discounted using market rates.

(3) On initial recognition, the Group may irrevocably designate a financial asset at FVPL that otherwise meets the requirements to be measured at amortized cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Factors considered by the Group in determining the business model for a group of financial assets include:

- past experience on how the cash flows for these assets were collected;
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and future sales activity expectations;
- how the asset's performance is evaluated and reported to key management personnel; and
- how risks are assessed and managed and how management is compensated.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Cash and cash equivalents include cash at banks, units in money market funds and other money market securities, commercial paper and certificate of deposits that are readily convertible into cash, with original maturities of three months or less at the date of purchase. Cash and cash equivalents are subject to an insignificant risk of changes in value and consist of balances across various primary national and international money market instruments. Money market funds consist of investments in high quality, short-term, diversified financial instruments that can generally be liquidated on demand and are measured at FVPL. Cash at banks and Other cash equivalents are measured at amortized cost.

Investments in other companies are measured at fair value. Equity investments for which there is no quoted market price in an active market and there is insufficient financial information in order to determine fair value may be measured at cost as an estimate of fair value, as permitted by IFRS 9. The Group may irrevocably elect to present subsequent changes in the investment's fair value in Other comprehensive income ("OCI") upon the initial recognition of an equity investment that is not held to sell. This election is made on an investment-by-investment basis. Generally, any dividends from these investments are recognized in Other income from investments within Result from investments when the Group's right to receive payment is established. Other net gains and losses are recognized in OCI and will not be reclassified to the Consolidated Income Statement in subsequent periods. Impairment losses (and the reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value in OCI.

Impairment of financial assets (policy applicable from January 1, 2018)

The Group's credit risk differs in relation to the type of activity. In particular, receivables from financing activities, such as dealer and retail financing that are carried out through the Group's financial services companies, are exposed both to the direct risk of default and the deterioration of the creditworthiness of the counterparty, whereas trade receivables arising from the sale of vehicles and spare parts, are mostly exposed to the direct risk of counterparty default. These risks are mitigated by different kinds of securities received and the fact that collection exposure is spread across a large number of counterparties.

The IFRS 9 impairment requirements are based on a forward-looking expected credit loss ("ECL") model. ECL is a probability-weighted estimate of the present value of cash shortfalls.

The calculation of the amount of ECL is based on the risk of default by the counterparty, which is determined by taking into account the information available at the end of each reporting period as to the counterparty's solvency, the fair value of any guarantees and the Group's historical experience. The Group considers a financial asset to be in default when: (i) the borrower is unlikely to pay its obligations in full and without consideration of compensating guarantees or collateral (if any exist); or (ii) the financial asset is more than 90 days past due.

The Group applies two impairment models for financial assets as set out in IFRS 9: the simplified approach and the general approach. The table below indicates the impairment model used for each of our financial asset categories. Impairment losses on financial assets are recognized in the Consolidated Income Statement within the corresponding line items, based on the classification of the counterparty.

Financial asset	IFRS 9 impairment model
Trade receivables	Simplified approach
Receivables from financing activities	General approach
Other receivables	General approach

In order to test for impairment, individually significant receivables and receivables for which collectability is at risk are assessed individually, while all other receivables are grouped into homogeneous risk categories based on shared risk characteristics such as instrument type, industry or geographical location of the counterparty.

The simplified approach for determining the lifetime ECL allowance is performed in two steps:

- All trade receivables that are in default, as defined above, are individually assessed for impairment; and
- A general reserve is recognized for all other trade receivables (including those not past due) based on historical loss rates.

The Group applies the general approach as determined by IFRS 9 by assessing at each reporting date whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The Group considers receivables to have experienced a significant increase in credit risk when certain quantitative or qualitative indicators have been met or the borrower is more than 30 days past due on its contractual payments.

The “three-stages” for determining and measuring the impairment based on changes in credit quality since initial recognition are summarized below:

Stage	Description	Time period for measurement of ECL
Stage 1	A financial instrument that is not credit-impaired on initial recognition	12-month ECL
Stage 2	A financial instrument with a significant increase in credit risk since initial recognition	Lifetime ECL
Stage 3	A financial instrument that is credit-impaired or has defaulted	Lifetime ECL

Considering forward-looking economic information, ECL is determined by projecting the probability of default, exposure at default and loss given default for each future contractual period and for each individual exposure or collective portfolio. The discount rate used in the ECL calculation is the stated effective interest rate or an approximation thereof. Each reporting period, the assumptions underlying the ECL calculation are reviewed and updated as necessary. Since adoption, there have been no significant changes in estimation techniques or significant assumptions that led to material changes in the ECL allowance.

The gross carrying amount of a financial asset is written-off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that a debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities.

Derivative financial instruments (policy applicable from January 1, 2018)

Derivative financial instruments are used for economic hedging purposes in order to reduce currency, interest rate and market price risks (primarily related to commodities). In accordance with IFRS 9, derivative financial instruments are recognized on the basis of the settlement date and, upon initial recognition, are measured at fair value less (in case a financial asset is not measured at FVPL) transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, all derivative financial instruments are measured at fair value. Furthermore, derivative financial instruments qualify for hedge accounting when (i) there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge at inception of the hedge and (ii) the hedge is expected to be effective.

When derivative financial instruments qualify for hedge accounting, the following accounting treatments apply:

- *Fair value hedges* - where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability attributable to a particular risk that could affect the Consolidated Income Statement, the gain or loss from remeasuring the hedging instrument at fair value is recognized in the Consolidated Income Statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the Consolidated Income Statement.
- *Cash flow hedges* - where a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flows of a recognized asset or liability or a highly probable forecasted transaction and could affect the Consolidated Income Statement, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in Other comprehensive income/(loss). When the hedged forecasted transaction results in the recognition of a non-financial asset, the gains and losses previously deferred in Other comprehensive income/(loss) are reclassified and included in the initial measurement of the cost of the non-financial asset. The effective portion of any gain or loss is recognized in the Consolidated Income Statement at the same time as the economic effect arising from the hedged item that affects the Consolidated Income Statement. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognized in the Consolidated Income Statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realized to the point of termination remains and is recognized in the Consolidated Income Statement at the same time as the underlying transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealized gain or loss held in Other comprehensive income/(loss) is recognized in the Consolidated Income Statement immediately.

- *Hedges of a net investment* - if a derivative financial instrument is designated as a hedging instrument for a net investment in a foreign operation, the effective portion of the gain or loss on the derivative financial instrument is recognized in Other comprehensive income/(loss). The cumulative gain or loss is reclassified from Other comprehensive income/(loss) to the Consolidated Income Statement upon disposal of the foreign operation.

Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match closely or exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match closely or perfectly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Ineffectiveness is measured by comparing the cumulative changes in fair value of the hedging instrument and cumulative change in fair value of the hedged item arising from the designated risk. The primary potential sources of hedge ineffectiveness are mismatches in timing or the critical terms of the hedged item and the hedging instrument.

The hedge ratio is the relationship between the quantity of the derivative and the hedged item. The Group's derivatives have the same underlying quantity as the hedged items, therefore the hedge ratio is expected to be one for one.

If hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognized immediately in the Consolidated Income Statement.

Refer to Note 16, *Derivative financial assets and liabilities*, for additional information on fair value measurements.

Transfers of financial assets

The Group derecognizes financial assets when the contractual rights to the cash flows arising from the asset are no longer held or if it transfers substantially all the risks and rewards of ownership of the financial asset. On derecognition of financial assets, the difference between the carrying amount of the asset and the consideration received or receivable for the transfer of the asset is recognized in the Consolidated Income Statement.

The Group transfers certain of its financial, trade and tax receivables, mainly through factoring transactions. Factoring transactions may be either with recourse or without recourse. Certain transfers include deferred payment clauses requiring first loss cover (for example, when the payment by the factor of a minor part of the purchase price is dependent on the total amount collected from the receivables), whereby the transferor has priority participation in the losses, or requires a significant exposure to the variability of cash flows arising from the transferred receivables to be retained. These types of transactions do not meet the requirements of IFRS 9 for the derecognition of the assets since the risks and rewards connected with ownership of the financial asset are not substantially transferred, and accordingly the Group continues to recognize these receivables within the Consolidated Statement of Financial Position and recognizes a financial liability for the same amount under Asset-backed financing, which is included within Debt. These types of receivables are classified as held-to-collect, since the business model is consistent with the Group's continuing recognition of the receivables.

Transition

The total impact on the Group's Equity attributable to owners of the parent as at January 1, 2018, resulting from the initial application of the IFRS 9 impairment model on the financial assets held by FCA Bank, our jointly-controlled financial services company, which is accounted for under the equity method, is as follows:

	<u>At January 1, 2018</u>	
	(€ million)	
Equity attributable to owners of the parent - IAS 39	€	20,819
Impact on the Equity method (net of tax)		(9)
Adjusted Equity attributable to owners of the parent - IFRS 9	€	20,810

During the year ended December 31, 2018, the Group reclassified €1 million of gains from OCI to Inventories.

The Group does not expect a material impact to its Net profit on an ongoing basis from the adoption of this standard.

On January 1, 2018, the financial instruments of the Group were reclassified into the appropriate IFRS 9 categories. The main effects resulting from the reclassification between measurement categories are as follows:

Financial statement line item	IAS 39 measurement category ^(b)	At December 31, 2017	Reclassification	At January 1, 2018	IFRS 9 measurement category	Financial statement line item
(€ million)						
Other financial assets (non-current)						Other financial assets (non-current)
Derivative financial assets	FVPL ^(E)	€ 19	€ —	€ 19	FVPL ^(E)	Derivative financial assets
Debt securities measured at fair value through profit or loss	FVPL	59	(59) ^(A)			
Debt securities held-to-maturity	AC	2	(2)			
			2	2	AC	Other assets
Equity instruments measured at cost	Cost	43	(43) ^(B)			
			20 ^(B)	20	FVPL	Equity instruments measured at FVPL
Equity instruments measured at fair value through other comprehensive income	FVOCI (AFS)	23	23 ^(B)	46	FVOCI	Equity instruments measured at FVOCI
Financial receivables	AC (L&R)	275	—	275	AC	Financial receivables
Collateral deposits	FVPL	61	—	61	FVPL	Collateral deposits
Total Other financial assets		€ 482	€ (59)	€ 423		Total Other financial assets

Financial statement line item	IAS 39 measurement category ^(D)	At December 31, 2017	Reclassification (€ million)	At January 1, 2018	IFRS 9 measurement category	Financial statement line item
Other receivables (non-current)						Other receivables (non-current)
Receivables from financing activities	AC (L&R)	€ 194	€ —	€ 194	AC	Receivables from financing activities
Other receivables	AC (L&R)	472	—	472	AC	Other receivables
Total Other receivables		€ 666	€ —	€ 666		Total Other receivables
Trade and other receivables (current)						Trade and other receivables (current)
Trade receivables	AC (L&R)	€ 2,460	€ (28) ^(C)	€ 2,432	AC	Trade receivables
			28 ^(C)	28	FVPL	Trade receivables
Receivables from financing activities	AC (L&R)	2,946	(700) ^(C)	2,246	AC	Receivables from financing activities
			700 ^(C)	700	FVPL	Receivables from financing activities
Other receivables	AC (L&R)	2,481	—	2,481	AC	Other receivables
Total Trade and other receivables		€ 7,887	€ —	€ 7,887		Total Trade and other receivables
Other financial assets (current)						Other financial assets (current)
Derivative financial assets	FVPL ^(E)	€ 265	€ —	€ 265	FVPL ^(E)	Derivative financial assets
Debt securities measured at fair value through other comprehensive income	FVOCI (AFS)	4	(4)			
			4	4	AC	Other financial assets
Debt securities measured at fair value through profit or loss	FVPL (HFT)	172	59 ^(A)	231	FVPL	Debt securities measured at FVPL
Held-for-trading investments	FVPL (HFT)	46	(46)			
			46	46	FVPL	Equity instruments measured at FVPL
Total Other financial assets		€ 487	€ 59	€ 546		Total Other financial assets
Cash and cash equivalents						Cash and cash equivalents
Cash at banks	FVPL	€ 6,396	€ —	€ 6,396	AC	Cash at banks
Money market securities	FVPL	6,242	(3,530)	2,712	FVPL	Money market securities
			3,530	3,530	AC	Other cash equivalents
Total Cash and cash equivalents		€ 12,638	€ —	€ 12,638		Total Cash and cash equivalents

(A) As of January 1, 2018, debt securities of €59 million were reclassified from non-current to current to reflect the held to sell business model with no impact on retained earnings.

(B) As permitted by IFRS 9, the Group has designated certain investments in other companies at the date of initial application as measured at FVOCI

(C) Certain trade receivables and receivables from financing activities, mainly attributable to the EMEA region, were reclassified from amortized cost to FVPL as a result of the held to sell business model.

(D) AFS: available-for-sale; HTM: held-to-maturity; L&R: Loans & Receivables; HFT: held-for-trading; FV: fair value.

(E) Except for derivatives designated in cash flow hedging relationship, as described above.

Other new standards and amendments

The following amendments and interpretations, which were effective from January 1, 2018, were adopted by the Group. The adoption of these amendments had no effect on the Consolidated Financial Statements.

- IFRS 2 - *Share-based Payment*, to provide requirements on the accounting for (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, (ii) share-based payment transactions with a net settlement feature for withholding tax obligations and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
- *Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts (Amendments to IFRS 4)*. The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4: (i) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the “overlay approach”) and (ii) an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the “deferral approach”).

- Annual Improvements to IFRS Standards 2014–2016 Cycle, which included amendments to IAS 28 - *Investments in Associates and Joint Ventures* (effective January 1, 2018). The amendments clarify, correct or remove redundant wording in the related standard.
- IFRIC Interpretation 22 - *Foreign Currency Transactions and Advance Consideration* which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.

New standards and amendments not yet effective

The following new standards and amendments were issued by the IASB. We will comply with the relevant guidance no later than their respective effective dates:

- In January 2016, the IASB issued IFRS 16 - *Leases* (“IFRS 16”), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract and replaces the previous leases standard, IAS 17 - *Leases*. IFRS 16 is not applicable to service contracts but only to leases or lease components of a contract and defines a lease as a contract that conveys to the customer (lessee) the right to use an asset for a period of time in exchange for consideration. IFRS 16 eliminates the classification of leases for the lessee as either operating leases or finance leases as required by IAS 17 and introduces a single lessee accounting model whereby a lessee is required to recognize assets and liabilities for all leases. IFRS 16 is effective from January 1, 2019.

The Group has elected to adopt IFRS 16 under the Modified Retrospective approach and as such prior-year comparatives will not be restated.

As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, we will continue to classify our leases where FCA is a lessor as operating leases or finance leases and account for them accordingly.

We are finalizing the implementation and assessment of the impact of the adoption of the standard on our Consolidated Financial Statements. Based on current information, the estimated impact of the standard on the Group’s Consolidated Statement of Financial Position at January 1, 2019, is an increase in both the right-of-use assets and the lease liabilities of approximately €1.3 billion of which approximately €0.2 billion will be included in Assets and Liabilities held for sale.

The impact of adoption on Net Profit is expected to be immaterial over time but a timing effect will occur due to the front-loading of interest expense as compared to IAS 17. There will be a reclassification from rent expense to depreciation and amortization expense and to interest expense. As a result of this reclassification, cash flows from operating activities will increase and be offset by a decrease in cash flows from financing activities and, accordingly, there will be an immaterial change in the underlying cash flows for the year. The estimated impact on the Consolidated Income Statement from continuing and discontinued operations for 2019 is expected to be immaterial. The opening balance of lease liabilities as at January 1, 2019 will exclude short-term leases, leases of low value assets and will be discounted as compared with the minimum operating lease payments under IAS 17 at December 31, 2018.

- In May 2017, the IASB issued IFRS 17 - *Insurance Contracts* (“IFRS 17”), which replaces IFRS 4 - *Insurance Contracts*. IFRS 17 requires all insurance contracts to be accounted for in a consistent manner and insurance obligations to be accounted for using current values, instead of historical cost. The new standard requires current measurement of the future cash flows and the recognition of profit over the period that services are provided under the contract. IFRS 17 also requires entities to present insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses, and requires an entity to make an accounting policy choice of whether to recognize all insurance finance income or expenses in profit or loss or to recognize some of those income or expenses in other comprehensive income. The standard is effective for annual periods beginning on or after January 1, 2021 with earlier adoption permitted. We do not expect a material impact to our Consolidated Financial Statements or disclosures upon adoption of the amendments.

- In June 2017, the IASB issued IFRIC Interpretation 23 - *Uncertainty over Income Tax Treatment*, (the “Interpretation”), which clarifies application of recognition and measurement requirements in IAS 12 - *Income Taxes* when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: (i) whether an entity considers uncertain tax treatments separately, (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities, (iii) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and (iv) how an entity considers changes in facts and circumstances. The Interpretation does not add any new disclosure requirements, however it highlights the existing requirements in IAS 1 - *Presentation of Financial Statements*, related to disclosure of judgments, information about the assumptions made and other estimates and disclosures of tax-related contingencies within IAS 12 - *Income Taxes*. The Interpretation is applicable for annual reporting periods beginning on or after January 1, 2019 and it provides a choice of two transition approaches: (i) retrospective application using IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, only if the application is possible without the use of hindsight, or (ii) retrospective application with the cumulative effect of the initial application recognized as an adjustment to equity on the date of initial application and without restatement of the comparative information. The Group will apply IFRIC 23 from January 1, 2019 under the retrospective approach with the cumulative effect of the initial application recognized as an adjustment to equity on the date of initial application. We do not expect a material impact to our Consolidated Financial Statements or disclosures upon application of the interpretation.
- In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9), allowing companies to measure particular prepayable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss, effective January 1, 2019. We do not expect a material impact to our Consolidated Financial Statements or disclosures upon adoption of the amendments.
- In October 2017, the IASB issued Long-term interests in associates and joint ventures (Amendments to IAS 28), which clarifies that companies account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9, effective January 1, 2019. We do not expect a material impact to our Consolidated Financial Statements or disclosures upon adoption of the amendments.
- In December 2017, the IASB issued the Annual Improvements to IFRSs 2015-2017, a series of amendments to IFRSs in response to issues raised mainly on IFRS 3 - *Business Combinations*, which clarifies that a company remeasure its previously held interest in a joint operation when it obtains control of the business, on IFRS 11 - *Joint Arrangements*, a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business, on IAS 12 - *Income Taxes*, which clarifies that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises, and on IAS 23 - *Borrowing Costs*, which clarifies that a company treats as part of general borrowing any borrowing originally made to develop an asset when the asset is ready for its intended use or sale. The effective date of the amendments is January 1, 2019. We do not expect a material impact to our Consolidated Financial Statements or disclosures upon adoption of the amendments.
- In February 2018, the IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) which specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. IAS 19 - *Employee Benefits* specifies how a company accounts for a defined benefit plan. When a change to a plan-an amendment, curtailment or settlement-takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments are effective for plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. We do not expect a material impact to our Consolidated Financial Statements or disclosures upon adoption of the amendments.
- In October 2018, the IASB issued amendments to IFRS 3 - *Business Combinations* which change the definition of a business to enable entities to determine whether an acquisition is a business combination or an asset acquisition. The amendments are effective for annual periods beginning on or after January 1, 2020 with earlier adoption permitted. We do not expect a material impact to our Consolidated Financial Statements or disclosures upon adoption of the amendments.

- In October 2018, the IASB issued amendments to its definition of material in IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates* clarifying the definition of materiality to aid in application. The amendments are effective for annual periods beginning on or after January 1, 2020 with earlier adoption permitted. We do not expect a material impact to our Consolidated Financial Statements or disclosures upon adoption of the amendments.

3. Scope of consolidation

The following table sets forth a list of the principal subsidiaries of FCA, which are grouped by our reportable segments, as well as our holding and other companies:

Name	Country	Percentage Interest Held
NAFTA		
FCA US LLC	USA (Delaware)	100.00
FCA Canada Inc.	Canada	100.00
FCA Mexico, S.A. de C.V.	Mexico	100.00
LATAM		
FCA Fiat Chrysler Automoveis Brasil LTDA	Brazil	100.00
FCA Automobiles Argentina S.A.	Argentina	100.00
Banco Fidis S.A.	Brazil	100.00
APAC		
Chrysler Group (China) Sales Limited	People's Republic of China	100.00
FCA Japan Ltd.	Japan	100.00
FCA Australia Pty Ltd.	Australia	100.00
FCA Automotive Finance Co. Ltd.	People's Republic of China	100.00
Alfa Romeo (Shanghai) Automobiles Sales Co. Ltd.	People's Republic of China	100.00
EMEA		
FCA Italy S.p.A.	Italy	100.00
FCA Melfi S.r.l.	Italy	100.00
FCA Poland Spółka Akcyjna	Poland	100.00
FCA Powertrain Poland Sp. z o.o.	Poland	100.00
FCA Serbia d.o.o. Kragujevac	Serbia	66.67
FCA Germany AG	Germany	100.00
FCA France S.A.S.	France	100.00
Fiat Chrysler Automobiles UK Ltd.	United Kingdom	100.00
Fiat Chrysler Automobiles Spain S.A.	Spain	100.00
Fidis S.p.A.	Italy	100.00
Maserati		
Maserati S.p.A.	Italy	100.00
Maserati (China) Cars Trading Co. Ltd.	People's Republic of China	100.00
Maserati North America Inc.	USA (Delaware)	100.00
Holding Companies and Other Companies		
FCA North America Holdings LLC	USA (Delaware)	100.00
Fiat Chrysler Finance S.p.A.	Italy	100.00
Fiat Chrysler Finance Europe S.A.	Luxembourg	100.00

Magneti Marelli Held for Sale and Discontinued Operations

On April 5, 2018, the FCA Board of Directors announced that it had authorized FCA management to develop and implement a plan to separate the Magneti Marelli business from the Group.

At September 30, 2018, the separation within the next twelve months became highly probable and Magneti Marelli operations met the criteria to be classified as a disposal group held for sale. It also met the criteria to be classified as a discontinued operation pursuant to IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*.

On October, 22, 2018, FCA announced that it has entered into a definitive agreement to sell its Magneti Marelli business to CK Holdings, Ltd. Subject to regulatory approvals and other customary closing conditions, the transaction is expected to close in the second quarter of 2019.

The presentation of the Magneti Marelli business is as follows:

- The operating results of Magneti Marelli have been excluded from the Group's continuing operations and are presented net of taxes as a single line item within the Consolidated Income Statement for the years ended December 31, 2018, 2017 and 2016. In order to present the financial effects of a discontinued operation, revenues and expenses arising from intercompany transactions were eliminated except for those revenues and expenses that are considered to continue after the disposal of the discontinued operation. However, no profit or loss is recognized for intercompany transactions within the Consolidated Income Statement.
- 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, while the assets and liabilities of Magneti Marelli have not been reclassified for the comparative Consolidated Statement of Financial Position at December 31, 2017.
- Cash flows arising from Magneti Marelli have been presented separately as discontinued cash flows from operating, investing and financing activities within the Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016. These cash flows represent those arising from transactions with third parties.
- In accordance with the IFRS 5, depreciation and amortization on the assets of Magneti Marelli ceased as at September 30, 2018. The impact of ceasing depreciation of the property, plant and equipment and amortization of the intangible assets of Magneti Marelli was €96 million, net of tax of €20 million.

The following table represents the assets and liabilities of the Magneti Marelli business which were classified as held for sale at December 31, 2018:

	At December 31, 2018 ⁽¹⁾					
	(€ million)					
	Total		Current		Non-current	
Assets classified as held for sale						
Intangible assets	€	717	€	—	€	717
Property, plant and equipment		1,793		—		1,793
Deferred tax assets		127		—		127
Inventories		766		766		—
Trade and other receivables		545		492		53
Cash and cash equivalents		719		719		—
Other assets		129		27		102
Total Assets held for sale⁽²⁾	€	4,796				
Liabilities classified as held for sale						
Debt	€	177	€	64	€	113
Employee benefits liabilities		300		55		245
Provisions		210		100		110
Deferred tax liabilities		99		—		99
Trade and other payables		1,788		1,788		—
Other liabilities		357		305		52
Total Liabilities held for sale	€	2,931				

(1) Amounts presented are not representative of the financial position of Magneti Marelli on a stand-alone basis; amounts are net of transactions between Magneti Marelli and other companies of the Group.

(2) Assets held for sale as presented on the face of the Consolidated Statement of Financial Position at December 31, 2018, includes €5 million not related to the Magneti Marelli business.

The following table summarizes the operating results of Magneti Marelli that were excluded from the Consolidated Income Statement for the years ended December 31, 2018, 2017 and 2016:

	Years ended December 31 ⁽¹⁾					
	2018		2017		2016	
	(€ million)					
Net revenues	€	4,998	€	5,204	€	5,220
Expenses		4,493		4,798		4,906
Net financial expenses		85		124		158
Profit before taxes from discontinued operations		420		282		156
Tax expense		118		63		55
Profit from discontinued operations, net of tax	€	302	€	219	€	101

(1) Amounts presented are not representative of the income statement of Magneti Marelli on a stand-alone basis; amounts are net of transactions between Magneti Marelli and other companies of the Group.

Itedi S.p.A Held for Sale

On August 1, 2016, FCA announced the signing of a framework agreement setting out the terms of the proposed merger between FCA's consolidated media and publishing subsidiary, Italiana Editrice S.p.A. ("Itedi"), in which FCA had a 77 percent ownership interest, and the Italian media group, GEDI Gruppo Editoriale S.p.A. ("GEDI"), previously known as Gruppo Editoriale L'Espresso S.p.A. All the necessary steps for the merger, including regulatory approvals from Italian state authorities, were completed and on June 27, 2017, FCA and Itedi's non-controlling shareholder, Ital Press Holding S.p.A. ("Ital Press"), transferred 100 percent of the shares of Itedi to GEDI in exchange for newly issued GEDI shares, resulting in CIR S.p.A., the controlling shareholder of GEDI, holding a 43.4 percent ownership interest in GEDI, FCA holding 14.63 percent and Ital Press holding 4.37 percent.

Following the completion of the merger on June 27, 2017, FCA distributed its entire interest in GEDI to holders of FCA common shares on July 2, 2017 in the ratio of 0.0484 GEDI ordinary shares for each FCA common share. As a result, the Group recorded a gain of €49 million within Gains on disposal in the Consolidated Income Statement for the year ended December 31, 2017.

Deconsolidation of FCA Venezuela

Throughout 2017, macroeconomic conditions in Venezuela continued to deteriorate. In the second quarter of 2017, asset impairment charges of €21 million relating to certain real estate assets in Venezuela were recognized, recorded within Selling, general and other costs. In December 2017, due to the restrictive monetary policy in Venezuela coupled with the inability to pay dividends and U.S. Dollar obligations, as well as the deteriorating economic conditions, which constrained the ability to maintain normal production in Venezuela, we concluded we were no longer able to exert control over our Venezuelan operations in order to affect our returns. As such, in accordance with IFRS 10 - *Consolidated Financial Statements*, as of December 31, 2017, we deconsolidated our subsidiary FCA Venezuela LLC (“FCA Venezuela”), resulting in a pre-tax, non-cash charge of €42 million recorded within Selling, general and other costs in the Consolidated Income Statement for the year ended December 31, 2017. Upon deconsolidation, FCA's investment in FCA Venezuela was recognized at fair value, which was nil at December 31, 2017 and has been accounted for at cost in subsequent periods.

In 2016, the “floating” Sistema de Divisa Complementaria, or “DICOM” exchange rate was used to complete the majority of FCA Venezuela's transactions to exchange VEF for U.S. Dollars. At December 31, 2016, the DICOM exchange rate was 674 VEF per U.S. Dollar and total remeasurement charges, including the devaluation and the write-down of SICAD receivables, of €19 million were recorded within Cost of revenues in the Consolidated Income Statement for the year ended December 31, 2016.

The following significant transactions with non-controlling interests occurred:

2018

- There were no significant transactions with non-controlling interests.

2017

- Disposal of the 16.0 percent of the Group's interest in FMM Pernambuco to the minority interest in January 2017, and subsequent loss of control during the third quarter of 2017, resulting in a gain on disposal of €19 million.

2016

- There were no significant transactions with non-controlling interests.

4. Net revenues

Net revenues were as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Revenues from:			
Sales of goods	€ 104,990	€ 102,029	€ 102,279
Services provided	3,871	2,182	2,212
Contract revenues	958	935	746
Lease installments from assets sold with a buy-back commitment	394	421	405
Interest income of financial services activities	199	163	156
Total Net revenues	€ 110,412	€ 105,730	€ 105,798

Net revenues by geographical area were as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Net revenues in:			
North America	€ 73,405	€ 67,500	€ 70,199
Italy	8,815	8,407	8,137
Brazil	6,452	5,982	4,584
France	3,204	3,121	2,811
Germany	2,755	2,804	2,825
China	1,974	3,562	3,942
Spain	1,397	1,306	1,173
Argentina	1,384	1,791	1,380
United Kingdom	1,136	1,267	1,513
Turkey	896	1,244	1,488
Japan	718	735	624
Australia	418	496	472
Other countries	7,858	7,515	6,650
Total Net revenues	€ 110,412	€ 105,730	€ 105,798

Net revenues attributed by segment for the year ended December 31, 2018 were as follows:

	Mass-Market Vehicles				Maserati	Other activities	Total
	NAFTA	LATAM	APAC	EMEA			
	(€ million)						
Revenues from:							
Sale of goods	€ 69,908	€ 7,756	€ 2,560	€ 21,516	€ 2,606	€ 644	€ 104,990
Services provided	2,287	270	21	945	39	309	3,871
Construction contract revenues	—	—	—	—	—	958	958
Revenues from goods and services	72,195	8,026	2,581	22,461	2,645	1,911	109,819
Lease installments from assets sold with a buy-back commitment	158	—	—	235	—	1	394
Interest income from financial services activities	—	116	65	18	—	—	199
Total Net revenues	€ 72,353	€ 8,142	€ 2,646	€ 22,714	€ 2,645	€ 1,912	€ 110,412

The Group recognized a net decrease in Net revenues of €14 million during the year ended December 31, 2018 from performance obligations satisfied in the prior year. This was primarily due to changes in the estimated cost of sales incentive programs occurring after the Group had transferred control of vehicles to the dealers.

5. Research and development costs

Research and development costs were as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Research and development expenditures expensed	€ 1,448	€ 1,506	€ 1,467
Amortization of capitalized development expenditures	1,456	1,294	1,357
Impairment and write-off of capitalized development expenditures	147	103	106
Total Research and development costs	€ 3,051	€ 2,903	€ 2,930

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 impairment and write-off of capitalized development expenditures during the year ended December 31, 2017 mainly related to global product portfolio changes in EMEA and changes in the LATAM product portfolio.

The impairment and write-off of capitalized development expenditures during the year ended December 31, 2016 mainly related to the Group's capacity realignment to SUV production in China, which resulted in an impairment charge of €90 million for the locally produced Fiat Viaggio and Ottimo vehicles.

Refer to Note 10, *Other intangible assets*, for information on capitalized development expenditures.

6. Net financial expenses

The following table summarizes the Group's financial income and expenses, included within Net financial expenses:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Interest income and other financial income	€ 249	€ 220	€ 279
Financial expenses:			
Interest expense and other financial expenses:	929	1,084	1,452
<i>Interest expense on notes</i>	422	568	749
<i>Interest expense on borrowings from bank</i>	259	350	450
<i>Other interest cost and financial expenses</i>	248	166	253
Write-down of financial assets	6	21	76
Losses on disposal of securities	6	5	6
Net interest expense on employee benefits provisions	276	304	341
Total Financial expenses	1,217	1,414	1,875
Net expenses from derivative financial instruments and exchange rate differences	88	151	262
Total Financial expenses and Net expenses from derivative financial instruments and exchange rate differences	1,305	1,565	2,137
Net Financial expenses	€ 1,056	€ 1,345	€ 1,858

7. Tax expense

The following table summarizes Tax expense:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Current tax expense	€ 592	€ 832	€ 797
Deferred tax expense	520	1,776	433
Tax expense/(benefit) relating to prior periods	(334)	(20)	7
Total Tax expense	€ 778	€ 2,588	€ 1,237

The applicable tax rate used to determine theoretical income taxes was the statutory rate in the United Kingdom (“UK”), the tax jurisdiction in which FCA NV is resident. The reconciliation between the theoretical income taxes calculated on the basis of the theoretical tax rate of 19.0 percent in 2018 (19.25 percent in 2017 and 20 percent in 2016) and income taxes recognized was as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Theoretical income taxes	€ 781	€ 1,126	€ 590
Tax effect on:			
Recognition and utilization of previously unrecognized deferred tax assets	—	(161)	(42)
Permanent differences	(416)	(397)	(217)
Tax credits	(135)	(23)	(340)
Deferred tax assets not recognized and write-downs	633	1,053	520
Differences between foreign tax rates and the theoretical applicable tax rate and tax holidays	207	970	633
Taxes relating to prior years	(334)	(20)	7
Tax rate changes	—	(22)	—
Withholding tax	41	78	54
Other differences	(15)	(8)	(9)
Total Tax expense, excluding IRAP	762	2,596	1,196
<i>Effective tax rate</i>	<i>18.5%</i>	<i>44.2%</i>	<i>40.5%</i>
IRAP (current and deferred)	16	(8)	41
Total Tax expense	€ 778	€ 2,588	€ 1,237

As the IRAP taxable basis differs from Profit before taxes, it is excluded from the effective tax rates above.

The decrease in the effective tax rate to 19 percent in 2018 from 44 percent in 2017 was mainly due to: (i) tax expense of €734 million recorded in 2017 as a result of the decrease in recognized deferred tax assets in Brazil; (ii) net tax benefits of €673 million recognized in 2018 for impacts of the Tax Act; and (iii) net tax benefits of €334 million recognized for prior years' tax positions finalized in 2018; partially offset by (iv) tax impacts from the recognition of a provision for costs related to final settlements reached on civil, environmental and consumer claims related to U.S. diesel emissions matters.

The net tax benefits of €334 million for prior years' tax positions finalized in 2018 is composed of: (i) tax benefit of €447 million for U.S. provision to return adjustments (including a reduction to the estimated 2017 U.S. one-time deemed repatriation tax expense of €70 million and tax benefit of €94 million from an accelerated discretionary pension contribution, refer to Note 19, *Employee benefits liabilities* for additional detail); partially offset by (ii) net tax expense of €113 million primarily for the impact of uncertain tax positions and other prior years' tax positions.

The Group recognizes the amount of Deferred tax assets less the Deferred tax liabilities of the individual companies within Deferred tax assets, where these may be offset. Amounts recognized were as follows:

	At December 31	
	2018	2017
	(€ million)	
Deferred tax assets	€ 1,814	€ 2,004
Deferred tax liabilities	(937)	(388)
Total Net deferred tax assets	€ 877	€ 1,616

The decrease in Net deferred tax assets at December 31, 2018 from December 31, 2017 was mainly due to: (i) a €481 million decrease in NAFTA related to provisions, acceleration of tax depreciation and amortization on capital expenditures and utilization of U.S. tax credit carryforwards; (ii) a €142 million decrease in Net deferred tax assets recognized in Equity, primarily related to employee benefits and foreign currency translation; (iii) a €28 million decrease in Net deferred tax assets for balances transferred to Held for sale; and (iv) €39 million for reductions to other net deferred tax assets.

The significant components of Deferred tax assets and liabilities and their changes during the years ended December 31, 2018 and 2017 were as follows:

	At January 1, 2018	Recognized in Consolidated Income Statement	Recognized in Equity	Transferred to Assets/ (Liabilities) Held for Sale	Translation differences and other changes	At December 31, 2018
	(€ million)					
Deferred tax assets arising on:						
Provisions	€ 3,848	€ 240	€ —	€ (55)	€ 94	€ 4,127
Provision for employee benefits	1,828	(280)	(77)	(31)	47	1,487
Intangible assets	192	(24)	—	(2)	—	166
Impairment of financial assets	169	(1)	—	(13)	—	155
Inventories	252	22	—	(24)	(4)	246
Allowances for doubtful accounts	122	(6)	—	(7)	(13)	96
Other	387	48	4	(77)	323	685
Total Deferred tax assets	€ 6,798	€ (1)	€ (73)	€ (209)	€ 447	€ 6,962
Deferred tax liabilities arising on:						
Accelerated depreciation	€ (1,891)	€ (386)	€ —	€ 29	€ (48)	€ (2,296)
Capitalized development assets	(2,116)	(103)	—	81	(302)	(2,440)
Other Intangible assets and Intangible assets with indefinite useful lives	(849)	(20)	—	2	(45)	(912)
Provision for employee benefits	(50)	(2)	(1)	3	(41)	(91)
Other	(314)	(103)	5	86	(98)	(424)
Total Deferred tax liabilities	€ (5,220)	€ (614)	€ 4	€ 201	€ (534)	€ (6,163)
Deferred tax asset arising on tax loss carry-forwards	€ 4,718	€ 708	€ —	€ (328)	€ (135)	€ 4,963
Unrecognized deferred tax assets	(4,680)	(662)	(12)	308	161	(4,885)
Total Net deferred tax assets	€ 1,616	€ (569)	€ (81)	€ (28)	€ (61)	€ 877

	At January 1, 2017	Recognized in Consolidated Income Statement	Recognized in Equity	Translation differences and other changes	At December 31, 2017
	(€ million)				
Deferred tax assets arising on:					
Provisions	€ 6,149	€ (1,742)	€ —	€ (559)	€ 3,848
Provision for employee benefits	2,851	(364)	(16)	(643)	1,828
Intangible assets	211	(19)	—	—	192
Impairment of financial assets	195	(25)	—	(1)	169
Inventories	251	3	—	(2)	252
Allowances for doubtful accounts	117	19	—	(14)	122
Other	385	(13)	(14)	29	387
Total Deferred tax assets	€ 10,159	€ (2,141)	€ (30)	€ (1,190)	€ 6,798
Deferred tax liabilities arising on:					
Accelerated depreciation	€ (2,770)	€ 430	€ —	€ 449	€ (1,891)
Capitalized development expenditures	(2,742)	399	—	227	(2,116)
Other Intangible assets and Intangible assets with indefinite useful lives	(1,493)	238	—	406	(849)
Provision for employee benefits	(14)	(30)	—	(6)	(50)
Other	(331)	4	(10)	23	(314)
Total Deferred tax liabilities	€ (7,350)	€ 1,041	€ (10)	€ 1,099	€ (5,220)
Deferred tax asset arising on tax loss carry-forwards	€ 4,444	€ 522	€ —	€ (248)	€ 4,718
Unrecognized deferred tax assets	(3,748)	(1,195)	9	254	(4,680)
Total Net deferred tax assets	€ 3,505	€ (1,773)	€ (31)	€ (85)	€ 1,616

As of December 31, 2018, the Group had total Deferred tax assets on deductible temporary differences of €6,962 million (€6,798 million at December 31, 2017), of which €898 million was not recognized (€940 million at December 31, 2017). As of December 31, 2018, the Group also had Deferred tax assets on tax loss carry-forwards of €4,963 million (€4,718 million at December 31, 2017), of which €3,987 million was not recognized (€3,740 million at December 31, 2017).

As of December 31, 2018, the Group had net recognized and unrecognized deferred tax assets of €3,370 million (€3,256 million at December 31, 2017) in Italy primarily attributable to Italian tax loss carry-forwards that can be carried forward indefinitely. A deferred tax asset is recognized for Italian tax loss carry-forwards to the extent the realization of the related tax benefit is supported through achievement of the Group's 2018-2022 business plan. The Group continues to recognize Italian Net deferred tax assets of €884 million (€898 million at December 31, 2017) as the Group considers it probable that we will have sufficient taxable income in the future that will allow realization of these net deferred tax assets. The utilization of Italian tax loss carry-forwards for which currently no deferred tax asset is recognized is subject to future sustained profitability, as well as, the achievement of taxable income in periods which are beyond the Group's 2018-2022 business plan and therefore this utilization is uncertain. As a result, €2,486 million of Net deferred tax assets in Italy were not recognized as of December 31, 2018 (€2,358 million at December 31, 2017).

As of December 31, 2018, the Group had net recognized and unrecognized deferred tax assets of €1,532 million in Brazil (€1,287 million at December 31, 2017) primarily attributable to Brazilian tax loss carry-forwards which can be carried forward indefinitely. A deferred tax asset is recognized for Brazilian tax loss carry-forwards to the extent the realization of the related tax benefit is supported through achievement of the Group's 2018-2022 business plan. The Group continues to recognize Brazilian Net deferred tax assets of €133 million (€148 million at December 31, 2017) as the Group considers it probable that we will have sufficient taxable income in the future that will allow realization of these net deferred tax assets. The utilization of Brazilian tax loss carry-forwards for which currently no deferred tax asset is recognized is subject to future sustained profitability, as well as, the achievement of taxable income in periods which are beyond the Group's 2018-2022 business plan and therefore this utilization is uncertain. As a result, €1,399 million of Net deferred tax assets in Brazil, which include Brazil tax losses, were not recognized as of December 31, 2018 (€1,139 million at December 31, 2017).

The realization of these deferred tax assets is sensitive to the assumptions and judgments used in the determination of the taxable income in the future, as well as, our ability to effect tax planning strategies, as necessary. Certain jurisdictions within EMEA in which the Group operates may begin to generate profits or taxable income in the future. While we have not yet recognized deferred tax assets in these jurisdictions, it is possible our assessment of realizability could change, resulting in the recognition of deferred tax assets in our Balance Sheet and the related income tax benefit in our Income Statement. Refer to Note 2, *Use of estimates - Recoverability of deferred tax assets* for additional detail.

Deferred tax liabilities on the undistributed earnings of subsidiaries have not been recognized, except in cases where it is probable the distribution will occur in the foreseeable future.

Total gross deductible and taxable temporary differences and accumulated tax losses at December 31, 2018, together with the amounts for which deferred tax assets have not been recognized, analyzed by year of expiration, were as follows:

	At December 31, 2018	Year of expiration					Beyond 2022	Unlimited/ Indeterminable
		2019	2020	2021	2022	(€ million)		
Temporary differences and tax losses relating to corporate taxation:								
Deductible temporary differences	€ 28,300	€ 3,793	€ 3,143	€ 3,084	€ 3,478	€ 14,689	€ 113	
Taxable temporary differences	(25,749)	(2,484)	(2,451)	(2,450)	(2,499)	(12,730)	(3,135)	
Tax losses	18,978	152	151	111	292	1,868	16,404	
Amounts for which deferred tax assets were not recognized	(18,295)	(132)	(67)	(130)	(248)	(3,201)	(14,517)	
Temporary differences and tax losses relating to corporate taxation	€ 3,234	€ 1,329	€ 776	€ 615	€ 1,023	€ 626	€ (1,135)	
Temporary differences and tax losses relating to local taxation (i.e. IRAP in Italy):								
Deductible temporary differences	€ 9,761	€ 1,241	€ 827	€ 722	€ 1,176	€ 5,758	€ 37	
Taxable temporary differences	(8,123)	(657)	(650)	(649)	(700)	(5,363)	(104)	
Tax losses	4,211	8	1	65	231	250	3,656	
Amounts for which deferred tax assets were not recognized	(5,054)	(42)	(15)	(77)	(270)	(1,335)	(3,315)	
Temporary differences and tax losses relating to local taxation	€ 795	€ 550	€ 163	€ 61	€ 437	€ (690)	€ 274	

8. Other information by nature

Personnel costs for the Group continuing operations for the years ended December 31, 2018, 2017 and 2016 amounted to €11.7 billion, €11.7 billion and €11.8 billion, respectively, and included costs that were capitalized mainly in connection with product development activities.

For the years ended December 31, 2018, 2017 and 2016, the Group continuing operations had an average number of employees of 203,122, 197,040 and 198,102, respectively.

9. Goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives at December 31, 2018 and 2017 are summarized below:

	At January 1, 2018		Transfers to Assets held for sale		Translation differences and Other		At December 31, 2018	
	(€ million)							
Gross amount	€	10,850	€	(96)	€	500	€	11,254
Accumulated impairment losses		(454)		33		1		(420)
Goodwill		10,396		(63)		501		10,834
Brands		2,994		—		142		3,136
Total Goodwill and intangible assets with indefinite useful lives	€	13,390	€	(63)	€	643	€	13,970

	At January 1, 2017		Translation differences and other		At December 31, 2017	
	(€ million)					
Gross amount	€	12,299	€	(1,449)	€	10,850
Accumulated impairment losses		(482)		28		(454)
Goodwill		11,817		(1,421)		10,396
Brands		3,405		(411)		2,994
Total Goodwill and intangible assets with indefinite useful lives	€	15,222	€	(1,832)	€	13,390

Translation differences in 2018 and 2017 primarily related to foreign currency translation of the U.S. Dollar to the Euro.

Brands

Brands, composed of the Chrysler, Jeep, Dodge, Ram and Mopar brands, resulted from the acquisition of FCA US and are allocated to the NAFTA segment. These rights are protected legally through registration with government agencies and through their continuous use in commerce. As these rights have no legal, contractual, competitive or economic term that limits their useful lives, they are classified as intangible assets with indefinite useful lives and are therefore not amortized but are instead tested annually for impairment.

For the purpose of impairment testing, the carrying value of Brands is tested jointly with the goodwill allocated to the NAFTA segment.

Goodwill

At December 31, 2018, Goodwill included €10,801 million from the acquisition of FCA US (€10,311 million at December 31, 2017). At December 31, 2018, €63 million of goodwill was classified within Assets held for sale as a result of Magneti Marelli meeting the held for sale criteria (see Note 3, *Scope of consolidation*).

There were no impairment charges recognized in respect of Goodwill and intangible assets with indefinite lives during the years ended December 31, 2018, 2017 and 2016. Refer to Note 2, *Basis of preparation - Use of estimates* for discussion of the assumptions and judgments relating to goodwill impairment testing.

The following table summarizes the allocation of Goodwill between FCA's reportable segments:

	At December 31	
	2018	2017
	(€ million)	
NAFTA	€ 8,855	€ 8,453
APAC	1,152	1,099
LATAM	552	529
EMEA	264	253
Other activities	11	62
Total Goodwill	€ 10,834	€ 10,396

10. Other intangible assets

	Capitalized development expenditures	Patents, concessions, licenses and credits	Other intangible assets	Total
	(€ million)			
Gross carrying amount at January 1, 2017	€ 18,739	€ 3,552	€ 801	€ 23,092
Additions	2,586	356	65	3,007
Divestitures	(329)	(16)	(1)	(346)
Translation differences and other changes	(1,097)	(309)	(61)	(1,467)
At December 31, 2017	19,899	3,583	804	24,286
Additions	2,235	639	93	2,967
Divestitures	(568)	(224)	(89)	(881)
Transfer to Assets held for sale	(1,553)	(132)	(131)	(1,816)
Translation differences and other changes	215	133	(41)	307
At December 31, 2018	20,228	3,999	636	24,863
Accumulated amortization and impairment losses at January 1, 2017	9,380	1,808	482	11,670
Amortization	1,424	371	61	1,856
Impairment losses and asset write-offs	110	—	—	110
Divestitures	(324)	(10)	—	(334)
Translation differences and other changes	(388)	(140)	(30)	(558)
At December 31, 2017	10,202	2,029	513	12,744
Amortization	1,543	379	50	1,972
Impairment losses and asset write-offs	153	—	—	153
Divestitures	(553)	(30)	(89)	(672)
Transfer to Assets held for sale	(973)	(98)	(91)	(1,162)
Translation differences and other changes	31	82	(34)	79
At December 31, 2018	10,403	2,362	349	13,114
Carrying amount at December 31, 2017	€ 9,697	€ 1,554	€ 291	€ 11,542
Carrying amount at December 31, 2018	€ 9,825	€ 1,637	€ 287	€ 11,749

Capitalized development expenditures include both internal and external costs that are directly attributable to the internal product development process, primarily consisting of material costs and personnel related expenses relating to engineering, design and development focused on content enhancement of existing vehicles, new models and powertrain programs.

In 2018, €153 million of impairment losses and asset write-offs were recognized as described in Note 5, *Research and development costs*. In 2017, of the total €110 million impairment losses and asset write-offs were recognized as described

in Note 5, *Research and development costs*. Refer to Note 2, *Use of estimates - Recoverability of non-current assets with definite useful lives* for additional detail regarding the assumptions and judgments used when testing these assets for impairment.

Translation differences primarily related to foreign currency translation of the U.S. Dollar to the Euro.

Amortization of capitalized development expenditures is recognized within Research and development costs within the Consolidated Income Statement, as described in Note 5, *Research and development costs*. Amortization of Patents, concessions, licenses and credits and Other intangibles are recognized within Cost of revenues and Selling, general and other costs.

At December 31, 2018 and 2017, the Group had contractual commitments for the purchase of intangible assets amounting to €215 million and €601 million, respectively.

11. Property, plant and equipment

	Land	Industrial buildings	Plant, machinery and equipment	Other assets	Advances and tangible assets in progress	Total
	(€ million)					
Gross carrying amount at January 1, 2017	€ 948	€ 8,930	€ 50,389	€ 3,223	€ 3,648	€ 67,138
Additions	20	256	3,768	187	1,428	5,659
Divestitures	(11)	(17)	(1,163)	(88)	(4)	(1,283)
Change in the scope of consolidation	(2)	(104)	(618)	(21)	(5)	(750)
Translation differences	(71)	(639)	(3,167)	(301)	(325)	(4,503)
Other changes	1	68	1,844	3	(1,930)	(14)
At December 31, 2017	885	8,494	51,053	3,003	2,812	66,247
Additions	7	183	1,976	84	811	3,061
Divestitures	(11)	(16)	(872)	(40)	(5)	(944)
Translation differences	(10)	(34)	123	57	47	183
Transfer to Assets held for sale	(21)	(401)	(3,870)	(294)	(299)	(4,885)
Other changes	1	113	1,607	56	(1,838)	(61)
At December 31, 2018	851	8,339	50,017	2,866	1,528	63,601
Accumulated depreciation and impairment losses at January 1, 2017	41	3,213	31,694	1,744	15	36,707
Depreciation	—	313	3,440	279	—	4,032
Divestitures	(2)	(11)	(1,126)	(78)	—	(1,217)
Impairment losses and asset write-offs	1	22	83	6	7	119
Change in the scope of consolidation	(1)	(76)	(287)	(18)	—	(382)
Translation differences	(1)	(163)	(1,693)	(152)	(1)	(2,010)
Other changes	(1)	—	(29)	19	(5)	(16)
At December 31, 2017	37	3,298	32,082	1,800	16	37,233
Depreciation	—	283	3,303	262	—	3,848
Divestitures	(5)	—	(851)	(34)	—	(890)
Impairment losses and asset write-offs	—	—	140	—	4	144
Translation differences	—	(1)	89	30	—	118
Transfer to Assets held for sale	—	(204)	(2,663)	(223)	(2)	(3,092)
Other changes	—	(11)	(68)	20	(8)	(67)
At December 31, 2018	32	3,365	32,032	1,855	10	37,294
Carrying amount at December 31, 2017	€ 848	€ 5,196	€ 18,971	€ 1,203	€ 2,796	€ 29,014
Carrying amount at December 31, 2018	€ 819	€ 4,974	€ 17,985	€ 1,011	€ 1,518	€ 26,307

For the year ended December 31, 2018, the Group recognized a total of €144 million of impairment losses and asset write-offs, primarily in EMEA, resulting from changes in product plans in connection with the 2018-2022 business plan. Refer to Note 2, *Use of estimates - Recoverability of non-current assets with definite useful lives* for additional detail regarding the assumptions and judgments used when testing these assets for impairment.

For the year ended December 31, 2017, the Group recognized a total of €119 million of impairment losses and asset write-offs, of which €21 million related to certain of FCA Venezuela's assets due to the continued deterioration of the economic conditions in Venezuela prior to deconsolidation. The remaining impairment losses related to changes in the global product portfolio in EMEA and product portfolio changes in LATAM.

These impairment charges were recognized within Selling, administrative and other expenses in the Consolidated Income Statement for the years ended December 31, 2018, and 2017.

In 2018, translation differences of €65 million primarily reflected the strengthening of the U.S Dollar against Euro partially offset by the weakness of the Brazilian Real. In 2017, translation differences of €2,493 million primarily reflected the weakening of the U.S Dollar, Mexican Peso and the Brazilian Real against the Euro.

The net carrying amount of assets leased under finance lease agreements includes assets that are legally owned by suppliers but which are recognized in the Consolidated Financial Statements with the recognition of a corresponding financial lease payable in accordance with IFRIC 4 - *Determining Whether an Arrangement Contains a Lease*, as the arrangement conveys a right to control the use of a specific asset even if that asset is not explicitly referred to in the arrangement. The total net carrying amount of assets leased under finance lease agreements included in Property, plant and equipment was as follows:

	At December 31	
	2018	2017
	(€ million)	
Industrial buildings	€ 197	€ 209
Plant, machinery and equipment	129	193
Total Property, plant and equipment under finance leases	€ 326	€ 402

The carrying amounts of Property, plant and equipment of the Group reported as pledged as security for debt and other commitments, primarily relating to our operations in Brazil, are summarized as follows:

	At December 31	
	2018	2017
	(€ million)	
Land and industrial buildings pledged as security for debt	€ 892	€ 1,031
Plant and machinery pledged as security for debt and other commitments	1,241	1,324
Other assets pledged as security for debt and other commitments	81	17
Total Property, plant and equipment pledged as security for debt and other commitments	€ 2,214	€ 2,372

In addition to the amounts above, at December 31, 2017, FCA US's Tranche B term loan maturing December 31, 2018 (the "Tranche B Term Loan due 2018") was secured by a senior priority security interest against substantially all of FCA US's assets and the assets of its U.S. subsidiary guarantors, subject to certain exceptions. This security interest expired on prepayment of the Tranche B Term Loan due 2018 in November 2018. For additional details, refer Note 21, *Debt*.

At December 31, 2018 and 2017, the Group had contractual commitments for the purchase of Property, plant and equipment amounting to €539 million and €540 million, respectively.

12. Investments accounted for using the equity method

The following table summarizes Investments accounted for using the equity method:

	At December 31	
	2018	2017
	(€ million)	
Joint ventures	€ 1,866	€ 1,866
Associates	96	94
Other	40	48
Total Investments accounted for using the equity method	€ 2,002	€ 2,008

FCA's ownership percentages and the carrying value of investments in joint ventures accounted for under the equity method were as follows:

	Ownership percentage		Investment balance	
	At December 31		At December 31	
	2018	2017	2018	2017
Joint ventures	Ownership percentage		(€ million)	
FCA Bank S.p.A.	50.0%	50.0%	€ 1,360	€ 1,178
Tofas-Turk Otomobil Fabrikasi A.S.	37.9%	37.9%	233	298
GAC Fiat Chrysler Automobiles Co.	50.0%	50.0%	216	287
Others			57	103
Total			€ 1,866	€ 1,866

FCA Bank is a joint venture with Crédit Agricole Consumer Finance S.A. (“CACF”) which operates in Europe, primarily in Italy, France, Germany, UK and Spain. The Group has agreed with Credit Agricole to extend its term through December 31, 2022, which may be automatically renewed up to December 31, 2024 unless a termination notice is served in the period from January 1, 2019 to June 30, 2019. FCA Bank provides retail and dealer financing and long-term rental services in the automotive sector, directly or through its subsidiaries as a partner of the Group's mass-market vehicle brands and for Maserati vehicles.

The financial statements of FCA Bank as at and for the year ended December 31, 2018 have not been authorized for issuance as of the date of issuance of the FCA Consolidated Financial Statements. As such, the most recent publicly available financial information is included in the tables below.

The most recently available information was used to estimate FCA's share of FCA Bank net income and net equity. Any difference between this data and actual results will be adjusted in the 2019 FCA Consolidated Financial Statements when available.

The following tables include summarized financial information relating to FCA Bank:

	At June 30, 2018	At December 31, 2017	
	(€ million)		
Financial assets	€ 25,496	€	23,434
<i>Of which: Cash and cash equivalents</i>	—		1
Other assets	4,175		3,753
Financial liabilities	25,634		23,424
Other liabilities	1,346		1,250
Equity (100%)	2,691		2,512
Net assets attributable to owners of the parent	2,645		2,469
Group's share of net assets	1,323		1,235
Elimination of unrealized profits and other adjustments	37		(57)
Carrying amount of interest in FCA Bank⁽¹⁾	€ 1,360	€	1,178

(1) Amounts as at December 31, 2018 and 2017 respectively.

	Six months ended June 30	Years ended December 31	
	2018	2017	2016
	(€ million)		
Interest and similar income	€ 471	€ 855	€ 764
Interest and similar expenses	(144)	(266)	(263)
Income tax expense	(80)	(139)	(105)
Profit from continuing operations	201	383	312
Net profit	201	383	312
Net profit attributable to owners of the parent (A)	199	378	309
Other comprehensive income/(loss) attributable to owners of the parent (B)	(5)	(8)	(64)
Total Comprehensive income attributable to owners of the parent (A+B)	€ 194	€ 370	€ 245
Group's share of net profit⁽¹⁾	€ 195	€ 189	€ 154

(1) Amounts for the years ended December 31, 2018, 2017 and 2016 respectively

Tofas-Turk Otomobil Fabrikasi A.S. (“Tofas”), is a joint venture with Koç Holding which is registered with the Turkish Capital Market Board and listed on the İstanbul Stock Exchange. At December 31, 2018, the fair value of the Group’s interest in Tofas was €531 million (€1,375 million at December 31, 2017).

GAC Fiat Chrysler Automobiles Co. (“GAC FCA JV”) is a joint venture with Guangzhou Automobile Group Co., Ltd., which locally produces Jeep vehicles for the Chinese market.

The Group's proportionate share of the earnings of our joint ventures, associates and interests in unconsolidated subsidiaries accounted for using the equity method is included within *Result from investments* in the Consolidated Income Statement. The following table summarizes the share of profits of equity method investees included within *Result from investments*:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Joint Ventures	€ 221	€ 381	€ 288
Associates	6	9	7
Other	13	10	13
Total Share of the profit of equity method investees	€ 240	€ 400	€ 308

Immaterial Joint Ventures and Associates

The aggregate amounts recognized for the Group's share in all individually immaterial joint ventures and associates accounted for using the equity method were as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Joint ventures:			
Profit from continuing operations	€ 27	€ 192	€ 134
Net profit	27	192	134
Other comprehensive income/(loss)	(91)	(105)	(90)
Total Other comprehensive income	€ (64)	€ 87	€ 44
Associates:			
Income/(loss) from continuing operations	€ 6	€ 9	€ 7
Net income/(loss)	6	9	7
Other comprehensive income/(loss)	(3)	(3)	(1)
Total Other comprehensive income/(loss)	€ 3	€ 6	€ 6

13. Other Financial assets

Other financial assets consisted of the following:

	Note	At December 31					
		2018			2017		
		Current	Non-current	Total	Current	Non-current	Total
		(€ million)					
Derivative financial assets	16	€ 283	€ 14	€ 297	€ 265	€ 19	€ 284
Debt securities measured at fair value through other comprehensive income	23	—	—	—	4	—	4
Debt securities measured at fair value through profit or loss	23	230	—	230	172	59	231
Debt securities measured at amortized cost		61	2	63	—	—	—
Debt securities held-to-maturity		—	—	—	—	2	2
Equity instruments measured at cost		—	—	—	—	43	43
Equity instruments measured at fair value through other comprehensive income	23	—	31	31	—	23	23
Equity instruments mandatorily designated at fair value through profit and loss	23	41	2	43	—	—	—
Held-for-trading investments		—	—	—	46	—	46
Financial receivables		—	252	252	—	275	275
Collateral deposits ⁽¹⁾	23	—	61	61	—	61	61
Total Other financial assets		€ 615	€ 362	€ 977	€ 487	€ 482	€ 969

(1) Collateral deposits are held in connection with derivative transactions and debt obligations.

On March 21, 2017, the Group completed the sale of its investment of 15,948,275 common shares in CNH Industrial N.V. (“CNHI”), representing 1.17 percent of CNHI’s common shares, for an amount of €144 million which was previously reported within *Equity instruments measured at fair value through other comprehensive income*. The sale did not result in a material gain. The additional 15,948,275 special voting shares owned by the Group which had not been attributed any value, expired upon the sale of the CNHI common shares.

Refer to Note 2, *Basis of preparation* for information on the impact of the adoption of IFRS 9 on the balances disclosed above.

14. Inventories

	At December 31	
	2018	2017
	(€ million)	
Finished goods and goods for resale	€ 6,776	€ 8,261
Work-in-progress, raw materials and manufacturing supplies	3,783	4,476
Amount due from customers for contract work	135	185
Total Inventories	€ 10,694	€ 12,922

The amount of inventory write-downs recognized within Cost of revenues during the years ended December 31, 2018, 2017 and 2016 was €669 million, €626 million and €607 million, respectively.

Additionally, during the year ended December 31, 2018, impairments of Inventory totaling €129 million were recognized in APAC in connection with the accelerated adoption of new emission standards in China and slower than expected sales.

The Construction contracts, net asset/(liability) relates to the design and production of industrial automation systems and related products and is summarized as follows:

	At December 31	
	2018	2017
	(€ million)	
Aggregate amount of costs incurred and recognized profits (less recognized losses) to date	€ 954	€ 881
Less: Progress billings	(912)	(886)
Construction contracts, net asset/(liability)	42	(5)
Construction contract assets	135	185
Less: Construction contract liabilities (Note 22)	(93)	(190)
Construction contracts, net asset/(liability)	€ 42	€ (5)

Changes in the Group's construction contracts, net asset/(liability) for the year ended December 31, 2018, were as follows:

	At January 1, 2018	Advances received from customers	Amounts recognized within revenue	Transfers to Assets/(Liabilities) held for sale	Other Changes	At December 31, 2018
	(€ million)					
Construction contracts, net asset/(liability)	€ (5)	€ (878)	€ 958	€ —	€ (33)	€ 42

The entire amount of Construction contracts, net asset/(liability) is expected to be recognized as revenue in the following twelve months.

15. Trade, other receivables and tax receivables

The following table summarizes Trade, other receivables and tax receivables by due date:

	At December 31									
	2018					2017				
	Total due within one year (current)	Due between one and five years	Due beyond five years	Total due after one year (non-current)	Total	Total due within one year (current)	Due between one and five years	Due beyond five years	Total due after one year (non-current)	Total
	(€ million)									
Trade receivables	€ 2,048	€ —	€ —	€ —	€ 2,048	€ 2,460	€ —	€ —	€ —	€ 2,460
Receivables from financing activities	3,304	297	13	310	3,614	2,946	194	—	194	3,140
Other receivables	1,836	1,086	88	1,174	3,010	2,481	414	58	472	2,953
Total Trade and other receivables	€ 7,188	€ 1,383	€ 101	€ 1,484	€ 8,672	€ 7,887	€ 608	€ 58	€ 666	€ 8,553
Tax receivables	€ 419	€ 53	€ 18	€ 71	€ 490	€ 215	€ 62	€ 21	€ 83	€ 298

Trade receivables

Trade receivables are shown net of an ECL allowance, which is calculated using the simplified approach. Changes in the allowance for trade receivables were as follows:

	At January 1, 2018	Provision	Use and other changes	Transferred to Assets held for sale	At December 31, 2018
	(€ million)				
ECL allowance - Trade receivables	€ 269	€ 56	€ (47)	€ (31)	€ 247

Trade receivables of an immaterial amount were written off during the year ended December 31, 2018, and are still subject to enforcement activities. As a result of the impairment methodology implemented under IFRS 9, there was an immaterial impact to the ECL allowance at December 31, 2018.

The following table provides information about the exposure to credit risk and ECLs for trade receivables:

	At December 31, 2018		
	Current and less than 90 days past due	90 days or more past due	Total
Gross amount	1,920	310	2,230
ECL allowance	(65)	(182)	(247)
Carrying amount	1,855	128	1,983

In addition to the amounts above, a further €65 million of trade receivables were measured at FVPL. Refer to Note 23, *Fair value measurement*.

Receivables from financing activities

Receivables from financing activities mainly relate to the business of financial services companies fully consolidated by the Group and are summarized as follows:

	At December 31	
	2018	2017
	(€ million)	
Dealer financing	€ 2,654	€ 2,295
Retail financing	601	420
Finance leases	3	4
Other	356	421
Total Receivables from financing activities	€ 3,614	€ 3,140

Receivables from financing activities are shown net of an ECL allowance. Changes in the allowance for receivables from financing activities were as follows:

	At January 1, 2018	Provision	Use and other changes	Transferred to Assets held for sale	At December 31, 2018
	(€ million)				
ECL allowance - Receivables from financing activities	€ 45	€ 87	€ (105)	€ —	€ 27

Receivables from financing activities of an immaterial amount were written off during the year ended December 31, 2018, and are still subject to enforcement activities. As a result of the impairment methodology implemented under IFRS 9, there was an immaterial impact to the ECL allowance at December 31, 2018.

The following table provides information about the exposure to credit risk and ECLs for receivables from financing activities:

	At December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross amount	2,465	168	35	2,668
ECL allowance	(13)	(2)	(12)	(27)
Carrying amount	2,452	166	23	2,641

In addition to the amounts above, a further €973 million of receivables from financing activities were measured at FVPL. Refer to Note 23, *Fair value measurement*.

Other receivables

At December 31, 2018, Other receivables primarily consisted of tax receivables for VAT and other indirect taxes of €2,149 million (€2,153 million at December 31, 2017).

Transfer of financial assets

At December 31, 2018, the Group had receivables due after that date amounting to €8,523 million (€7,866 million at December 31, 2017) which had been transferred without recourse and which were derecognized in accordance with IFRS 9 – *Financial Instruments*. The transfers related to trade receivables and other receivables for €6,847 million (€6,752 million at December 31, 2017) and receivables from financing activities for €1,676 million (€1,114 million at December 31, 2017). These amounts included receivables of €5,517 million (€4,933 million at December 31, 2017), mainly due from the sales network, transferred to FCA Bank, our jointly controlled financial services company.

At December 31, 2018 and 2017, the carrying amount of transferred financial assets not derecognized and the related liabilities were as follows:

	At December 31					
	2018			2017		
	Trade receivables	Receivables from financing activities	Total	Trade receivables	Receivables from financing activities	Total
	(€ million)					
Carrying amount of assets transferred and not derecognized	€ 30	€ 427	€ 457	€ 22	€ 335	€ 357
Carrying amount of the related liabilities (Note 21)	€ 30	€ 427	€ 457	€ 22	€ 335	€ 357

16. Derivative financial assets and liabilities

The following table summarizes the fair value of the Group's derivative financial assets and liabilities:

	At December 31							
	2018				2017			
	Positive fair value		Negative fair value		Positive fair value		Negative fair value	
	(€ million)							
Fair value hedges:								
Interest rate risk - interest rate swaps	€	—	€	—	€	2	€	—
Total Fair value hedges		—		—		2		—
Cash flow hedges:								
Currency risks - forward contracts, currency swaps and currency options		149		(75)		100		(95)
Interest rate risk - interest rate swaps		22		(16)		4		(7)
Interest rate and currency risk - combined interest rate and currency swaps		17		—		9		—
Commodity price risk – commodity swaps and commodity options		41		(59)		30		(1)
Total Cash flow hedges		229		(150)		143		(103)
Net investment hedges:								
Currency risks - forward contracts, currency swaps and currency options		—		—		5		—
Total Net investment hedges		—		—		5		—
Derivatives for trading		68		(57)		134		(36)
Total Fair value of derivative financial assets/(liabilities)	€	297	€	(207)	€	284	€	(139)
Financial derivative assets/(liabilities) - current	€	283	€	(204)	€	265	€	(138)
Financial derivative assets/(liabilities) - non-current	€	14	€	(3)	€	19	€	(1)

The following table summarizes the outstanding notional amounts of the Group's derivative financial instruments by due date:

	At December 31							
	2018				2017			
	Due within one year	Due between one and five years	Due beyond five years	Total	Due within one year	Due between one and five years	Due beyond five years	Total
	(€ million)							
Currency risk management	€ 12,782	€ 75	€ —	€ 12,857	€ 14,142	€ 154	€ —	€ 14,296
Interest rate risk management	1,630	1,144	—	2,774	1,581	1,753	101	3,435
Interest rate and currency risk management	236	34	—	270	—	291	71	362
Commodity price risk management	919	28	—	947	455	6	—	461
Other derivative financial instruments	—	14	—	14	—	14	—	14
Total Notional amount	€ 15,567	€ 1,295	€ —	€ 16,862	€ 16,178	€ 2,218	€ 172	€ 18,568

Fair value hedges

The gains and losses arising from the valuation of outstanding interest rate derivatives (for managing interest rate risk) and currency derivatives (for managing currency risk) are recognized in accordance with fair value hedge accounting and the gains and losses arising from the respective hedged items are summarized as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Currency risk			
Net gains/(losses) on qualifying hedges	€ —	€ 104	€ (13)
Fair value changes in hedged items	—	(104)	13
Interest rate risk			
Net (losses) on qualifying hedges	(2)	(9)	(26)
Fair value changes in hedged items	2	10	26
Net gains/(losses)	€ —	€ 1	€ —

Cash flow hedges

Amounts recognized in the Consolidated Income Statement mainly relate to currency risk management and, to a lesser extent, hedges regarding commodity price risk management and cash flows that are exposed to interest rate risk.

The Group's policy for managing currency risk normally requires hedging of projected future flows from trading activities which will occur within the following twelve months and from orders acquired (or contracts in progress), regardless of their due dates. The hedging effect arising from this is recorded in the Cash flow hedge reserve within Other comprehensive (loss)/income and will be subsequently recognized in the Consolidated Income Statement, primarily during the following year.

Derivatives relating to interest rate and currency risk management are treated as cash flow hedges and are entered into for the purpose of hedging notes issued in foreign currencies. The amount recorded in Other comprehensive income and within the Cash flow hedge reserve is recognized in the Consolidated Income Statement according to the timing of the cash flows of the underlying notes.

In 2017, the Group entered in interest rate swaps in order to hedge against the increase in interest rates in relation to future debt issuances. In 2018, the maturity dates for a portion of these interest rate swaps were extended. The swaps are designated as a cash flow hedge. For the year ended December 31, 2018, gains of €31 million (for the year ended December 31, 2017, losses of €3 million) relating to such derivatives were recognized in the Cash flow hedge reserve within Other comprehensive (loss)/income.

The Group reclassified gains/(losses) arising on Cash flow hedges, net of the tax effect, from Other comprehensive income and Inventories to the Consolidated Income Statement as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Currency risk			
Increase in Net revenues	€ 100	€ 8	€ 243
(Increase)/Decrease in Cost of revenues	(17)	(96)	(31)
Net financial income/(expenses)	2	(22)	34
Result from investments	24	28	26
Interest rate risk			
Result from investments	1	(1)	(1)
Net financial expenses	—	(3)	(4)
Commodity price risk			
(Increase)/Decrease in Cost of revenues	29	28	(39)
Ineffectiveness and discontinued hedges	(5)	4	12
Tax expense/(benefit)	(36)	27	(48)
Items relating to discontinued operations, net of tax	9	1	(21)
Total recognized in the Consolidated Income Statement	€ 107	€ (26)	€ 171

Net investment hedges

In order to manage the Group's foreign currency risk related to its investments in foreign operations, the Group enters into net investment hedges, in particular foreign currency swaps and forward contracts.

For the year ended December 31, 2018, net gains of €17 million related to net investment hedges were recognized in Currency translation differences within Other comprehensive (loss)/income. At December 31, 2018, there were no outstanding net investment hedges.

For the year ended December 31, 2017, gains of €15 million related to net investment hedges were recognized in Currency translation differences within Other comprehensive (loss)/income. There was no ineffectiveness for the year ended December 31, 2017.

Derivatives for trading

At December 31, 2018 and 2017, Derivatives for trading primarily consisted of derivative contracts entered into for hedging purposes which do not qualify for hedge accounting and one embedded derivative in a bond issuance in which the yield is determined as a function of trends in the inflation rate and related hedging derivative, which converts the exposure to a floating rate (the total value of the embedded derivative is offset by the value of the hedging derivative).

Information on the Group's risk management strategy and additional information on the Group's hedging activities is provided in Note 30, *Qualitative and quantitative information on financial risks*.

17. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	At December 31	
	2018	2017
	(€ million)	
Cash at banks	€ 4,774	€ 6,396
Money market securities	4,352	6,242
Other cash equivalents	€ 3,324	—
Total Cash and cash equivalents	€ 12,450	€ 12,638

Cash and cash equivalents held in certain foreign countries (primarily in China and Argentina) are subject to local exchange control regulations providing for restrictions on the amount of cash, other than dividends, that can leave the country. Refer to Note 2, *Basis of preparation* for details on the impact of the adoption of IFRS 9.

18. Share-based compensation

FCA - Performance Share Units

During the year ended December 31, 2018, FCA awarded a total of 2.40 million Performance Share Units (“PSU”) to certain key employees under the framework equity incentive plan, as described in (Note 26, *Equity*). The PSU awards, which represent the right to receive FCA common shares, include a total shareholder return (“TSR”) target. These awards (“2018 PSU TSR awards”) will vest based upon market conditions covering a five -year performance period from January 2017 through December 2021. Accordingly, the total number of shares that will eventually be issued may vary from the original award of 2.40 million units. One third of the total PSU TSR awards will vest in the first quarter of 2020, a cumulative two-thirds in the first quarter of 2021 and a cumulative 100 percent in the first quarter of 2022 if the respective performance goals for the years 2017 to 2019, 2017 to 2020 and 2017 to 2021 are achieved. In addition, during the year ended December 31, 2018, FCA awarded an additional 0.1 million PSU awards to certain key employees, which were granted with the same terms as those granted in 2015, as described below. These awards will vest in the first quarter of 2019.

During the year ended December 31, 2017, FCA awarded a total of 2.26 million PSUs to certain key employees under the framework equity incentive plan. The PSU awards, which represent the right to receive FCA common shares, have financial performance goals that include a net income target as well as total shareholder return target, with each weighted at 50 percent and settled independently of the other. Half of the award will vest based on our achievement of the targets for net income (“2017 PSU NI awards”) covering a three-year period from 2016 to 2018 and will have a payout scale ranging from 0 percent to 100 percent. The remaining half of the PSU awards, (“2017 PSU TSR awards”) are based on market conditions and have a payout scale ranging from 0 percent to 150 percent. The PSU TSR awards performance period covers a two-year period starting in December 2016 through 2018. Accordingly, the total number of shares that will eventually be issued may vary from the original award of 2.26 million units. The PSU awards will vest in the first quarter of 2019 with the achievement of the performance goals for the years 2016 to 2018.

During the year ended December 31, 2015, FCA awarded a total of 14.71 million PSU awards to certain key employees under the equity incentive plan. The PSU awards, which represent the right to receive FCA common shares, have financial performance goals covering a five-year period from 2014 to 2018. The performance goals include a net income target as well as a TSR target, with each weighted at 50 percent and settled independently of the other. Half of the awards will vest based on our achievement of the targets for net income and will have a payout scale ranging from 0 percent to 100 percent (“2015 PSU NI awards”). The remaining half of the awards are based on market conditions and have a payout scale ranging from 0 percent to 150 percent (“2015 PSU TSR awards”). Accordingly, the total number of shares that will eventually be issued may vary from the original award of 14.71 million shares. One third of the total PSU awards vested in 2017 and a cumulative two-thirds of the total PSU awards have vested in the first quarter of 2018 with the achievement of the performance goal for the years 2014 to 2017. A cumulative 100 percent will vest in the first quarter of 2019 with the achievement of the performance goals for the years 2014 to 2018.

The vesting of the 2017 PSU NI awards and the 2015 PSU NI awards will be determined by comparing the Group's net profit excluding unusual items to the net income targets derived from the Group's business plan for the corresponding period. The performance period for the 2017 PSU NI awards commenced on January 1, 2016, and on January 1, 2014 for the 2015 PSU NI awards. As the performance period commenced substantially prior to the commencement of the service period, which coincides with the grant date, the Company determined that the net income target did not meet the definition of a performance condition under IFRS 2 - *Share-based Payment*, and therefore is required to be accounted for as a non-vesting condition. As such, the fair values of the PSU NI awards were calculated using a Monte Carlo simulation model.

Changes during 2018, 2017 and 2016 for the PSU NI awards under the framework equity incentive plan were as follows:

	2018		2017		2016	
	PSU NI	Weighted average fair value at the grant date (€)	PSU NI	Weighted average fair value at the grant date (€)	PSU NI	Weighted average fair value at the grant date (€)
Outstanding shares unvested at January 1	8,803,826	€ 5.89	11,379,445	€ 5.65	7,356,550	€ 8.78
Anti-dilution adjustment	32,855	5.87	65,751	5.62	4,001,962	5.68
Granted	71,136	9.73	1,136,250	7.91	168,593	3.61
Vested	(3,857,502)	5.58	(3,758,870)	5.65	—	—
Canceled	—	—	—	—	(147,660)	5.83
Forfeited	(481,485)	6.27	(18,750)	7.91	—	—
Outstanding shares unvested at December 31	4,568,830	€ 6.14	8,803,826	€ 5.89	11,379,445	€ 5.65

The key assumptions utilized to calculate the grant-date fair values for the PSU NI awards are summarized below:

Key assumptions	2017 PSU NI Awards Range	2015 PSU NI Awards Range
Grant date stock price	€9.74 - €10.39	€13.44 - €15.21
Expected volatility	40 %	40%
Risk-free rate	(0.8)%	0.7%

The expected volatility was based on the observed historical volatility for common shares of FCA. The risk-free rate was based on the yields of government and treasury bonds with similar terms to the vesting date of each PSU NI award.

Changes during 2018, 2017 and 2016 for the PSU TSR awards under the framework equity incentive plan were as follows:

	2018		2017		2016	
	PSU TSR	Weighted average fair value at the grant date (€)	PSU TSR	Weighted average fair value at the grant date (€)	PSU TSR	Weighted average fair value at the grant date (€)
Outstanding shares unvested at January 1	8,803,827	€ 10.58	11,379,446	€ 10.64	7,356,550	€ 16.52
Anti-dilution adjustment	32,855	10.54	65,750	10.58	4,001,962	10.70
Granted	2,473,637	13.15	1,136,250	10.84	168,593	6.71
Vested	(3,857,502)	10.51	(3,758,869)	10.63	—	—
Canceled	—	—	—	—	(147,659)	10.84
Forfeited	(526,404)	11.50	(18,750)	10.84	—	—
Outstanding shares unvested at December 31	6,926,413	€ 11.42	8,803,827	€ 10.58	11,379,446	€ 10.64

The weighted average fair value of the PSU TSR awards granted during the years ended December 31, 2018, 2017 and 2015 was calculated using a Monte Carlo simulation model. The key assumptions utilized to calculate the grant date fair values for the PSU TSR awards issued are summarized below:

Key assumptions	2018 PSU TSR Awards Range	2017 PSU TSR Awards Range	2015 PSU TSR Awards Range
Grant date stock price	€ 18.79	€9.74 - €10.39	€13.44 - €15.21
Expected volatility	41 %	44 %	37% - 39%
Dividend yield	— %	— %	—%
Risk-free rate	(0.3)%	(0.8)%	0.7% - 0.8%

The expected volatility was based on the observed historical volatility for common shares of FCA. The risk-free rate was based on the yields of government and treasury bonds with similar terms to the vesting date of each PSU TSR award. In addition, since the volatility of each member of the defined peer group are not wholly independent of one another, a correlation coefficient was developed based on historical share price changes for FCA and the defined peer group over a three-year period leading up to the grant date of the awards.

FCA - Restricted Share Units

During the year ended December 31, 2018, FCA awarded 0.58 million Restricted Share Units (“RSUs”) to certain key employees of the Company, which represent the right to receive FCA common shares. These shares will vest in three equal tranches in 2019, 2020 and 2021. The fair values of the awards were measured using the FCA stock price on the grant date. In addition, during the year ended December 31, 2018, FCA awarded 0.05 million RSUs to certain key employees of the Company, which represent the right to receive FCA common shares. These additional awards will vest in the first quarter of 2019.

During the year ended December 31, 2017, FCA awarded 2.29 million RSUs to certain key employees of the Company which represent the right to receive FCA common shares. Half of the awards vested in the first quarter of 2018 with the remaining tranche to vest in the first quarter of 2019. The fair values of the awards were measured using the FCA stock price on the grant date.

During the year ended December 31, 2016, FCA awarded 0.09 million RSUs to certain key employees of the Company, which represent the right to receive FCA common shares. Half of the awards vested in the first quarter of 2018 with the remaining tranche to vest in the first quarter of 2019. The fair values of the awards were measured using the FCA stock price on the grant date.

During the year ended December 31, 2015, FCA awarded 5.20 million RSUs to certain key employees of the Company, which represent the right to receive FCA common shares. One third of the awards vested in the first quarter of 2017, and a cumulative two-thirds of the awards vested in the first quarter 2018 with the remaining tranche to vest in the first quarter of 2019. The fair values of the awards were measured using the FCA stock price on the grant date.

Changes during 2018, 2017 and 2016 for the RSU awards under the framework equity incentive plan were as follows:

	2018		2017		2016	
	RSUs	Weighted average fair value at the grant date (€)	RSUs	Weighted average fair value at the grant date (€)	RSUs	Weighted average fair value at the grant date (€)
Outstanding shares unvested at January 1	7,600,313	€ 9.17	7,969,623	€ 8.69	5,196,550	€ 13.49
Anti-dilution adjustment	28,299	9.12	46,189	8.64	2,826,922	8.74
Granted	627,081	18.54	2,293,940	10.43	94,222	5.73
Vested	(3,690,050)	9.09	(2,671,939)	8.64	—	—
Canceled	—	—	—	—	(148,071)	9.25
Forfeited	(274,657)	10.28	(37,500)	10.39	—	—
Outstanding shares unvested at December 31	4,290,986	€ 10.47	7,600,313	€ 9.17	7,969,623	€ 8.69

Anti-dilution adjustments - PSU awards and RSU awards

The documents governing FCA's long-term incentive plans contain anti-dilution provisions which provide for an adjustment to the number of awards granted under the plans in order to preserve, or alternatively prevent the enlargement of, the benefits intended to be made available to the recipients of the awards should an event occur that impacts our capital structure.

In January 2018, as a result of the distribution of the Company's entire interest in GEDI Gruppo Editoriale S.p.A. to holders of FCA common shares on July 2, 2017, the Compensation Committee of FCA approved a conversion factor of 1.003733 that was applied to outstanding awards under the Long Term Incentive Plan to make equity award holders whole for the resulting diminution in the value of an FCA common share. There was no change to the total cost of these awards to be amortized over the remaining vesting period as a result of these adjustments.

Similarly, in January 2017, as a result of the distribution of the Company's 16.7 percent ownership interest in RCS Media Group S.p.A. to holders of its common shares on May 1, 2016, the Compensation Committee of FCA approved a conversion factor of 1.005865 that was applied to outstanding PSU awards and RSU awards issued prior to December 31, 2016 to make equity award holders whole for the resulting diminution in the value of an FCA common share. There was no change to the total cost of these awards to be amortized over the remaining vesting period as a result of these adjustments.

Similarly, in January 2016, as a result of the spin-off of Ferrari N.V., a conversion factor of 1.5440 was approved by FCA's Compensation Committee and applied to outstanding PSU awards and RSU awards as an equitable adjustment to make equity award holders whole for the resulting diminution in the value of an FCA share. For the PSU NI awards, FCA's Compensation Committee also approved an adjustment to the net income targets for the years 2016-2018 to account for the net income of Ferrari in order to preserve the economic benefit intended to be provided to each participant. There was no change to the total cost of these awards to be amortized over the remaining vesting period as a result of these adjustments.

The following table reflects the changes resulting from the anti-dilution adjustments:

	2018 Anti-dilution adjustment	2017 Anti-dilution adjustment	2016 Anti-dilution adjustment
PSU Awards:			
Number of awards - as adjusted	17,673,363	22,890,392	22,717,024
Key assumptions - as adjusted:			
Grant date stock price - for PSU NI and PSU TSR	€5.71 - €10.35	€8.66 - €9.79	€8.71 - €9.85
RSU Awards:			
Number of awards - as adjusted	7,628,612	8,015,812	8,023,472

Total expense for the PSU awards and RSU awards of approximately €54 million, €85 million and €96 million was recorded for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018, the Group had unrecognized compensation expense related to the non-vested PSU awards and RSU awards of approximately €28 million based on current forfeiture assumptions, which will be recognized over a weighted-average period of 1.8 years.

19. Employee benefits liabilities

Employee benefits liabilities consisted of the following:

	At December 31					
	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
	(€ million)					
Pension benefits	€ 34	€ 4,475	€ 4,509	€ 34	€ 4,789	€ 4,823
Health care and life insurance plans	134	2,082	2,216	126	2,153	2,279
Other post-employment benefits	82	737	819	109	878	987
Other provisions for employees	345	581	926	425	764	1,189
Total Employee benefits liabilities	€ 595	€ 7,875	€ 8,470	€ 694	€ 8,584	€ 9,278

The Group continuing operations recognized a total expense of €1,518 million for defined contribution and state plans for the year ended December 31, 2018 (€1,472 million in 2017 and €1,372 million in 2016).

The following table summarizes the fair value of defined benefit obligations and the fair value of related plan assets:

	At December 31	
	2018	2017
	(€ million)	
Present value of defined benefit obligations:		
Pension benefits	€ 22,767	€ 25,528
Health care and life insurance plans	2,216	2,279
Other post-employment benefits	819	987
Total present value of defined benefit obligations (a)	25,802	28,794
Fair value of plan assets (b)	18,819	21,218
Asset ceiling (c)	13	14
Total net defined benefit plans (a - b + c)	6,996	7,590
<i>of which:</i>		
<i>Net defined benefit liability (d)</i>	7,544	8,089
<i>Defined benefit plan asset</i>	(548)	(499)
Other provisions for employees (e)	926	1,189
Total Employee benefits liabilities (d + e)	€ 8,470	€ 9,278

Pension benefits

Liabilities arising from the Group's defined benefit plans are usually funded by contributions made by Group subsidiaries, and at times by their employees, into legally separate trusts from which the employee benefits are paid. The Group's funding policy for defined benefit pension plans is to contribute the minimum amounts required by applicable laws and regulations. Occasionally, additional discretionary contributions are made in excess of those legally required to achieve certain desired funding levels. In the U.S., these excess amounts are tracked and the resulting credit balance can be used to satisfy minimum funding requirements in future years. At December 31, 2018, the combined credit balances for the U.S. and Canada qualified pension plans were approximately €2.5 billion, and the usage of the credit balances to satisfy minimum funding requirements is subject to the plans maintaining certain funding levels. During the year ended December 31, 2018, 2017 and 2016, the Group made pension contributions in the U.S. and Canada totaling €724 million, €124 million and €445 million, respectively, including an accelerated discretionary contribution in September 2018 of €670 million (\$800 million) to certain of our U.S. pension plans, which resulted in tax benefits (refer to Note 7, *Tax expense* for further information). The Group's contributions to pension plans for 2019 are expected to be €508 million, of which €479 million relate to the U.S. and Canada, with €438 million being discretionary contributions and €41 million which will be made to satisfy minimum funding requirements.

The expected benefit payments for pension plans are as follows:

	Expected benefit payments
	(€ million)
2019	€ 1,507
2020	€ 1,486
2021	€ 1,471
2022	€ 1,460
2023	€ 1,451
2024-2028	€ 7,285

The following table summarizes changes in the pension plans:

	2018				2017			
	Obligation	Fair value of plan assets	Asset ceiling	Liability/(Asset)	Obligation	Fair value of plan assets	Asset ceiling	Liability/(Asset)
	(€ million)							
At January 1	€ 25,528	€ (21,218)	€ 14	€ 4,324	€ 28,065	€ (23,049)	€ 12	€ 4,668
Included in the Consolidated Income Statement	1,189	(680)	—	509	1,259	(817)	—	442
Included in Other comprehensive income:								
Actuarial (gains)/losses from:								
Demographic and other assumptions	(196)	—	—	(196)	(42)	—	—	(42)
Financial assumptions	(1,530)	—	—	(1,530)	1,567	—	—	1,567
Return on assets	—	1,530	—	1,530	—	(1,589)	—	(1,589)
Changes in the effect of limiting net assets	—	—	(1)	(1)	—	—	3	3
Changes in exchange rates	792	(584)	—	208	(3,006)	2,445	(1)	(562)
Other:								
Employer contributions	—	(756)	—	(756)	—	(141)	—	(141)
Plan participant contributions	2	(2)	—	—	—	(3)	—	(3)
Benefits paid	(1,568)	1,556	—	(12)	(1,751)	1,735	—	(16)
Settlements paid	(1,187)	1,187	—	—	(563)	563	—	—
Transfer to Liabilities held for sale	(268)	126	—	(142)	—	—	—	—
Other changes	5	22	—	27	(1)	(2)	—	(3)
At December 31	€ 22,767	€ (18,819)	€ 13	€ 3,961	€ 25,528	€ (21,218)	€ 14	€ 4,324

Amounts recognized in the Consolidated Income Statement were as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Current service cost	€ 172	€ 169	€ 172
Interest expense	925	1,083	1,148
Interest income	(759)	(907)	(939)
Other administration costs	79	94	95
Past service costs/(credits) and (gains)/losses arising from settlements/curtailments	92	(3)	(9)
Items relating to discontinued operations	—	6	6
Total recognized in the Consolidated Income Statement	€ 509	€ 442	€ 473

During the year ended December 31, 2018, the Group settled a portion of the supplemental retirement plan in NAFTA, resulting in a refund of excess assets of €22 million. The corresponding settlement charge of €78 million was recognized within Selling, general and other in the Consolidated Income Statement for the year ended December 31, 2018.

During the year ended December 31, 2018, the Group also entered into an annuity buyout relating to two of its U.S. defined benefit plans. A total of €841 million was paid to a third-party insurance company in settlement of FCA's obligations, resulting in a settlement loss of €12 million that was recognized within Selling, general and other in the Consolidated Income Statement for the year ended December 31, 2018.

During the year ended December 31, 2017, the Group entered into an annuity buyout relating to two of its U.S. defined benefit plans. A total of €563 million was paid to a third-party insurance company in settlement of FCA's obligations, resulting in a settlement loss of €1 million that was recognized within Cost of revenues and Selling, general and other in the Consolidated Income Statement for the year ended December 31, 2017.

During the year ended December 31, 2016, the Group amended its U.S. defined benefit plan for salaried employees to allow certain terminated vested participants to accept a lump-sum amount. A total of €214 million was paid to participants who accepted the offer in December 2016. The plan amendment resulted in a settlement gain of €29 million that was recognized within Selling, general and other costs in the Consolidated Income Statement for the year ended December 31, 2016.

The fair value of plan assets by class was as follows:

	At December 31			
	2018		2017	
	Amount	of which have a quoted market price in an active market	Amount	of which have a quoted market price in an active market
	(€ million)			
Cash and cash equivalents	€ 672	€ 615	€ 628	€ 611
U.S. equity securities	1,286	1,284	1,426	1,426
Non-U.S. equity securities	784	757	1,098	1,098
Commingled funds	1,833	606	2,684	1,138
Equity instruments	3,903	2,647	5,208	3,662
Government securities	2,717	916	2,601	803
Corporate bonds (including convertible and high yield bonds)	4,944	—	5,864	—
Other fixed income	1,307	86	1,071	114
Fixed income securities	8,968	1,002	9,536	917
Private equity funds	2,066	—	1,962	—
Commingled funds	56	53	165	162
Real estate funds	1,392	3	1,374	13
Hedge funds	1,676	26	1,893	49
Investment funds	5,190	82	5,394	224
Insurance contracts and other	86	12	452	50
Total fair value of plan assets	€ 18,819	€ 4,358	€ 21,218	€ 5,464

Non-U.S. equity securities are invested broadly in developed international and emerging markets. Fixed income securities are debt instruments primarily comprised of long-term U.S. Treasury and global government bonds, as well as U.S., developed international and emerging market companies' debt securities diversified by sector, geography and through a wide range of market capitalizations. Private equity funds include those in limited partnerships that invest primarily in the equity of companies that are not publicly traded on a stock exchange. Private debt funds include those in limited partnerships that invest primarily in the debt of companies and real estate developers. Commingled funds include common collective trust funds, mutual funds and other investment entities. Real estate fund investments include those in limited partnerships that invest in various commercial and residential real estate projects both domestically and internationally. Hedge fund investments include those seeking to maximize absolute return using a broad range of strategies to enhance returns and provide additional diversification.

The investment strategies and objectives for pension assets primarily in the U.S. and Canada reflect a balance of liability-hedging and return-seeking investment considerations. The investment objectives are to minimize the volatility of the value of pension assets relative to pension liabilities and to ensure that assets are sufficient to pay plan obligations. The objective of minimizing the volatility of assets relative to liabilities is addressed primarily through asset diversification, partial asset-liability matching and hedging. Assets are broadly diversified across many asset classes to achieve risk-adjusted returns that, in total, lower asset volatility relative to the liabilities. Additionally, in order to minimize pension asset volatility relative to the pension liabilities, a portion of the pension plan assets are allocated to fixed income securities. The Group policy for these plans ensures actual allocations are in line with target allocations as appropriate.

Assets are actively monitored and managed primarily by external investment managers. Investment managers are not permitted to invest outside of the asset class or strategy for which they have been appointed. The Group uses investment guidelines to ensure investment managers invest solely within the mandated investment strategy. Certain investment managers use derivative financial instruments to mitigate the risk of changes in interest rates and foreign currencies impacting the fair values of certain investments. Derivative financial instruments may also be used in place of physical securities when it is more cost-effective and/or efficient to do so. Plan assets do not include FCA shares or properties occupied by Group companies, with the possible exception of commingled investment vehicles where FCA does not control the investment guidelines.

Sources of potential risk in pension plan assets relate to market risk, interest rate risk and operating risk. Market risk is mitigated by diversification strategies and as a result, there are no significant concentrations of risk in terms of sector, industry, geography, market capitalization, manager or counterparty. Interest rate risk is mitigated by partial asset-liability matching. The fixed income target asset allocation partially matches the bond-like and long-dated nature of the pension liabilities. Interest rate increases generally will result in a decline in the fair value of the investments in fixed income securities and the present value of the obligations. Conversely, interest rate decreases will generally increase the fair value of the investments in fixed income securities and the present value of the obligations. Operating risks are mitigated through ongoing oversight of external investment managers' style adherence, team strength, firm health and internal controls.

The weighted average assumptions used to determine defined benefit obligations were as follows:

	At December 31					
	2018			2017		
	U.S.	Canada	UK	U.S.	Canada	UK
Discount rate	4.4%	3.8%	2.8%	3.8%	3.5%	2.7%
Future salary increase rate	—%	3.5%	3.0%	—%	3.5%	3.2%

The average duration of U.S. and Canadian liabilities was approximately 11 years and 13 years, respectively. The average duration of UK pension liabilities was approximately 20 years.

Health care and life insurance plans

Liabilities arising from these unfunded plans comprise obligations for retiree health care and life insurance granted to employees and to retirees in the U.S. and Canada. Upon retirement from the Group, these employees may become eligible for continuation of certain benefits. Benefits and eligibility rules may be modified periodically. The expected benefit payments for unfunded health care and life insurance plans are as follows:

	Expected benefit payments	
	(€ million)	
2019	€	134
2020	€	133
2021	€	133
2022	€	133
2023	€	133
2024-2028	€	668

Changes in net defined benefit obligations for healthcare and life insurance plans were as follows:

	2018		2017	
	(€ million)			
Present value of obligations at January 1	€	2,279	€	2,466
Included in the Consolidated Income Statement		110		120
Included in Other comprehensive income:				
Actuarial (gains)/losses from:				
- Demographic and other assumptions		37		(52)
- Financial assumptions		(161)		160
Effect of movements in exchange rates		81		(278)
Other:				
Benefits paid		(128)		(137)
Transfer to Liabilities held for sale		(2)		—
Present value of obligations at December 31	€	2,216	€	2,279

Amounts recognized in the Consolidated Income Statement were as follows:

	Years ended December 31		
	2018	2017	2016
	(€ million)		
Current service cost	€ 22	€ 22	€ 26
Interest expense	88	98	107
Past service costs/(credits) and losses/(gains) arising from settlements	—	—	(3)
Total recognized in the Consolidated Income Statement	€ 110	€ 120	€ 130

Health care and life insurance plans are accounted for on an actuarial basis, which requires the selection of various assumptions. In particular, it requires the use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as health care cost increases and demographic experience.

The weighted average assumptions used to determine the defined benefit obligations were as follows:

	At December 31			
	2018		2017	
	U.S.	Canada	U.S.	Canada
Discount rate	4.4%	3.8%	3.9%	3.6%
Salary growth	1.5%	1.0%	1.5%	1.0%
Weighted average ultimate healthcare cost trend rate	4.4%	4.0%	4.5%	4.5%

The average duration of the U.S. and Canadian liabilities was approximately 12 years and 16 years, respectively.

The annual rate of increase in the per capita cost of covered U.S. health care benefits assumed for next year and used in the 2018 plan valuation was 6.4 percent (6.8 percent in 2017). The annual rate was assumed to decrease gradually to 4.4 percent through 2037 and remain at that level thereafter. The annual rate of increase in the per capita cost of covered Canadian health care benefits assumed for next year and used in the 2018 plan valuation was 4.4 percent (4.8 percent in 2017). The annual rate was assumed to decrease gradually to 4.0 percent through 2040 and remain at that level thereafter.

Other post-employment benefits

Other post-employment benefits comprises other employee benefits granted to Group employees in Europe and includes the Italian employee severance indemnity (*trattamento di fine rapporto*, or “TFR”) obligation required under Italian Law, amounting to €664 million at December 31, 2018 and €752 million at December 31, 2017.

The amount of TFR to which each employee is entitled must be paid when the employee leaves the Group and is calculated based on the period of employment and the taxable earnings of each employee. Under certain conditions, the entitlement may be partially advanced to an employee during their working life.

The legislation governing this scheme was amended by Law 296 of December 27, 2006 and subsequent decrees and regulations issued in 2007. Under these amendments, companies with at least 50 employees were obliged to transfer the TFR obligation to the “Treasury fund” managed by the Italian state-owned social security body (“INPS”) or to supplementary pension funds. Prior to the amendments, accruing TFR for employees of all Italian companies could be managed by the company itself. Consequently, the Italian companies’ obligation to INPS and the contributions to supplementary pension funds take the form of defined contribution plans under IAS 19 - *Employee Benefits*, whereas the amounts recorded in the provision for employee severance pay retain the nature of defined benefit plans. Accordingly, the provision for employee severance indemnity in Italy consisted of the residual TFR obligation through December 31, 2006. This is an unfunded defined benefit plan as the benefits have already been entirely earned, with the sole exception of future revaluations. Since 2007, the scheme has been classified as a defined contribution plan and the Group recognizes the associated cost over the period in which the employee renders service.

Changes in defined benefit obligations for other post-employment benefits were as follows:

	2018	2017
	(€ million)	
Present value of obligations at January 1	€ 987	€ 987
Included in the Consolidated Income Statement	23	23
Included in Other comprehensive income:		
Actuarial (gains)/losses from:		
- Demographic and other assumptions	2	18
- Financial assumptions	(5)	(3)
Effect of movements in exchange rates	(3)	(5)
Other:		
Benefits paid	(50)	(48)
Transfer to Liabilities held for sale	(98)	—
Other changes	(37)	15
Present value of obligations at December 31	€ 819	€ 987

Amounts recognized in the Consolidated Income Statement were as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Current service cost	€ 9	€ 9	€ 6
Interest expense	14	11	14
Past service costs/(credits) and losses/(gains) arising from settlements	—	—	1
Items relating to discontinued operations	—	3	5
Total recognized in the Consolidated Income Statement	€ 23	€ 23	€ 26

The discount rates used for the measurement of the Italian TFR obligation are based on yields of high-quality (AA rated) fixed income securities for which the timing and amounts of maturities match the timing and amounts of the projected benefit payments. For this plan, the single weighted average discount rate that reflects the estimated timing and amount of the scheme future benefit payments for 2018 was 1.4 percent (1.2 percent in 2017). The average duration of the Italian TFR is approximately 7 years. Retirement or employee leaving rates are developed to reflect actual and projected Group experience and legal requirements for retirement in Italy.

Other provisions for employees

Other provisions for employees primarily include long-term disability benefits, supplemental unemployment benefits, variable and other deferred compensation, as well as bonuses granted for tenure at the Company.

20. Provisions

Provisions consisted of the following:

	At December 31					
	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
	(€ million)					
Product warranty and recall campaigns	€ 2,745	€ 4,015	€ 6,760	€ 2,676	€ 4,049	€ 6,725
Sales incentives	5,999	—	5,999	5,377	—	5,377
Legal proceedings and disputes	849	428	1,277	125	551	676
Commercial risks	442	272	714	481	334	815
Restructuring	134	31	165	26	44	70
Other risks	314	815	1,129	324	792	1,116
Total Provisions	€ 10,483	€ 5,561	€ 16,044	€ 9,009	€ 5,770	€ 14,779

Changes in Provisions were as follows:

	At January 1, 2018	Additional provisions	Settlements	Unused amounts	Translation differences	Transfer to Liabilities held for sale	Other changes	At December 31, 2018
	(€ million)							
Product warranty and recall campaigns	€ 6,725	€ 3,241	€ (3,272)	€ —	€ 180	€ (118)	€ 4	€ 6,760
Sales incentives	5,377	14,514	(14,014)	(35)	162	—	(5)	5,999
Legal proceedings and disputes	676	971	(113)	(67)	(6)	(59)	(125)	1,277
Commercial risks	815	426	(457)	(65)	21	(27)	1	714
Restructuring costs	70	105	(26)	(3)	—	(4)	23	165
Other risks	1,116	323	(230)	(84)	17	(2)	(11)	1,129
Total Provisions	€ 14,779	€ 19,580	€ (18,112)	€ (254)	€ 374	€ (210)	€ (113)	€ 16,044

Product warranty and recall campaigns

At December 31, 2018, the Product warranty and recall campaigns provision was substantially in line with 2017. During the year ended December 31, 2018, an additional amount of €114 million was accrued in relation to costs for recall campaigns related to Takata airbag inflators, net of recovery. At December 31, 2017, the Product warranty and recall campaigns provision included €102 million of charges recognized within Cost of revenues in the Consolidated Income Statement for the year ended December 31, 2017 for the estimated costs associated with an expansion of the recall campaigns related to an industry-wide recall of airbag inflators resulting from parts manufactured by Takata, of which €29 million related to the previously announced recall in NAFTA and €73 million related to the preventative safety campaigns in LATAM. Refer to Note 25, *Guarantees granted, commitments and contingent liabilities*, for additional information. The cash outflow for the non-current portion of the Product warranty and recall campaigns provision is primarily expected within a period through 2021.

Sales incentives

As described within Note 2, *Basis of preparation - Use of estimates*, the Group records the estimated cost of sales incentive programs offered to dealers and consumers as a reduction to revenue at the time of sale of the vehicle to the dealer.

Legal proceedings and disputes

None of the provisions within the total Legal proceedings and disputes provision are individually significant except for the provision of €748 million recognized during the year ended December 31, 2018, 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*).

As described within Note 2, *Basis of preparation - Use of estimates*, a provision for legal proceedings is recognized when it is deemed probable that the proceedings will result in an outflow of resources. As the ultimate outcome of pending litigation is uncertain, the timing of cash outflows for the Legal proceedings and disputes provision is also uncertain.

Commercial risks

Commercial risks arise in connection with the sale of products and services, such as onerous maintenance contracts, and as a result of certain regulatory emission requirements. For items such as onerous maintenance contracts, a provision is recognized when the expected costs to complete the services under these contracts exceed the revenues expected to be realized. A provision for fines related to certain regulatory emission requirements that can be settled with cash fines is recognized at the time vehicles are sold based on the estimated cost to settle the obligation, measured as the sum of the cost of regulatory credits previously purchased plus the amount, if any, of the fine expected to be paid in cash. The cash outflow for the non-current portion of the Commercial risks provision is primarily expected within a period through 2021.

Other risks

Other risks includes, among other items: provisions for disputes with suppliers related to supply contracts or other matters that are not subject to legal proceedings, provisions for product liabilities arising from personal injuries including wrongful death and potential exemplary or punitive damages alleged to be the result of product defects, disputes with other parties relating to contracts or other matters not subject to legal proceedings and management's best estimate of the Group's probable environmental obligations, which also includes costs related to claims on environmental matters. The cash outflow for the non-current portion of the Other risks provision is primarily expected within a period through 2021.

21. Debt

Debt classified within current liabilities includes short-term borrowings from banks and other financing with an original maturity date falling within twelve months, as well as the current portion of long-term debt. Debt classified within non-current liabilities includes borrowings from banks and other financing with maturity dates greater than twelve months (long-term debt), net of the current portion.

The following table summarizes the Group's current and non-current Debt by maturity date (amounts include accrued interest):

	At December 31									
	2018					2017				
	Due within one year (current)	Due between one and five years	Due beyond five years	Total (non-current)	Total Debt	Due within one year (current)	Due between one and five years	Due beyond five years	Total (non-current)	Total Debt
	(€ million)									
Notes	€ 1,598	€ 4,977	€ 1,250	€ 6,227	€ 7,825	€ 2,054	€ 5,071	€ 2,501	€ 7,572	€ 9,626
Borrowings from banks	2,935	2,012	234	2,246	5,181	4,132	2,278	502	2,780	6,912
Asset-backed financing (Note 15)	457	—	—	—	457	357	—	—	—	357
Other debt	871	151	43	194	1,065	702	347	27	374	1,076
Total Debt	€ 5,861	€ 7,140	€ 1,527	€ 8,667	€ 14,528	€ 7,245	€ 7,696	€ 3,030	€ 10,726	€ 17,971

Notes

The following table summarizes the notes outstanding at December 31, 2018 and 2017:

	Currency	Face value of outstanding notes (million)	Coupon %	Maturity	At December 31	
					2018	2017
Medium Term Note Programme:					(€ million)	
Fiat Chrysler Finance Europe S.A. ⁽¹⁾	EUR	1,250	6.625	March 15, 2018	—	1,250
Fiat Chrysler Finance Europe S.A. ⁽¹⁾	EUR	600	7.375	July 9, 2018	—	600
Fiat Chrysler Finance Europe S.A. ⁽²⁾	CHF	250	3.125	September 30, 2019	222	213
Fiat Chrysler Finance Europe S.A. ⁽¹⁾	EUR	1,250	6.750	October 14, 2019	1,250	1,250
Fiat Chrysler Finance Europe S.A. ⁽¹⁾	EUR	1,000	4.750	March 22, 2021	1,000	1,000
Fiat Chrysler Finance Europe S.A. ⁽¹⁾	EUR	1,350	4.750	July 15, 2022	1,350	1,350
FCA NV ⁽¹⁾	EUR	1,250	3.750	March 29, 2024	1,250	1,250
Other ⁽³⁾	EUR	7			7	7
Total Medium Term Note Programme					5,079	6,920
Other Notes:						
FCA NV ⁽¹⁾	U.S.\$	1,500	4.500	April 15, 2020	1,310	1,251
FCA NV ⁽¹⁾	U.S.\$	1,500	5.250	April 15, 2023	1,310	1,251
Total Other Notes					2,620	2,502
Hedging effect, accrued interest and amortized cost valuation					126	204
Total Notes					€ 7,825	€ 9,626

(1) Listing on the Irish Stock Exchange was obtained.

(2) Listing on the SIX Swiss Exchange was obtained.

(3) Medium Term Notes with amounts outstanding equal to or less than the equivalent of €50 million.

Notes Issued Through the Medium Term Note Programme

Certain notes issued by the Group are governed by the terms and conditions of the Medium Term Note (“MTN”) Programme (previously known as the Global Medium Term Note Programme, or “GMTN” Programme). A maximum of €20 billion may be used under this programme, of which notes of €5.1 billion were outstanding at December 31, 2018 (€6.9 billion at December 31, 2017). Notes under the MTN Programme are issued, or otherwise guaranteed, by FCA NV. From time to time, we may buy back notes in the market that have been issued. Such buybacks, if made, depend upon market conditions, the Group's financial situation and other factors which could affect such decisions.

Changes in notes issued under the MTN Programme during the year ended December 31, 2018 were due to the repayment at maturity:

- in March 2018 of a note with a principal amount of €1,250 million; and
- in July 2018 of a note with a principal amount of €600 million.

Changes in notes issued under the MTN Programme during the year ended December 31, 2017 were due to the repayment at maturity:

- in March 2017 of a note with a principal amount of €850 million;
- in June 2017 of a note with a principal amount of €1,000 million; and
- in November 2017 of a note with a principal amount of CHF 450 million (€385 million).

Notes issued under the MTN Programme impose covenants on the issuer and, in certain cases, on FCA NV as guarantor, which include: (i) negative pledge clauses which require that in the case that any security interest upon assets of the issuer and/or FCA NV is granted in connection with other notes or debt securities having the same ranking, such a security should be equally and ratably extended to the outstanding notes; (ii) *pari passu* clauses, under which the notes rank and will rank *pari passu* with all other present and future unsubordinated and unsecured obligations of the issuer and/or FCA NV; (iii) periodic disclosure obligations; (iv) cross-default clauses which require immediate repayment of the notes under certain events of default on other financial instruments issued by FCA's main entities; and (v) other clauses that are generally applicable to securities of a similar type. A breach of these covenants may require the early repayment of the notes. As of December 31, 2018, FCA was in compliance with the covenants under the MTN Programme.

Other Notes

In 2015, FCA NV issued U.S.\$1.5 billion (€1.4 billion) principal amount of 4.5 percent unsecured senior debt securities due April 15, 2020 (the “2020 Notes”) and U.S.\$1.5 billion (€1.4 billion) principal amount of 5.25 percent unsecured senior debt securities due April 15, 2023 (the “2023 Notes”) at an issue price of 100 percent of their principal amount. The 2020 Notes and the 2023 Notes, collectively referred to as the “Notes”, rank *pari passu* in right of payment with respect to all of FCA NV's existing and future senior unsecured indebtedness and senior in right of payment to any of FCA NV's future subordinated indebtedness and existing indebtedness, which is by its terms subordinated in right of payment to the Notes. Interest on the 2020 Notes and the 2023 Notes is payable semi-annually in April and October.

The Notes impose covenants on FCA NV including: (i) negative pledge clauses which require that in the case that any security interest upon assets of FCA NV is granted in connection with other notes or debt securities having the same ranking, such a security should be equally and ratably extended to the outstanding Notes; (ii) *pari passu* clauses, under which the Notes rank and will rank *pari passu* with all other present and future unsubordinated and unsecured obligations of FCA NV; (iii) periodic disclosure obligations; (iv) cross-default clauses which require immediate repayment of the Notes under certain events of default on other financial instruments issued by FCA's main entities; and (v) other clauses that are generally applicable to securities of a similar type. A breach of these covenants may require the early repayment of the Notes. As of December 31, 2018, FCA was in compliance with the covenants of the Notes.

Fiat Chrysler Finance US Inc.

On March 6, 2017, Fiat Chrysler Finance US Inc. (“FCF US”) was incorporated under the laws of Delaware and became an indirect, 100 percent owned subsidiary of the Company. If FCF US issues debt securities, they will be fully and unconditionally guaranteed by the Company. No other subsidiary of the Company will guarantee such indebtedness.

Borrowings from banks

FCA US Tranche B Term Loans

On November 13, 2018, FCA US prepaid the U.S.\$1,009 million (€893 million) outstanding principal and accrued interest on its Tranche B term loan maturing December 31, 2018 (the “Tranche B Term Loan due 2018”). The prepayment was made with cash on hand and resulted in a €1 million loss on extinguishment.

At December 31, 2017, €836 million, including accrued interest, was outstanding under FCA US's Tranche B Term Loan maturing December 31, 2018. On February 24, 2017, FCA US prepaid the U.S.\$1,826 million (€1,721 million) outstanding principal and accrued interest on its tranche B term loan maturing May 24, 2017 (the “Tranche B Term Loan due 2017”). The prepayment was made with cash on hand and resulted in a €3 million loss on extinguishment. On April 12, 2017, FCA US amended the credit agreement that governs the Tranche B Term Loan due 2018, reducing the applicable interest rate spreads by 0.50 percent per annum and reduced the LIBOR floor by 0.75 percent per annum, to 0.00 percent. For the years ended December 31, 2018, 2017 and 2016, interest was accrued based on LIBOR.

On March 15, 2016, FCA US entered into amendments to the credit agreements that govern the Tranche B Term Loans to, among other items, eliminate covenants restricting the provision of guarantees and payment of dividends by FCA US for the benefit of the rest of the Group, to enable a unified financing platform and to provide free flow of capital within the Group. In conjunction with these amendments, FCA US made a U.S.\$2.0 billion (€1.8 billion) voluntary prepayment of principal at par with cash on hand, of which U.S.\$1,288 million (€1,159 million) was applied to the Tranche B Term Loan due 2017 and U.S.\$712 million (€641 million) was applied to the Tranche B Term Loan due 2018. Accrued interest related to the portion of principal prepaid of the Tranche B Term Loans and related transaction fees were also paid.

The prepayments of principal were accounted for as debt extinguishments and, as a result, a non-cash charge of €10 million was recorded within Net financial expenses in the Consolidated Income Statement for the year ended December 31, 2016 which consisted of the write-off of the remaining unamortized debt issuance costs. The amendments to the remaining principal balance were analyzed on a lender-by-lender basis and accounted for as debt modifications in accordance with IAS 39. As such, the debt issuance costs for each of the amendments were capitalized and amortized over the respective remaining terms of the Tranche B Term Loans.

European Investment Bank Borrowings

FCA has financing agreements with the European Investment Bank (“EIB”) for a total of €0.7 billion outstanding at December 31, 2018 (€1.1 billion outstanding at December 31, 2017), which included the residual debt due under the following facilities:

- €250 million (maturing in December 2019) entered into in December 2016 to support the Group's investment plan (2017-2019) in research and development centers in Italy, which includes a number of key objectives such as greater fuel efficiency, a reduction in CO₂ emissions by petrol and alternative fuel engines and the study of new hybrid architectures, as well as certain capital expenditures for facilities located in southern Italy;
- €500 million (maturing in June 2021), entered into in May 2011 (guaranteed by SACE and the Serbian Authorities) for an investment program relating to the modernization and expansion of production capacity of an automotive plant in Serbia; and
- €420 million (maturing in June 2022), entered into in June 2018 to support research and development projects to be implemented by FCA during the period 2018-2020.

Brazil

Our Brazilian subsidiaries have access to various local bank facilities in order to fund investments and operations. Total debt outstanding under those facilities amounted to a principal amount of €2.3 billion at December 31, 2018 (€3.2 billion at December 31, 2017). The loans primarily include subsidized loans granted by public financing institutions, such as Banco Nacional do Desenvolvimento (“BNDES”), with the aim to support industrial projects in certain areas. This has provided the Group with the opportunity to fund large investments in Brazil with loans of sizeable amounts at attractive rates. At December 31, 2018, outstanding subsidized loans amounted to €1.4 billion (€2.1 billion at December 31, 2017), of which approximately €1.0 billion (€1.3 billion at December 31, 2017) related to the construction of the plant in Pernambuco (Brazil), which was supported by subsidized credit lines totaling Brazilian Real (“BRL”) 6.5 billion (€1.5 billion). Approximately €0.1 billion (€0.1 billion at December 31, 2017) of committed credit lines contracted to fund scheduled investments in the area were undrawn at December 31, 2018.

Revolving Credit Facilities

In March 2018, the Group amended its syndicated revolving credit facility originally signed in June 2015 and previously amended in March 2017 (as amended, the “RCF”). The amendment extended the RCF’s final maturity to March 2023. The RCF is available for general corporate purposes and for the working capital needs of the Group and is structured in two tranches: €3.125 billion, with a 37-month tenor and two extension options of 1-year and of 11-months exercisable on the first and second anniversary of the amendment signing date, respectively, and €3.125 billion, with a 60-month tenor. This amendment was accounted for as a debt modification and, as a result, the new costs associated with the March 2018 amendment, as well as the remaining unamortized debt issuance costs related to the original €5.0 billion RCF and the previous March 2017 amendment, will be amortized over the life of the amended RCF. At December 31, 2018, the €6.25 billion RCF was undrawn.

In the March 2017 amendment, the original RCF was increased from €5.0 billion to €6.25 billion and the final maturity extended to March 2022. The amendment was accounted for as a debt modification and, as a result, the remaining unamortized debt issuance costs related to the original €5.0 billion RCF and the new costs associated with the amendment were amortized over the life of the RCF.

The covenants of the RCF include financial covenants as well as negative pledge, *pari passu*, cross-default and change of control clauses. Failure to comply with these covenants, and in certain cases if not suitably remedied, can lead to the requirement of early repayment of any outstanding amounts. As of December 31, 2018, FCA was in compliance with the covenants of the RCF.

At December 31, 2018, undrawn committed credit lines totaling €7.7 billion included the €6.25 billion RCF and approximately €1.5 billion of other revolving credit facilities. At December 31, 2017, undrawn committed credit lines totaling €7.6 billion included the €6.25 billion RCF and approximately €1.3 billion of other revolving credit facilities.

Mexico Bank Loan

FCA Mexico, S.A. de C.V. (“FCA Mexico”), our principal operating subsidiary in Mexico, has a non-revolving loan agreement (“Mexico Bank Loan”) maturing on March 20, 2022 and bears interest at one-month LIBOR plus 3.35 percent per annum. At December 31, 2018, the Mexico Bank Loan had an outstanding balance of €0.3 billion (€0.4 billion at December 31, 2017). As of December 31, 2018, we may prepay all or any portion of the loan without premium or penalty. The Mexico Bank Loan requires FCA Mexico to maintain certain fixed assets as collateral and comply with certain covenants, including, but not limited to, financial maintenance covenants, limitations on liens, incurrence of debt and asset sales. As of December 31, 2018, FCA Mexico was in compliance with the covenants under the Mexico Bank Loan.

Asset-backed financing

Asset-backed financing represents the amount of financing received through factoring transactions which do not meet the IFRS 9 derecognition requirements and are recognized with assets of the same amount of €457 million (€357 million at December 31, 2017) within Trade and other receivables in the Consolidated Statement of Financial Position (Note 15, *Trade, other receivables and tax receivables*).

Other debt

During the year ended December 31, 2017, FCA US's Canadian subsidiary made payments on the Canada Health Care Trust (“HCT”) Tranche B Note totaling €272 million, which included a scheduled payment of principal and accrued interest and the prepayment of the remaining scheduled payments due on the note. The prepayment of €226 million was accounted for as a debt extinguishment and, as a result, a gain on extinguishment of €9 million was recorded within Net financial expenses in the Consolidated Income Statement for the year ended December 31, 2017. This Canada HCT Note represented FCA US's principal Canadian subsidiary's remaining financial liability to the Canadian Health Care Trust arising from the settlement of its obligations for postretirement health care benefits for the National Automobile, Aerospace, Transportation and General Workers Union of Canada “CAW” (now part of Unifor), which represented employees, retirees and dependents.

Other debt also included funds raised from financial services companies, primarily in Latin America, deposits from dealers in Brazil and China and the Group's payables for finance leases, which is summarized in the table below:

	At December 31									
	2018					2017				
	Due within one year	Due between one and three years	Due between three and five years	Due beyond five years	Total	Due within one year	Due between one and three years	Due between three and five years	Due beyond five years	Total
	(€ million)									
Minimum future lease payments	€ 73	€ 106	€ 54	€ 80	€ 313	€ 90	€ 134	€ 19	€ 74	€ 317
Interest expense	(17)	(18)	(11)	(6)	(52)	(15)	(15)	(3)	(3)	(36)
Present value of minimum lease payments	€ 56	€ 88	€ 43	€ 74	€ 261	€ 75	€ 119	€ 16	€ 71	€ 281

Debt secured by assets

At December 31, 2018, debt secured by assets of the Group amounted to €1,095 million (€1,348 million at December 31, 2017), of which €261 million (€281 million at December 31, 2017) was due to creditors for assets acquired under finance leases and the remaining amount mainly related to subsidized financing in Latin America.

The total carrying amount of assets acting as security for loans for the Group amounted to €2,214 million at December 31, 2018 (€2,372 million at December 31, 2017, excluding the amounts secured in relation to the Tranche B Term Loan). At December 31, 2017, debt secured by assets of FCA US, in relation the Tranche B Term Loan amounted to €836 million. Refer to Note 11, *Property, plant and equipment*.

22. Other liabilities and Tax payables

Other liabilities consisted of the following:

	At December 31					
	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
	(€ million)					
Payables for GDP and buy-back agreements	€ 2,362	€ —	€ 2,362	€ 2,234	€ —	€ 2,234
Accrued expenses and deferred income	783	697	1,480	1,573	2,260	3,833
Indirect tax payables	681	16	697	799	19	818
Payables to personnel	956	16	972	988	16	1,004
Social security payables	265	4	269	313	6	319
Construction contract liabilities (Note 14)	93	—	93	190	—	190
Service contract liability	568	1,521	2,089	—	—	—
Other	1,349	198	1,547	1,838	199	2,037
Total Other liabilities	€ 7,057	€ 2,452	€ 9,509	€ 7,935	€ 2,500	€ 10,435

The impact of the adoption of IFRS 15 on Other liabilities as at January 1, 2018, was as follows:

	At December 31, 2017 (as previously reported)			Adjustments/Reclassifications			At January 1, 2018 (as adjusted)		
	Current	Non-Current	Total	Current	Non-Current	Total	Current	Non-Current	Total
	(€ million)								
Payables for GDP and buy-back agreements	€ 2,234	€ —	€ 2,234	€ (293)	€ —	€ (293)	€ 1,941	€ —	€ 1,941
Accrued expenses and deferred income	1,573	2,260	3,833	(440)	(1,414)	(1,854)	1,133	846	1,979
Service contract liability	—	—	—	497	1,397	1,894	497	1,397	1,894
Balances unaffected by IFRS 15 adoption	4,128	240	4,368	—	—	—	4,128	240	4,368
Total Other liabilities	€ 7,935	€ 2,500	€ 10,435	€ (236)	€ (17)	€ (253)	€ 7,699	€ 2,483	€ 10,182

Other liabilities (excluding Accrued expenses, Deferred income and Service contract liability) by due date were as follows:

	At December 31									
	2018				2017					
	Total due within one year (Current)	Due between one and five years	Due beyond five years	Total due after one year (Non-Current)	Total	Total due within one year (Current)	Due between one and five years	Due beyond five years	Total due after one year (Non-Current)	Total
	(€ million)									
Other liabilities (excluding Accrued expenses, deferred income and service contract liability)	€ 5,706	€ 221	€ 13	€ 234	€ 5,940	€ 6,362	€ 227	€ 13	€ 240	€ 6,602

Payables for GDP and buy-back agreements relate to buy-back agreements entered into by the Group and includes the price received for the product, recognized as an advance at the date of the sale and, subsequently, the repurchase price and the remaining lease installments yet to be recognized.

Accrued expenses and deferred income includes the remaining portion of government grants that will be recognized as income in the Consolidated Income Statement over the same periods as the related costs which they are intended to offset.

On March 15, 2017, the Brazilian Supreme Court ruled that state value added tax should be excluded from the basis for calculating a federal tax on revenue. At June 30, 2017, the Group determined that the likelihood of economic outflow related to such indirect taxes was no longer probable and the total liability of €895 million that FCA had accrued but not paid for such taxes for the period from 2007 to 2014 was reversed. Due to the materiality of this item and its effect on our results, the amount is presented separately in the line Reversal of a Brazilian indirect tax liability in the Consolidated Income Statement for the year ended December 31, 2017, and is composed of €547 million, originally recognized as a reduction to Net revenues, and €348 million, originally recognized within Net financial expenses. The Brazilian Supreme Court issued summary written minutes of its ruling on September 29, 2017 and Trial Minutes on October 2, 2017. On October 19, 2017, the Brazilian government filed its appeal against the PIS/COFINS over ICMS decision. At December 31, 2017, due to the uncertainty of scope of the application of the Supreme Court ruling taking into account the government's appeal and request for modulation, and due to Brazil's current heightened political and economic uncertainty, management believed a risk of economic outflow was still greater than remote. On August 18, 2018, the litigation concerning PIS over ICMS had its final and definitive favorable decision. At September 30, 2018, the Group determined that the likelihood of economic outflow related to such indirect taxes was no longer probable and the total liability of €54 million accrued and paid will be recovered. At December 31, 2018, management believes a risk of economic outflow for COFINS over ICMS is still greater than remote.

The service contract liability is mainly comprised of maintenance plans and extended warranties. Changes in the Group's service contract liability for the year ended December 31, 2018, were as follows:

	At January 1, 2018	Advances received from customers	Amounts recognized within revenue	Transfers to Assets/ (Liabilities) held for sale	Other Changes	At December 31, 2018
	(€ million)					
Service contract liability	€ 1,894	€ 879	€ (658)	€ —	€ (26)	€ 2,089

Of the total Service contract liability at December 31, 2018, the Group expects to recognize approximately €512 million in 2019, €440 million in 2020, €362 million in 2021 and €775 million thereafter

Tax payables

Tax payables by due date were as follows:

	At December 31									
	2018					2017				
	Total due within one year (Current)	Due between one and five years	Due beyond five years	Total due after one year (Non-Current)	Total	Total due within one year (Current)	Due between one and five years	Due beyond five years	Total due after one year (Non-Current)	Total
	(€ million)									
Tax payables	€ 114	€ 1	€ —	€ 1	€ 115	€ 309	€ 32	€ 42	€ 74	€ 383

23. Fair value measurement

Assets and liabilities that are measured at fair value on a recurring basis

The following table shows the fair value hierarchy, based on observable and unobservable inputs, for financial assets and liabilities that are measured at fair value on a recurring basis:

	Note	At December 31									
		2018					2017				
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
		(€ million)									
Debt securities and equity instruments measured at FVOCI	13	€ 3	€ 15	€ 13	€ 31	€ 3	€ 24	€ —	€ 27		
Debt securities and equity instruments measured at FVPL	13	270	—	3	273	275	—	2	277		
Derivative financial assets	16	—	256	41	297	—	254	30	284		
Collateral deposits	13	61	—	—	61	61	—	—	61		
Receivables from financing activities	15	—	—	973	973	—	—	—	—		
Trade receivables	15	—	65	—	65	—	—	—	—		
Cash at banks ⁽¹⁾	17	—	—	—	—	6,396	—	—	6,396		
Money market securities ⁽¹⁾	17	4,352	—	—	4,352	4,404	1,838	—	6,242		
Total Assets		€ 4,686	€ 336	€ 1,030	€ 6,052	€ 11,139	€ 2,116	€ 32	€ 13,287		
Derivative financial liabilities	16	—	205	2	207	—	138	1	139		
Total Liabilities		€ —	€ 205	€ 2	€ 207	€ —	€ 138	€ 1	€ 139		

(1) Amounts relating to Cash at banks and certain Money market securities were reclassified to amortized cost as January 1, 2018. Refer to Note 2, Basis of preparation - New standards and amendments effective January 1, 2018.

The impact of the adoption of IFRS 9 on the fair value hierarchy as at January 1, 2018 was as follows:

	At December 31, 2017 (as previously reported)				Adjustments/Reclassifications				At January 1, 2018 (as adjusted)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(€ million)											
Debt securities and equity instruments measured at FVOCI	€ 3	€ 24	€ —	€ 27	€ —	€ (4)	€ 23	€ 19	€ 3	€ 20	€ 23	€ 46
Debt securities and equity instruments measured at FVPL	275	—	2	277	—	—	20	20	275	—	22	297
Derivative financial assets	—	254	30	284	—	—	—	—	—	254	30	284
Collateral deposits	61	—	—	61	—	—	—	—	61	—	—	61
Receivables from financing activities	—	—	—	—	—	—	700	700	—	—	700	700
Trade receivables	—	—	—	—	—	28	—	28	—	28	—	28
Cash at banks ⁽¹⁾	6,396	—	—	6,396	(6,396)	—	—	(6,396)	—	—	—	—
Money market securities ⁽¹⁾	4,404	1,838	—	6,242	(1,692)	(1,838)	—	(3,530)	2,712	—	—	2,712
Total Assets	€ 11,139	€ 2,116	€ 32	€ 13,287	€ (8,088)	€ (1,814)	€ 743	€ (9,159)	€ 3,051	€ 302	€ 775	€ 4,128
Derivative financial liabilities	—	138	1	139	—	—	—	—	—	138	1	139
Total Liabilities	€ —	€ 138	€ 1	€ 139	€ —	€ —	€ —	€ —	€ —	€ 138	€ 1	€ 139

In 2018, there were no transfers between Levels in the fair value hierarchy. For assets and liabilities recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

The fair value of derivative financial assets and liabilities is measured by taking into consideration market parameters at the balance sheet date and using valuation techniques widely accepted in the financial business environment, as described below:

- the fair value of forward contracts and currency swaps is determined by taking the prevailing exchange rates and interest rates at the balance sheet date;
- the fair value of interest rate swaps and forward rate agreements is determined by taking the prevailing interest rates at the balance sheet date and using the discounted expected cash flow method;
- the fair value of combined interest rate and currency swaps is determined using the exchange and interest rates prevailing at the balance sheet date and the discounted expected cash flow method; and
- the fair value of swaps and options hedging commodity price risk is determined by using suitable valuation techniques and taking market parameters at the balance sheet date (in particular, underlying prices, interest rates and volatility rates).

The fair value of money market securities is also based on available market quotations. Where appropriate, the fair value of cash equivalents is determined with discounted expected cash flow techniques using observable market yields (categorized as Level 2).

The fair value of Receivables from financing activities, which are classified in Level 3 of the fair value hierarchy, has been estimated using discounted cash flow models. The most significant inputs used in this measurement are market discount rates that reflect conditions applied in various reference markets on receivables with similar characteristics, adjusted in order to take into account the credit risk of the counterparties.

The following table provides a reconciliation of the changes in items measured at fair value and categorized within Level 3:

	2018			2017	
	Receivables from financing activities	Debt securities and equity instruments	Derivative financial assets/(liabilities)	Debt securities and equity instruments	Derivative financial assets/(liabilities)
	(€ million)				
At January 1	700	45	29	12	19
Gains/(Losses) recognized in Consolidated Income Statement	—	(1)	30	1	27
Gains/(Losses) recognized in Other comprehensive income/(loss)	—	—	9	(1)	18
Issues/Settlements	273	—	(29)	—	(35)
Transfers to Assets/(Liabilities) held for sale	—	(28)	—	—	—
At December 31	€ 973	€ 16	€ 39	€ 12	€ 29

The gains/(losses) included in the Consolidated Income Statements were recognized within Cost of revenues. Of the total gains/(losses) recognized in Other comprehensive income, €7 million was recognized within Cash flow reserves and €2 million was recognized within Currency translation differences.

Assets and liabilities not measured at fair value on recurring basis

The carrying value of debt securities measured at amortized cost, financial receivables, current receivables and payables is a reasonable approximation of fair value as the present value of future cash flows does not differ significantly from the carrying amount.

The carrying value of Cash at banks and Other cash equivalents usually approximates fair value due to the short maturity of these instruments (refer to Note 17, *Cash and cash equivalents*).

The following table provides the carrying amount and fair value of financial assets and liabilities not measured at fair value on a recurring basis:

	Note	At December 31			
		2018		2017	
		Carrying amount	Fair Value	Carrying amount	Fair Value
		(€ million)			
Dealer financing		€ 1,681	€ 1,682	€ 2,295	€ 2,295
Retail financing		601	584	420	405
Finance lease		3	3	4	4
Other receivables from financing activities		356	355	421	421
Total Receivables from financing activities ⁽¹⁾	15	€ 2,641	€ 2,624	€ 3,140	€ 3,125
Asset backed financing		€ 457	€ 457	€ 357	€ 357
Notes		7,825	8,152	9,626	10,365
Other debt		6,246	6,229	7,988	8,001
Total Debt	21	€ 14,528	€ 14,838	€ 17,971	€ 18,723

(1) Amount at December 31, 2018 excludes receivables measured at FVPL

The fair value of Receivables from financing activities, which are categorized within Level 3 of the fair value hierarchy, has been estimated with discounted cash flows models. The most significant inputs used in this measurement are market discount rates that reflect conditions applied in various reference markets on receivables with similar characteristics, adjusted in order to take into account the credit risk of the counterparties.

Notes that are traded in active markets for which close or last trade pricing is available are classified within Level 1 of the fair value hierarchy. Notes for which such prices are not available are valued at the last available price or based on quotes received from independent pricing services or from dealers who trade in such securities and are categorized as Level 2. At December 31, 2018, €8,145 million and €7 million of notes were classified within Level 1 and Level 2, respectively. At December 31, 2017, €10,358 million and €7 million of notes were classified within Level 1 and Level 2, respectively.

The fair value of Other debt included in Level 2 of the fair value hierarchy has been estimated using discounted cash flow models. The main inputs used are year-end market interest rates, adjusted for market expectations of the Group's non-performance risk implied in quoted prices of traded securities issued by the Group and existing credit derivatives on Group liabilities. The fair value of Other debt that requires significant adjustment using unobservable inputs is categorized within Level 3. At December 31, 2018, €5,241 million and €988 million of Other Debt was classified within Level 2 and Level 3, respectively. At December 31, 2017, €6,796 million and €1,205 million of Other Debt was classified within Level 2 and Level 3, respectively.

24. Related party transactions

In accordance with IAS 24 - *Related Party Disclosures*, the related parties of the Group are determined as those entities and individuals capable of exercising control, joint control or significant influence over the Group and its subsidiaries. Related parties include companies belonging to Exor N.V. (the largest shareholder of FCA through its 28.98 percent common shares shareholding interest and 42.11 percent voting power at December 31, 2018), which include Ferrari N.V. and CNHI. Related parties also include associates, joint ventures and unconsolidated subsidiaries of the Group, members of the FCA Board of Directors, executives with strategic responsibilities and certain members of their families.

Transactions carried out by the Group with its related parties are on commercial terms that are normal in the respective markets, considering the characteristics of the goods or services involved, and primarily relate to:

- the purchase of engines and engine components for Maserati vehicles from Ferrari N.V.;
- transactions related to the display of FCA brand names on Ferrari N.V. Formula 1 cars;
- the sale of vehicles to the leasing and renting subsidiaries of the joint ventures Koc Fiat Kredi and FCA Bank;
- the sale of engines, other components and production systems to and the purchase of light commercial vehicles from the joint operation Sevel S.p.A. Refer to Note 31, *Subsequent events* for additional detail;
- the sale of engines, other components and production systems to the companies of CNHI;
- the purchase of vehicles from, the provision of services and the sale of goods to the joint operation Fiat India Automobiles Private Limited;
- the provision of services and the sale of goods to the GAC FCA JV;
- the provision of services (accounting, payroll, tax administration, information technology, purchasing and security) to the companies of CNHI;
- the purchase of light commercial vehicles and passenger cars from the joint venture Tofas; and
- the sale of automotive lighting and automotive components, which is included within discontinued operations, to Ferrari N.V.

The most significant financial transactions with related parties generated Receivables from financing activities of the Group's financial services companies from joint ventures and Asset-backed financing relating to amounts due to FCA Bank for the sale of receivables, which do not qualify for derecognition under IFRS 9 – *Financial Instruments*.

The amounts for significant transactions with related parties recognized in the Consolidated Income Statements were as follows:

	Years ended December 31,											
	2018				2017				2016			
	Net Revenues	Cost of revenues	Selling, general and other costs, net	Net Financial expenses/(income)	Net Revenues	Cost of revenues	Selling, general and other costs, net	Net Financial expenses/(income)	Net Revenues	Cost of revenues	Selling, general and other costs, net	Net Financial expenses
	(€ million)											
Tofas	€ 926	€ 2,572	€ 7	€ —	€ 1,287	€ 2,779	€ 9	€ —	€ 1,536	€ 2,811	€ 3	€ —
Sevel S.p.A.	402	1	4	—	392	—	5	—	381	—	5	—
FCA Bank	1,611	28	(21)	56	1,715	26	(20)	36	1,571	18	(21)	39
GAC FCA JV	419	11	(49)	—	569	—	(105)	—	683	—	(82)	—
Fiat India Automobiles Limited	2	—	—	—	25	1	—	—	23	1	(1)	(1)
Other	27	6	(4)	1	35	2	(4)	2	36	5	(3)	—
Total joint arrangements	3,387	2,618	(63)	57	4,023	2,808	(115)	38	4,230	2,835	(99)	38
Total associates	30	229	(2)	(1)	73	52	(3)	(1)	91	47	—	—
CNHI	501	326	6	—	526	329	2	—	543	422	3	—
Ferrari N.V.	64	218	4	—	82	320	1	—	81	246	—	—
Directors and Key Management	—	—	77	—	—	—	114	—	—	—	143	—
Other	2	—	26	—	1	—	26	—	—	—	26	—
Total CNHI, Ferrari, Directors and other	567	544	113	—	609	649	143	—	624	668	172	—
Total unconsolidated subsidiaries	7	8	4	1	61	8	3	1	57	7	8	1
Total transactions with related parties	€ 3,991	€ 3,399	€ 52	€ 57	€ 4,766	€ 3,517	€ 28	€ 38	€ 5,002	€ 3,557	€ 81	€ 39
Total for the Group	€ 110,412	€ 95,011	€ 7,318	€ 1,056	€ 105,730	€ 89,710	€ 7,177	€ 1,345	€ 105,798	€ 90,927	€ 7,388	€ 1,858

Assets and liabilities from significant transactions with related parties were as follows:

	At December 31									
	2018					2017				
	Trade and other receivables	Trade payables	Other liabilities	Asset-backed financing	Debt ⁽¹⁾	Trade and other receivables	Trade payables	Other liabilities	Asset-backed financing	Debt ⁽¹⁾
	(€ million)									
Tofas	€ 11	€ 176	€ 40	€ —	€ —	€ 34	€ 240	€ 50	€ —	€ —
Sevel S.p.A.	20	—	2	—	11	23	—	6	—	1
FCA Bank	395	258	232	449	28	466	206	199	319	32
GAC FCA JV	63	22	1	—	—	58	15	1	—	—
Fiat India Automobiles Limited	—	—	6	—	—	7	13	5	—	—
Other	19	1	—	—	—	20	1	—	—	—
Total joint arrangements	508	457	281	449	39	608	475	261	319	33
Total associates	34	33	10	—	—	36	32	13	—	—
CNHI	53	71	12	—	—	47	86	11	—	—
Ferrari N.V.	25	45	3	—	—	23	75	—	—	—
Other	2	2	—	—	—	1	2	—	—	—
Total CNHI, Ferrari N.V. and other	80	118	15	—	—	71	163	11	—	—
Total unconsolidated subsidiaries	17	7	1	—	26	83	8	1	—	28
Total originating from related parties	€ 639	€ 615	€ 307	€ 449	€ 65	€ 798	€ 678	€ 286	€ 319	€ 61
Total for the Group	€ 8,672	€ 19,229	€ 9,509	€ 457	€ 14,071	€ 8,553	€ 21,939	€ 10,435	€ 357	€ 17,614

1) Relating to Debt excluding Asset-backed financing, refer to Note, 21 Debt.

Commitments and Guarantees

As of December 31, 2018, the Group had a take-or-pay commitment with Tofas with future minimum expected obligations as follows:

	(€ million)
2019	€ 299
2020	€ 291
2021	€ 267
2022	€ 152
2023	€ —
2024 and thereafter	€ —

We provided guarantees to FCA Bank related to certain dealer financing arrangements FCA Bank has with dealers. The amount of the guarantees outstanding at December 31, 2018 was approximately €86 million. The fair value of these guarantees is immaterial due to the value of vehicles in the dealers' stock pledged to FCA.

Compensation to Directors and Key Management

The fees of the Directors of the Group for carrying out their respective functions, including those in other consolidated companies, were as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ thousand)		
Directors ⁽¹⁾	€ 18,830	€ 29,861	€ 39,329
Total Compensation	€ 18,830	€ 29,861	€ 39,329

(1) Including the notional compensation cost arising from long-term share-based compensation granted to the Chief Executive Officer and share-based compensation to non-executive Directors.

Refer to Note 18, *Share-based compensation*, for information related to the special recognition award granted to the Chief Executive Officer on April 16, 2015 and the PSU and RSU awards granted to certain key employees.

The aggregate compensation expense for remaining executives with strategic responsibilities was approximately €58 million for 2018 (€81 million in 2017 and €103 million in 2016), which, in addition to base compensation, included:

- approximately €28 million in 2018 (approximately €49 million in 2017 and approximately €73 million in 2016) for share-based compensation expense;
- approximately €7 million in 2018 (approximately €8 million in 2017 and approximately €8 million in 2016) for short-term employee benefits; and
- €10 million in 2018 (€9 million in 2017 and €6 million in 2016) for pension and similar benefits.

25. Guarantees granted, commitments and contingent liabilities

Guarantees granted

At December 31, 2018, the Group had pledged guarantees on the debt or commitments of third parties totaling €7 million (€5 million at December 31, 2017), as well as guarantees of €3 million on related party debt (€4 million at December 31, 2017).

SCUSA Private-label financing agreement

In February 2013, FCA US entered into a private-label financing agreement (the “SCUSA Agreement”) with Santander Consumer USA Inc. (“SCUSA”), an affiliate of Banco Santander, which launched on May 1, 2013. Under the SCUSA Agreement, SCUSA provides a wide range of wholesale and retail financing services to FCA US's dealers and consumers in accordance with its usual and customary lending standards, under the Chrysler Capital brand name.

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 SCUSA Agreement. In accordance with the terms of the agreement, SCUSA provided an upfront, non-refundable payment of €109 million (U.S.\$150 million) in May 2013, which was recognized as deferred revenue and is amortized over ten years. At December 31, 2018, €57 million (U.S.\$65 million) remained in deferred revenue.

From time to time, FCA US works with certain lenders to subsidize interest rates or cash payments at the inception of a financing arrangement to incentivize customers to purchase its vehicles, a practice known as “subvention”. FCA US has provided SCUSA with limited exclusivity rights to participate in specified minimum percentages of certain of its retail financing rate subvention programs. SCUSA has committed to certain revenue sharing arrangements, as well as to consider future revenue sharing opportunities. SCUSA bears the risk of loss on loans contemplated by the SCUSA Agreement. The parties share in any residual gains and losses in respect of consumer leases, subject to specific provisions in the SCUSA Agreement, including limitations on FCA US participation in gains and losses.

Other repurchase obligations

In accordance with the terms of other wholesale financing arrangements in Mexico, FCA Mexico is required to repurchase dealer inventory financed under these arrangements, upon certain triggering events and with certain exceptions, including in the event of an actual or constructive termination of a dealer's franchise agreement. These obligations exclude certain vehicles including, but not limited to, vehicles that have been damaged or altered, that are missing equipment or that have excessive mileage or an original invoice date that is more than one year prior to the repurchase date. In December 2015, FCA Mexico entered into a ten-year private label financing agreement with FC Financial, S.A De C.V., Sofom, E.R., Grupo Financiaro Inbursa ("FC Financial"), a wholly owned subsidiary of Banco Inbursa, under which FC Financial provides a wide range of financial wholesale and retail financial services to FCA Mexico's dealers and retail customers under the FCA Financial Mexico brand name. The wholesale repurchase obligation under the new agreement will be limited to wholesale purchases in case of actual or constructive termination of a dealer's franchise agreement.

At December 31, 2018, the maximum potential amount of future payments required to be made in accordance with these wholesale financing arrangements was approximately €206 million (US\$236 million) and was based on the aggregate repurchase value of eligible vehicles financed through such arrangements in the respective dealer's stock. If vehicles are required to be repurchased through such arrangements, the total exposure would be reduced to the extent the vehicles can be resold to another dealer. The fair value of the guarantee was nil at December 31, 2018.

Arrangements with key suppliers

From time to time and in the ordinary course of our business, the Group enters into various arrangements with key third party suppliers in order to establish strategic and technological advantages. A limited number of these arrangements contain unconditional purchase obligations to purchase a fixed or minimum quantity of goods and/or services with fixed and determinable price provisions. Future minimum purchase obligations under these arrangements at December 31, 2018 were as follows for the Group's continuing operations:

	(€ million)	
2019	€	804
2020	€	508
2021	€	349
2022	€	216
2023	€	32
2024 and thereafter	€	42

Operating lease contracts

The Group has operating lease contracts for the right to use industrial buildings and equipment with an average term of 10-20 years and 3-5 years, respectively. The following table summarizes the total future minimum lease payments under non-cancellable lease contracts for the Group's continuing operations:

	At December 31, 2018				
	Due within one year	Due between one and three years	Due between three and five years	Due beyond five years	Total
Future minimum lease payments under operating lease agreements	€ 325	€ 331	€ 172	€ 199	€ 1,027

During 2018, the Group recognized lease payments expense of €423 million (€284 million in 2017 and €280 million in 2016).

Other commitments, arrangements and contractual rights

UAW Labor Agreement

In October 2015, FCA US and the UAW agreed to a four-year national collective bargaining agreement, which will expire in September 2019. The provisions of the new agreement continue certain opportunities for success-based compensation upon meeting certain quality and financial performance metrics. The agreement closes the pay gap between “Traditional” and “In-progression” employees over an eight-year period and will continue to provide UAW-represented employees with a simplified adjusted profit sharing plan. The adjusted profit sharing plan was effective for the 2016 plan year and is directly aligned with NAFTA profitability. The agreement included lump-sum payments in lieu of further wage increases of primarily U.S.\$4,000 for “Traditional” employees and U.S.\$3,000 for “In-progression” employees totaling approximately U.S.\$141 million (€127 million) that was paid to UAW members on November 6, 2015. These payments are being amortized ratably over the four-year labor agreement period.

Italian labor agreement

In April 2015, a four-year compensation agreement was signed by FCA companies within the automobiles business in Italy. The compensation agreement was subsequently included into the labor agreement and was extended to all FCA companies in Italy on July 7, 2015.

The compensation arrangement was effective retrospectively from January 1, 2015 through December 31, 2018 and incentivized all employees toward achievement of the productivity, quality and profitability targets established in the 2015-2018 period of the 2014-2018 business plan developed in May 2014 by adding two variable additional elements to base pay:

- an annual bonus, calculated on the basis of production efficiencies achieved and the plant’s World Class Manufacturing audit status; and
- a component linked to achievement of the financial targets established in the 2015-2018 period of the 2014-2018 business plan for the EMEA region, including the activities of the premium brands Alfa Romeo and Maserati.

A total of €72 million, €105 million and €101 million related to the additional variable elements above was recorded as an expense included within Net profit from continuing operations for the years ended December 31, 2018, 2017 and 2016, respectively.

Negotiations for the renewal of this labor contract commenced on November 29, 2018. As of February 22, 2019, negotiations are ongoing.

Canada labor agreement

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. These payments will be amortized ratably over the four-year labor agreement period. The agreement expires September 2020.

Contingent liabilities

In connection with significant asset divestitures carried out in prior years, the Group provided indemnities to purchasers with the maximum amount of potential liability under these contracts generally capped at a percentage of the purchase price. These liabilities refer principally to potential liabilities arising from possible breaches of representations and warranties provided in the contracts and, in certain instances, environmental or tax matters, generally for a limited period of time. Potential obligations with respect to these indemnities were approximately €160 million and a total of €50 million has been recognized within Provisions related to these obligations as of December 31, 2018 and 2017. The Group has provided certain other indemnifications that do not limit potential payment and as such, it was not possible to estimate the maximum amount of potential future payments that could result from claims made under these indemnities.

Takata airbag inflators

We are aware of putative class action lawsuits filed in March 2018 against FCA US in the U.S. District Courts for the Southern District of Florida and the Eastern District of Michigan, asserting claims under federal and state laws alleging economic loss due to Takata airbag inflators installed in certain of our vehicles. At this early stage, we are unable to reliably evaluate the likelihood that a loss will be incurred or estimate a range of possible loss.

Rear Impact Litigation

On July 9, 2012, a lawsuit was filed against FCA US in the Superior Court of Decatur County, Georgia, U.S., with respect to a March 2012 fatality in a rear-impact collision involving a 1999 Jeep Grand Cherokee. Plaintiffs alleged that the manufacturer had acted in a reckless and wanton fashion when it designed and sold the vehicle due to the placement of the fuel tank behind the rear axle and had breached a duty to warn of the alleged danger. On April 2, 2015, a jury found in favor of the plaintiffs and the trial court entered a judgment against FCA US in the amount of U.S. \$148.5 million (€141 million). On July 24, 2015, the Court issued a remittitur reducing the judgment against FCA US to U.S. \$40 million (€38 million).

While FCA US respects the decision of the jury, the Company appealed the final judgment issued by the judge. FCA US believes the judgment was not supported by the evidence or the law. FCA US maintains that the 1999 Jeep Grand Cherokee is not defective, and its fuel system does not pose an unreasonable risk to motor vehicle safety. The vehicle met or exceeded all applicable Federal Motor Vehicle Safety Standards, including the standard governing fuel system integrity. Furthermore, FCA US has submitted extensive data to NHTSA validating that the vehicle performs as well as, or better than, peer vehicles in impact studies. During the trial, however, the judge did not permit FCA US to introduce for the jury's consideration, all data previously provided to NHTSA along with other key evidence, demonstrating the vehicle's fuel system is not defective.

On November 15, 2016, the Georgia Court of Appeals affirmed the Court's verdict and judgment of U.S. \$40 million (€38 million). On March 15, 2018, the Georgia Supreme Court affirmed the judgment of the Georgia Court of Appeals. FCA US declined to pursue further appeals and the final amount of the outstanding judgment, including accrued interest, did not materially exceed our existing provisions.

Emissions Matters

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 we have accrued €748 million, of which approximately €350 million will be paid in civil penalties to resolve differences over diesel emissions requirements. We also announced that FCA US had reached settlements in connection with a putative class action on behalf of consumers in connection with which FCA US agreed to pay an average of \$2,800 per vehicle for each eligible customer affected by the recall.

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 addition, we remain subject to a number of related private lawsuits and the potential for additional claims by consumers who choose not to participate in the class action settlement.

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. 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 European Commission ("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 correctly performed.

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 announced its determination that 2,428 FCA vehicles imported in 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.

The results of the unresolved 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, results of operations and reputation. It is possible that the resolution of these matters may adversely affect our reputation with consumers, which may negatively impact demand for our vehicles and could have a material adverse effect on our business, financial condition and results of operations. At this stage, we are unable to evaluate the likelihood that a loss will be incurred with regard to the unresolved inquiries and private litigation or estimate a range of possible loss.

Safety Recall and Emissions-related Securities Class Action Lawsuit

On September 11, 2015, a putative securities class action complaint was filed in the U.S. District Court for the Southern District of New York against us alleging material misstatements regarding our compliance with regulatory requirements and that we failed to timely disclose certain expenses relating to our vehicle recall campaigns. On October 5, 2016, the district court dismissed the claims relating to the disclosure of vehicle recall campaign expenses but ruled that claims regarding the alleged misstatements regarding regulatory requirements would be allowed to proceed. On February 17, 2017, the plaintiffs amended their complaint to allege material misstatements regarding emissions compliance. On November 13, 2017, the Court denied our motion to dismiss the emissions-related claims. On June 15, 2018, the Court certified a class of our stockholders in the case. On February 4, 2019, we entered into an agreement in principle to settle the litigation contingent on court approval and our insurers' confirmation for an amount within the coverage limits of our applicable insurance policies. As such, any potential loss is not material to the Group.

U.S. Sales Reporting Investigations

On July 18, 2016, we confirmed that the U.S. Securities and Exchange Commission had commenced an investigation into our reporting of vehicle unit sales to end customers in the U.S. and that inquiries into similar issues have been received from the U.S. Department of Justice. These vehicle unit sales reports relate to unit sales volumes primarily by dealers to consumers while we generally recognize revenues based on shipments to dealers and other customers and not on vehicle unit sales to consumers. We continue to cooperate with these investigations; however their outcome is uncertain and cannot be predicted at this time. At this stage, we are unable to reliably evaluate the likelihood that a loss will be incurred or estimate a range of possible loss.

As previously reported, two putative securities class action lawsuits were filed against us in the U.S. District Court for the Eastern District of Michigan making allegations with regard to our reporting of vehicle unit sales to end consumers in the U.S. These lawsuits have been consolidated into a single action and on October 4, 2018, we entered into an agreement in principle to settle the consolidated litigation, subject to court approval, for an amount that is not material to the Group.

National Training Center

In connection with an on-going government investigation into matters at the UAW-Chrysler National Training Center, the U.S. Department of Justice has brought charges against a number of individuals including former FCA US employees and individuals associated with the UAW for, among other things, tax fraud and conspiring to provide money or other things of value to a UAW officer and UAW employees while acting in the interests of FCA US, in violation of the Labor Management Relations (Taft-Hartley) Act. We continue to cooperate with this investigation. Several putative class action lawsuits have been filed against FCA US in U.S. federal court alleging harm to UAW workers as a result of these acts. Those actions have been dismissed at the trial court stage, but remain subject to appeal. At this stage, we are unable to reliably evaluate the likelihood that a loss will be incurred or estimate a range of possible loss.

26. Equity

Share capital

At December 31, 2018, the authorized share capital of FCA was forty million Euro (€40,000,000), divided into two billion (2,000,000,000) FCA common shares, nominal value of one Euro cent (€0.01) per share and two billion (2,000,000,000) special voting shares, nominal value of one Euro cent (€0.01) per share.

At December 31, 2018, fully paid-up share capital of FCA amounted to €19 million (€19 million at December 31, 2017) and consisted of 1,550,617,563 common shares and of 408,941,767 special voting shares, all with a par value of €0.01 each (1,540,089,690 common shares and 408,941,767 special voting shares, all with a par value of €0.01 each at December 31, 2017).

The following table summarizes the changes in the number of outstanding common shares and special voting shares of FCA during the year ended December 31, 2018:

	Common Shares	Special Voting Shares	Total
Balance at January 1, 2018	1,540,089,690	408,941,767	1,949,031,457
Shares issued to Key management	10,527,873	—	10,527,873
Balance at December 31, 2018	1,550,617,563	408,941,767	1,959,559,330

On October 29, 2014, the Board of Directors of FCA resolved to authorize the issuance of up to a maximum of 90,000,000 common shares under the equity incentive plan and the long-term incentive program which had been adopted before the closing of the Merger and under which equity awards can be granted to eligible individuals. Any issuance of shares during the period from 2014 to 2018 are subject to the satisfaction of certain performance/retention requirements and any issuances to directors are subject to FCA shareholders' approval (refer to Note 18, *Share-based compensation*).

Mandatory Convertible Securities

On December 15, 2016, each U.S.\$100 notional amount of the Mandatory Convertible Securities that had been issued in December 2014 was converted to 8.3077 of FCA's common shares based upon the average volume weighted average prices of FCA common shares on the New York Stock Exchange during the 20 consecutive trading day period beginning November 14, 2016 and ending on December 12, 2016 (inclusive), which resulted in the issuance of total of 238,846,375 FCA common shares.

Other reserves:

Other reserves comprised the following:

- a legal reserve of €12,831 million at December 31, 2018 (€11,594 million at December 31, 2017) determined in accordance to the Dutch law and primarily relating to development expenditures capitalized by subsidiaries and their earnings, subject to certain restrictions on distributions to FCA;
- capital reserves of €5,920 million at December 31, 2018 (€5,817 million at December 31, 2017);
- retained earnings, after the separation of the legal reserve, of positive €1,836 million (negative €333 million at December 31, 2017); and
- profit attributable to owners of the parent of €3,608 million for the year ended December 31, 2018 (€3,491 million for the year ended December 31, 2017).

Other comprehensive income

Other comprehensive income was as follows:

	Years ended December 31,		
	2018	2017	2016
	(€ million)		
Items that will not be reclassified to the Consolidated Income Statement in subsequent periods:			
(Losses)/gains on remeasurement of defined benefit plans	€ 317	€ (72)	€ 616
Share of gains/(losses) on remeasurement of defined benefit plans for equity method investees	—	2	(5)
Gains/(losses) on equity instruments measured at fair value through other comprehensive income	(4)	14	15
Items relating to discontinued operations	1	8	(32)
Total Items that will not be reclassified to the Consolidated Income Statement (B1)	314	(48)	594
Items that may be reclassified to the Consolidated Income Statement in subsequent periods:			
Gains/(losses) on cash flow hedging instruments arising during the period	99	47	(25)
Gains/(losses) on cash flow hedging instruments reclassified to the Consolidated Income Statement	(108)	82	(215)
Total Gains/(losses) on cash flow hedging instruments	(9)	129	(240)
Foreign exchange gains/(losses)	126	(1,982)	509
Share of Other comprehensive income/(loss) for equity method investees arising during the period	(77)	(94)	(97)
Share of Other comprehensive income/(loss) for equity method investees reclassified to the Consolidated Income Statement	(26)	(27)	(25)
Total Share of Other comprehensive (loss)/income for equity method investees	(103)	(121)	(122)
Items relating to discontinued operations	(91)	58	(60)
Total Items that may be reclassified to the Consolidated Income Statement (B2)	(77)	(1,916)	87
Total Other comprehensive income (B1)+(B2)=(B)	237	(1,964)	681
Tax effect	(82)	(30)	(196)
Tax effect - discontinued operations	1	(1)	4
Total Other comprehensive income, net of tax	€ 156	€ (1,995)	€ 489

Gains and losses arising from the remeasurement of defined benefit plans primarily include actuarial gains and losses arising during the period, the return on plan assets (net of interest income recognized in the Consolidated Income Statement) and any changes in the effect of the asset ceiling. These gains and losses are offset against the related defined benefit plan's net liabilities or assets (Note 19, *Employee benefits liabilities*).

The following table summarizes the tax effect relating to Other comprehensive income:

	Years ended December 31,								
	2018			2017			2016		
	Pre-tax balance	Tax income/(expense)	Net balance	Pre-tax balance	Tax income/(expense)	Net balance	Pre-tax balance	Tax income/(expense)	Net balance
	(€ million)								
(Losses)/gains on remeasurement of defined benefit plans	€ 317	€ (76)	€ 241	€ (72)	€ (18)	€ (90)	€ 616	€ (265)	€ 351
Gains/(Losses) on cash flow hedging instruments	(9)	(6)	(15)	129	(12)	117	(240)	69	(171)
Gains/(losses) on equity instruments measured at fair value through other comprehensive income	(4)	—	(4)	14	—	14	15	—	15
Foreign exchange (losses)/gains	126	—	126	(1,982)	—	(1,982)	509	—	509
Share of Other comprehensive income/(loss) for equity method investees	(103)	—	(103)	(119)	—	(119)	(127)	—	(127)
Items relating to discontinued operations	(90)	1	(89)	66	(1)	65	(92)	4	(88)
Total Other comprehensive income	€ 237	€ (81)	€ 156	€ (1,964)	€ (31)	€ (1,995)	€ 681	€ (192)	€ 489

Policies and processes for managing capital

The objectives identified by the Group for managing capital are to create value for shareholders as a whole, safeguard business continuity and support the growth of the Group. As a result, the Group endeavors to maintain an adequate level of capital that, at the same time, enables it to obtain a satisfactory economic return for its shareholders and guarantee economic access to external sources of funds, including by means of achieving an adequate credit rating.

The Group constantly monitors the ratio between debt and equity, particularly the level of net debt and the generation of cash from its industrial activities. In order to reach these objectives, the Group continues to aim for improvement in the profitability of its operations. Furthermore, the Group may sell part of its assets to reduce the level of its debt, while the Board of Directors may make proposals to FCA shareholders at a general meeting of FCA shareholders to reduce or increase share capital or, where permitted by law, to distribute reserves. The Group may also make purchases of treasury shares, without exceeding the limits authorized at a general meeting of FCA shareholders, under the same logic of creating value, compatible with the objectives of achieving financial equilibrium and an improvement in the Group's rating.

The FCA Board intends to recommend to the upcoming Annual General Meeting of Shareholders an annual ordinary dividend distribution to holders of FCA common shares of €0.65 per common share (a total distribution of approximately €1 billion). The distribution, from the Company's 2018 profits, will be subject to the approval by the Annual General Meeting of Shareholders, which is scheduled to be held on April 12, 2019.

If the dividend proposal is approved by shareholders, FCA common shares will be traded ex-dividend as of April 23, 2019 at the NYSE and the MTA. In compliance with the listing requirements of the NYSE and the MTA, the dividend record date will be April 24, 2019. The payment of the dividend is expected to be during May 2019.

No dividends have been declared or paid by FCA in the preceding five years. Proposed dividends on ordinary shares are not recognized as a liability as at December 31, 2018.

The FCA loyalty voting structure

The purpose of the loyalty voting structure is to reward long-term ownership of FCA common shares and to promote stability of the FCA shareholder base by granting long-term FCA shareholders with special voting shares to which one voting right is attached in addition to the one granted by each FCA common share that they hold. In connection with the Merger, FCA issued 408,941,767 special voting shares with a nominal value of €0.01 each to those eligible shareholders of Fiat who had elected to participate in the loyalty voting structure upon completion of the Merger in addition to FCA common shares. In addition, an FCA shareholder may, at any time, elect to participate in the loyalty voting structure by requesting that FCA register all or some of the number of FCA common shares held by such an FCA shareholder in the Loyalty Register. Only a minimal dividend accrues to the special voting shares, which is allocated to a separate special dividend reserve, and they shall not carry any entitlement to any other reserve of FCA. Having only immaterial economic entitlements, the special voting shares do not impact earnings per share.

27. Earnings per share

Basic earnings per share

The basic earnings per share for the years ended December 31, 2018, 2017 and 2016 was determined by dividing the Net profit attributable to the equity holders of the parent by the weighted average number of shares outstanding during each period.

The following tables provide the amounts used in the calculation of basic earnings per share:

		Years ended December 31,		
		2018	2017	2016
Net profit attributable to owners of the parent	million	€ 3,608	€ 3,491	€ 1,803
Weighted average number of shares outstanding	thousand	1,548,439	1,535,988	1,513,019
Basic earnings per share	€	€ 2.33	€ 2.27	€ 1.19

		Years ended December 31,		
		2018	2017	2016
Net profit from continuing operations attributable to owners of the parent	million	€ 3,323	€ 3,281	€ 1,708
Weighted average number of shares outstanding	thousand	1,548,439	1,535,988	1,513,019
Basic earnings per share from continuing operations	€	€ 2.15	€ 2.14	€ 1.13

		Years ended December 31,		
		2018	2017	2016
Net profit from discontinued operations attributable to owners of the parent	million	€ 285	€ 210	€ 95
Weighted average number of shares outstanding	thousand	1,548,439	1,535,988	1,513,019
Basic earnings per share from discontinued operations	€	€ 0.18	€ 0.14	€ 0.06

Diluted earnings per share

In order to calculate the diluted earnings per share, the weighted average number of shares outstanding was increased to take into consideration the theoretical effect of potential common shares that would be issued for the restricted and performance share units outstanding and unvested at December 31, 2018, 2017 and 2016 (Note 18, *Share-based compensation*), as determined using the treasury stock method.

For the year ended December 31, 2017, the theoretical effect that would arise if some of the PSU NI awards granted in 2015 and 2016 and some of the RSU awards granted in 2017 (refer to Note 18, *Share-based compensation*) were exercised was not taken into consideration in the calculation of diluted earnings per share as this would have had an anti-dilutive effect. There were no instruments excluded from the calculation of diluted earnings per share because of an anti-dilutive impact for the years ended December 31, 2018 and 2016.

The following tables provide the amounts used in the calculation of diluted earnings per share:

		Years ended December 31,		
		2018	2017	2016
Net profit attributable to owners of the parent	million	3,608	€ 3,491	€ 1,803
Weighted average number of shares outstanding	thousand	1,548,439	1,535,988	1,513,019
Number of shares deployable for share-based compensation	thousand	19,400	20,318	13,357
Weighted average number of shares outstanding for diluted earnings per share	thousand	1,567,839	1,556,306	1,526,376
Diluted earnings per share	€	€ 2.30	€ 2.24	€ 1.18

		Years ended December 31,		
		2018	2017	2016
Net profit from continuing operations attributable to owners of the parent	million	€ 3,323	€ 3,281	€ 1,708
Weighted average number of shares outstanding for diluted earnings per share	thousand	1,567,839	1,556,306	1,526,376
Diluted earnings per share from continuing operations	€	€ 2.12	€ 2.11	€ 1.12

		Years ended December 31,		
		2018	2017	2016
Net profit from discontinued operations attributable to owners of the parent	million	€ 285	€ 210	€ 95
Weighted average number of shares outstanding for diluted earnings per share	thousand	1,567,839	1,556,306	1,526,376
Diluted earnings per share from discontinued operations	€	€ 0.18	€ 0.13	€ 0.06

28. Segment reporting

Reportable segments reflect the operating segments of the Group that are regularly reviewed by the Chief Executive Officer (the “chief operating decision maker” as defined under IFRS 8 – *Operating Segments*) for making strategic decisions, allocating resources and assessing performance and that exceed the quantitative thresholds provided in IFRS 8, or whose information is considered useful for the users of the financial statements. The Group's reportable segments include the four regional mass-market vehicle operating segments (NAFTA, LATAM, APAC and EMEA) and the Maserati global luxury brand operating segment, which are described as follows:

- NAFTA designs, engineers, develops, manufactures and distributes vehicles. NAFTA mainly earns its revenues from the sale of vehicles under the Chrysler, Jeep, Dodge, Ram, Fiat and Alfa Romeo brand names and from sales of the related parts and accessories in the United States, Canada, Mexico and Caribbean islands.
- LATAM designs, engineers, develops, manufactures and distributes vehicles. LATAM mainly earns its revenues from the sale of passenger cars and light commercial vehicles and related spare parts under the Fiat and Jeep brand names in South and Central America as well as from the distribution of the Chrysler, Dodge and Ram brand cars in the same region. In addition, the segment provides financial services to the dealer network in Brazil and to the dealer network and retail customers in Argentina.
- APAC mainly earns its revenues from the distribution and sale of cars and related spare parts under the Abarth, Alfa Romeo, Chrysler, Dodge, Fiat and Jeep brands mostly in China, Japan, Australia, South Korea and India. These activities are carried out through both subsidiaries and joint ventures. In addition, the segment provides financial services to the dealer network and retail customers in China.

- EMEA designs, engineers, develops, manufactures and distributes vehicles. EMEA mainly earns its revenues from the sale of passenger cars and light commercial vehicles under the Fiat, Alfa Romeo, Lancia, Abarth, Jeep and Fiat Professional brand names, the sale of the related spare parts in Europe, Middle East and Africa, and from the distribution of the Chrysler, Dodge and Ram brand vehicles in these areas. In addition, the segment provides financial services related to the sale of cars and light commercial vehicles in Europe, primarily through the FCA Bank joint venture and Fidis S.p.A., a fully owned captive finance company that is mainly involved in the factoring business.
- Maserati designs, engineers, develops, manufactures and distributes vehicles. Maserati earns its revenues from the sale of luxury vehicles under the Maserati brand.

Transactions among the mass-market vehicle segments generally are presented on a “where-sold” basis, which reflects the profit/(loss) on the ultimate sale to third party customer within the segment. This presentation generally eliminates the effect of the legal entity transfer price within the segments. Revenues of the other segments, aside from the mass-market vehicle segments, are those directly generated by or attributable to the segment as the result of its usual business activities and include revenues from transactions with third parties as well as those arising from transactions with segments, recognized at normal market prices.

The results of our Magneti Marelli business were previously reported within the Components segment along with our industrial automation systems design and production business and our cast iron and aluminum components business. Following the classification of Magneti Marelli as a discontinued operation for the years ended December 31, 2018 and 2017 (refer to Note 3, *Scope of consolidation*), the remaining activities within Components segment are no longer considered a separate reportable segment as defined by IFRS 8 and are reported within “Other activities” below.

Other activities include the results of our industrial automation systems design and production business and our cast iron and aluminum components business, as well as the activities and businesses that are not operating segments under IFRS 8 – *Operating Segments*. In addition, Unallocated items and eliminations include consolidation adjustments, eliminations, as well as costs related to the launch of the Alfa Romeo Giulia platform which were not allocated to the mass-market vehicle segments due to the limited number of shipments. Financial income and expenses and income taxes are not attributable to the performance of the segments as they do not fall under the scope of their operational responsibilities.

Adjusted Earnings Before Interest and Taxes (“Adjusted EBIT”) is the measure used by the chief operating decision maker to assess performance, allocate resources to the Group’s operating segments and to view operating trends, perform analytical comparisons and benchmark performance between periods and among the segments. 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). See below for a reconciliation of Net profit from continuing operations, which is the most directly comparable measure included in our Consolidated Income Statement, to Adjusted EBIT. Operating assets are not included in the data reviewed by the chief operating decision maker, and as a result and as permitted by IFRS 8 – *Operating Segments*, the related information is not provided.

The following tables summarize selected financial information by segment for the years ended December 31, 2018, 2017 and 2016:

2018	Mass-Market Vehicles					Maserati	Other activities	Unallocated items & eliminations	FCA
	NAFTA	LATAM	APAC	EMEA	(€ million)				
Revenues	€ 72,384	€ 8,152	€ 2,703	€ 22,815	€ 2,663	€ 2,888	€ (1,193)	€ 110,412	
Revenues from transactions with other segments	(31)	(10)	(57)	(101)	(18)	(976)	1,193	—	
Revenues from third party customers	€ 72,353	€ 8,142	€ 2,646	€ 22,714	€ 2,645	€ 1,912	€ —	€ 110,412	
Net profit from continuing operations								€ 3,330	
Tax expense								€ 778	
Net financial expenses								€ 1,056	
Adjustments:									
Charge for U.S. diesel emission matters ⁽¹⁾	€ —	€ —	€ —	€ —	€ —	€ —	€ 748	€ 748	
Impairment expense and supplier obligations ⁽²⁾	€ 16	€ 8	€ 11	€ 307	€ —	€ —	€ 11	€ 353	
China inventory impairment ⁽³⁾	€ —	€ —	€ 129	€ —	€ —	€ —	€ —	€ 129	
Costs for recall, net of recovery - airbag inflators ⁽⁴⁾	€ 114	€ —	€ —	€ —	€ —	€ —	€ —	€ 114	
U.S. special bonus payment ⁽⁵⁾	€ 109	€ —	€ —	€ —	€ —	€ 2	€ —	€ 111	
Restructuring costs, net of reversals ⁽⁶⁾	€ —	€ (28)	€ —	€ 123	€ —	€ 8	€ —	€ 103	
Employee benefits settlement losses ⁽⁷⁾	€ 92	€ —	€ —	€ —	€ —	€ —	€ —	€ 92	
Port of Savona (Italy) fire and flood ⁽⁸⁾	€ —	€ —	€ —	€ 2	€ 11	€ 30	€ —	€ 43	
(Recovery of)/costs for recall - contested with supplier ⁽⁹⁾	€ (50)	€ —	€ —	€ —	€ —	€ —	€ —	€ (50)	
NAFTA capacity realignment ⁽¹⁰⁾	€ (60)	€ —	€ —	€ —	€ —	€ —	€ —	€ (60)	
Brazil indirect tax - reversal of liability/ recognition of credits ⁽¹¹⁾	€ —	€ (54)	€ —	€ —	€ —	€ (18)	€ —	€ (72)	
Other	€ 1	€ —	€ —	€ 30	€ —	€ 12	€ 20	€ 63	
Adjusted EBIT	€ 6,230	€ 359	€ (296)	€ 406	€ 151	€ (40)	€ (72)	€ 6,738	
Share of profit of equity method investees	€ —	€ —	€ (67)	€ 284	€ —	€ 22	€ 1	€ 240	

(1) A provision of €748 million was 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;

(2) 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;

(3) Impairment of inventory in connection with acceleration of new emissions standards in China and slower than expected sales. Refer to Note 14, Inventories;

(4) Accrual in relation to costs for recall campaigns related to Takata airbag inflators, net of recovery;

(5) Special bonus payment of \$2,000 to approximately 60,000 employees in NAFTA as a result of the U.S. Tax Cuts and Jobs Act;

(6) Restructuring costs primarily consisting of €123 million in EMEA, partially offset by the reversal of €28 million of previously recorded restructuring costs in LATAM;

(7) Charges arising on settlement of a portion of a supplemental retirement plan and an annuity buyout in NAFTA. Refer to Note 19, Employee benefits liabilities;

(8) Costs in relation to the Port of Savona (Italy) flood and fire;

(9) Recovery of amounts accrued in 2016 in relation to costs for recall contested with a supplier;

(10) Reduction of costs in relation to the NAFTA capacity realignment which were accrued in 2015;

(11) Credits recognized related to indirect taxes in Brazil.

Mass-Market Vehicles

2017	NAFTA	LATAM	APAC	EMEA	Maserati	Other activities	Unallocated items & eliminations	FCA
	(€ million)							
Revenues	€ 66,094	€ 8,004	€ 3,250	€ 22,700	€ 4,058	€ 3,248	€ (1,624)	€ 105,730
Revenues from transactions with other segments	(47)	(10)	(32)	(116)	(21)	(1,398)	1,624	—
Revenues from third party customers	€ 66,047	€ 7,994	€ 3,218	€ 22,584	€ 4,037	€ 1,850	€ —	€ 105,730
Net profit from continuing operations								€ 3,291
Tax expense								€ 2,588
Net financial expenses								€ 1,345
Adjustments:								
Reversal of a Brazilian indirect tax liability ⁽¹⁾	€ —	€ —	€ —	€ —	€ —	€ —	€ —	€ (895)
Impairment expense ⁽²⁾	€ —	€ 77	€ —	€ 142	€ —	€ —	€ —	€ 219
Recall campaigns - airbag inflators ⁽³⁾	€ 29	€ 73	€ —	€ —	€ —	€ —	€ —	€ 102
Restructuring costs/(reversal) ⁽⁴⁾	€ (1)	€ 75	€ —	€ —	€ —	€ 11	€ 1	€ 86
Deconsolidation of Venezuela ⁽⁵⁾	€ —	€ 42	€ —	€ —	€ —	€ —	€ —	€ 42
NAFTA capacity realignment ⁽⁶⁾	€ (38)	€ —	€ —	€ —	€ —	€ —	€ —	€ (38)
Tianjin (China) port explosion, net of insurance recoveries ⁽⁷⁾	€ —	€ —	€ (68)	€ —	€ —	€ —	€ —	€ (68)
Gain on disposal of investments ⁽⁸⁾	€ —	€ —	€ —	€ —	€ —	€ (27)	€ (49)	€ (76)
Other	€ (1)	€ —	€ 1	€ —	€ —	€ 12	€ 1	€ 13
Adjusted EBIT	€ 5,227	€ 151	€ 172	€ 735	€ 560	€ (98)	€ (138)	€ 6,609
Share of profit of equity method investees	€ —	€ —	€ 75	€ 306	€ —	€ 18	€ 1	€ 400

(1) As this liability related to the Group's Brazilian operations in multiple segments, it was not attributed to the results of the related segments;

(2) Impairment expense in EMEA relates to changes in global product portfolio. Impairment expense in LATAM relates to product portfolio changes and the impairment of certain real estate assets in Venezuela, in the second quarter of 2017 due to the continued deterioration of the economic conditions;

(3) Refer to Note 20, Provisions and Note 25, Guarantees granted, commitments and contingent liabilities;

(4) Primarily related to workforce restructuring costs related to LATAM;

(5) Refer to Note 3, Scope of consolidation;

(6) Income related to adjustments to reserves for the NAFTA capacity realignment plan;

(7) Insurance recoveries related to losses incurred in connection with the explosions at the Port of Tianjin (China) in August 2015 are excluded from Adjusted EBIT to the extent the insured loss to which the recovery relates was excluded from Adjusted EBIT. Insurance recoveries are included in Adjusted EBIT to the extent they relate to costs, increased incentives or business interruption losses that were included in Adjusted EBIT;

(8) Refer to Note 3, Scope of consolidation.

2016	Mass-Market Vehicles						Other activities	Unallocated items & eliminations	FCA
	NAFTA	LATAM	APAC	EMEA	Maserati				
	(€ million)								
Revenues	€ 69,094	€ 6,197	€ 3,662	€ 21,860	€ 3,479	€ 3,116	€ (1,610)	€ 105,798	
Revenues from transactions with other segments	(40)	(39)	(24)	(127)	(9)	(1,371)	1,610	—	
Revenues from third party customers	€ 69,054	€ 6,158	€ 3,638	€ 21,733	€ 3,470	€ 1,745	€ —	€ 105,798	
Net profit from continuing operations								€ 1,713	
Tax expense								€ 1,237	
Net financial expenses								€ 1,858	
Adjustments:									
Recall campaigns - airbag inflators ⁽¹⁾	€ 414	€ —	€ —	€ —	€ —	€ —	€ —	€ 414	
Costs for recall, net of supplier recoveries - contested with supplier ⁽²⁾	€ 132	€ —	€ —	€ —	€ —	€ —	€ —	€ 132	
NAFTA capacity realignment ⁽³⁾	€ 156	€ —	€ —	€ —	€ —	€ —	€ —	€ 156	
Tianjin (China) port explosions, net of insurance recoveries ⁽⁴⁾	€ —	€ —	€ (55)	€ —	€ —	€ —	€ —	€ (55)	
Currency devaluation	€ —	€ 19	€ —	€ —	€ —	€ —	€ —	€ 19	
Restructuring costs/(reversal) ⁽⁵⁾	€ (10)	€ 68	€ —	€ 5	€ —	€ 5	€ —	€ 68	
Impairment expense ⁽⁶⁾	€ —	€ 52	€ 109	€ 7	€ —	€ 9	€ —	€ 177	
Gains on disposal of investments	€ —	€ —	€ —	€ —	€ —	€ (13)	€ —	€ (13)	
Other	€ (25)	€ 3	€ (10)	€ —	€ —	€ (1)	€ 7	€ (26)	
Adjusted EBIT	€ 5,133	€ 5	€ 105	€ 540	€ 339	€ (175)	€ (267)	€ 5,680	
Share of profit of equity method investees	€ 2	€ —	€ 30	€ 272	€ —	€ 3	€ 1	€ 308	

(1) Refer to Note 20, Provisions and Note 25, Guarantees granted, commitments and contingent liabilities.;

(2) Refer to Note 20, Provisions.;

(3) Refer to Note 5, Research and development costs and Note 11, Property plant and equipment;

(4) Insurance recoveries related to losses incurred in connection with the explosions at the Port of Tianjin (China) in August 2015 are excluded from Adjusted EBIT to the extent the insured loss to which the recovery relates was excluded from Adjusted EBIT. Insurance recoveries are included in Adjusted EBIT to the extent they relate to costs, increased incentives or business interruption losses that were included in Adjusted EBIT. Through December 31, 2016, no significant insurance recoveries related to Tianjin have been recognized in Adjusted EBIT;

(5) Restructuring costs within LATAM and Components primarily relate to cost reduction initiatives to right-size to market volume in Brazil;

(6) Refer to Note 5, Research and development costs. and Note 11, Property plant and equipment.

Information about geographical area

The following table summarizes the non-current assets (other than financial instruments, deferred tax assets and post-employment benefits assets) attributed to certain geographic areas:

	At December 31	
	2018	2017
	(€ million)	
North America	€ 35,493	€ 34,099
Italy	11,478	12,458
Brazil	4,125	5,137
Poland	937	1,151
Serbia	571	639
Other countries	1,456	2,536
Total Non-current assets (other than financial instruments, deferred tax assets and post-employment benefits assets)	€ 54,060	€ 56,020

29. Explanatory notes to the Consolidated Statement of Cash Flows

Non-cash items

For the year ended December 31, 2018, Other non-cash items of €129 million primarily included €297 million of impairments, partially offset by €240 million related to the revaluation of investments accounted for by using the equity method and other amounts that were not individually material.

For the year ended December 31, 2017, Other non-cash items of €(197) million primarily included €400 million related to the revaluation of investments accounted for by using the equity method, partially offset by €219 million of impairments and other amounts that were not individually material.

For the year ended December 31, 2016, Other non-cash items of €87 million primarily included €177 million of impairments, which were partially offset by other amounts that were not individually material.

Operating activities

For the year ended December 31, 2018, net cash from operating activities of €9,948 million was primarily the result of: (i) net profit from continuing operations of €3,330 million adjusted to add back €5,507 million for depreciation and amortization expense; in addition to (ii) a net increase of €913 million in provisions primarily due to a provision of €748 million recognized for costs related to final settlements reached on civil, environmental and consumer claims related to U.S. diesel emissions matters; (iii) an increase of €457 million in net deferred tax assets, mainly due to increased deferred tax liabilities in NAFTA; and (iv) cash flow from operating activities of discontinued operations for €484 million. These positive impacts were partially offset by negative effect of the change in working capital of €1,106 million primarily driven by (a) decrease in trade payables of €1,240 million related to lower production volumes in EMEA in December 2018 compared to the same month in 2017 in addition to lower capital expenditure, (b) decrease in other payables net of receivables of €1,284 million mainly as a result of higher indirect tax receivable in LATAM, decreased income tax payable in NAFTA and lower advances from customers in LATAM and EMEA, and (c) decrease in inventories of €1,399 million due to inventory management actions across all the regions.

For the year ended December 31, 2017 the €1,596 million increase in inventories related to ramp-up of new models at year end, including the all-new Alfa Romeo Stelvio and the new Jeep Wrangler, as well as volume increases in LATAM and Maserati. The increase in trade payables of €937 million primarily related to increased production volumes in NAFTA and LATAM in the fourth quarter of 2017 as compared to the same period in 2016.

For the year ended December 31, 2016, the net increase of €1,453 million in provisions was mainly due to the increase in the warranty provision of €414 million in NAFTA for recall campaigns related to an industry wide recall for airbag inflators resulting from parts manufactured by Takata, an increase in accrued sales incentives primarily related to NAFTA and EMEA, as well as estimated net costs of €132 million associated with a recall for which costs are being contested with a supplier. In addition, the €494 million increase in inventories primarily related to the increased production of new vehicle models in EMEA and the €729 million increase in trade payables mainly related to increased production levels in EMEA, which was partially offset by reduced activity in LATAM and the effect of localized Jeep production in China. Furthermore, the change in other payables and receivables of 280 million primarily reflected the net payment of taxes and deferred expenses.

Financing activities

For the year ended December 31, 2018, net cash used in financing activities of €2,785 million was primarily the result of; (i) the voluntary prepayment in November 2018 of the outstanding principal and accrued interest of U.S. \$1,009 million (€893 million) of FCA US's tranche B term loan maturing December 31, 2018 (the "Tranche B Term Loan due 2018"); and (ii) the repayment at maturity of two notes under the Medium Term Note Programme ("MTN Programme", previously referred to as the Global Medium Term Note Programme, or "GMTN" Programme), one with a principal amount of €1,250 million and one with a principal amount of €600 million.

For the year ended December 31, 2017, net cash used in financing activities was primarily the result of: (i) the voluntary prepayment in February 2017 of the outstanding principal and accrued interest of U.S.\$1,826 million (€1,721 million) of FCA US's Tranche B Term Loan due 2017; (ii) the repayment of three notes at maturity under the MTN Programme, one with a principal amount of €850 million, one with a principal amount of €1,000 million and one with a principal amount of CHF450 million (€385 million), as described in Note 21, *Debt*; and (iii) the repayment of other long-term debt, net of proceeds, of a principal amount of €889 million.

For the year ended December 31, 2016, net cash used in financing activities was primarily the result of the (i) the repayment at maturity of three notes issued under the MTN Programme, two of which were for an aggregate principal amount of €2,000 million and one for a principal amount of CHF 400 million (€373 million) as described in Note 21, *Debt* and (ii) the repayment of other long-term debt for a total of €4,605 million, which included (a) the voluntary prepayments of principal of the FCA US Tranche B Term Loans of U.S.\$2.0 billion (€1.8 billion) as described in Note 21, *Debt*, (b) the payment of the financial liability related to the Mandatory Convertible Securities of €213 million upon their conversion to FCA shares and (c) repayments at maturity of other long-term debt of €2,605 million primarily in Brazil, which were partially offset by (iii) the issuance of a new note under the MTN Programme for a principal amount of €1,250 million and (iv) proceeds from other long-term debt for a total of €1,309 million, which included the proceeds from the €250 million loan entered into with the EIB in December 2016 as described in Note 21, *Debt*.

The following is a reconciliation of liabilities arising from financing activities for the year ended December 31, 2018 and 2017:

	Years ended December 31	
	2018	2017
	(€ million)	
Total Debt at January 1	€ 17,971	€ 24,048
Derivative (assets)/liabilities and collateral at January 1	(206)	150
Total Liabilities from financing activities at January 1	€ 17,765	€ 24,198
Cash flows	€ (2,795)	€ (4,470)
Foreign exchange effects	€ (226)	€ (1,311)
Fair value changes	€ (136)	€ (286)
Changes in scope of consolidation	€ (3)	€ (83)
Transfer to (Assets)/Liabilities held for sale	€ (177)	€ —
Other changes	€ (51)	€ (283)
Total Liabilities from financing activities at December 31	€ 14,377	€ 17,765
Derivative (assets)/liabilities and collateral at December 31	(151)	(206)
Total Debt at December 31	€ 14,528	€ 17,971

Interest expense and taxes paid

During the years ended December 31, 2018, 2017 and 2016, the Group paid interest of €1,024 million and received interest of €308 million, €1,190 million and €299 million, and €1,676 million and €370 million, respectively. Amounts indicated are also inclusive of interest rate differentials paid or received on interest rate derivatives.

During the years ended December 31, 2018, 2017 and 2016, the Group made income tax payments, net of refunds, totaling €750 million, €533 million and €622 million, respectively.

30. Qualitative and quantitative information on financial risks

The Group is exposed to the following financial risks connected with its operations:

- credit risk, principally arising from its normal commercial relations with final customers and dealers, and its financing activities;
- liquidity risk, with particular reference to the availability of funds and access to the credit market and to financial instruments in general;
- financial market risk (principally relating to exchange rates, interest rates and commodity prices), since the Group operates at an international level in different currencies and uses financial instruments which generate interest. The Group is also exposed to the risk of changes in the price of certain commodities and of certain listed shares.

These risks could significantly affect the Group's financial position and results and for this reason, the Group systematically identifies and monitors these risks in order to detect potential negative effects in advance and take the necessary action to mitigate them, primarily through its operating and financing activities and if required, through the use of derivative financial instruments in accordance with established risk management policies.

Financial instruments held by the funds that manage pension plan assets are not included in this analysis (refer to Note 19, *Employee benefits liabilities*).

The following section provides qualitative and quantitative disclosures on the effect that these risks may have upon the Group. The quantitative data reported in the following does not have any predictive value, in particular the sensitivity analysis on finance market risks does not reflect the complexity of the market or the reaction which may result from any changes that are assumed to take place.

Credit risk

Overall, the credit risk regarding the Group's trade receivables and receivables from financing activities is concentrated mainly in NAFTA, EMEA and LATAM.

The maximum credit risk to which the Group is potentially exposed at December 31, 2018 is represented by the carrying amounts of financial assets in the financial statements as discussed in Note 15, *Trade, other receivables and tax receivables* and the nominal value of the guarantees provided on liabilities and commitments to third parties as discussed in Note 25, *Guarantees granted, commitments and contingent liabilities*.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The Group monitors these exposures and establishes credit lines with single or homogeneous categories of counterparties.

Dealers and final customers for which the Group provides financing are subject to specific assessments of their creditworthiness under a detailed scoring system. To mitigate this risk, the Group could obtain financial and non-financial guarantees. These guarantees are further strengthened where possible by reserve of title clauses on financed vehicle sales to the sales network made by Group financial service companies and on vehicles assigned under finance and operating lease agreements.

Receivables from financing activities amounting to €3,140 million at December 31, 2017, contained balances totaling €5 million, which have been written down on an individual basis. Of the remainder, balances totaling €46 million were past due by up to one month, while balances totaling €21 million were past due by more than one month. In the event of installment payments, even if only one installment is overdue, the entire receivable balance is classified as overdue.

Trade receivables and other receivables amounting to €5,413 million at December 31, 2017 contained balances totaling €15 million, which have been written down on an individual basis. Of the remainder, balances totaling €271 million were past due by up to one month, while balances totaling €233 million were past due by more than one month.

For further information regarding the exposure to credit risk and ECLs of Trade receivables, other receivables and financial receivables at December 31, 2018, refer to Note 15, *Trade, other receivables and tax receivables*.

Even though our current securities and Cash and cash equivalents consist of balances spread across various primary national and international banking institutions and money market funds that are measured at fair value, there was no exposure to sovereign debt securities at December 31, 2018 which might lead to significant risk of repayment.

Liquidity risk

Liquidity risk is the risk the Group is unable to obtain the funds needed to carry out its operations and meet its obligations. Any actual or perceived limitations on the Group's liquidity may affect the ability of counterparties to do business with the Group or may require additional amounts of cash and cash equivalents to be allocated as collateral for outstanding obligations.

The continuation of challenging economic conditions in the markets in which the Group operates and the uncertainties that characterize the financial markets, necessitate special attention to the management of liquidity risk. In that sense, measures taken to generate funds through operations and to maintain a conservative level of available liquidity are important factors for ensuring operational flexibility and addressing strategic challenges over the next few years.

The main factors that determine the Group's liquidity situation are the funds generated by or used in operating and investing activities, the debt lending period and its renewal features or the liquidity of the funds employed and market terms and conditions.

The Group has adopted a series of policies and procedures whose purpose is to optimize the management of funds and to reduce liquidity risk as follows:

- centralizing the management of receipts and payments where it may be economical in the context of the local civil, currency and fiscal regulations of the countries in which the Group is present;
- maintaining a conservative level of available liquidity;
- diversifying the means by which funds are obtained and maintaining a continuous and active presence in the capital markets;
- obtaining adequate credit lines; and
- monitoring future liquidity on the basis of business planning.

The Group manages liquidity risk by monitoring cash flows and keeping an adequate level of funds at its disposal. The operating cash management and liquidity investment of the Group are centrally coordinated in the Group's treasury companies, with the objective of ensuring effective and efficient management of the Group's funds. These companies obtain funds in the financial markets from various funding sources.

Certain notes issued by FCA and its treasury subsidiaries include covenants which may be affected by circumstances related to certain subsidiaries; 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.

Details of the repayment structure of the Group's financial assets and liabilities are provided in Note 15, *Trade, other receivables and tax receivables*, Note 22, *Other liabilities and Tax payables* and in Note 21, *Debt*. Details of the repayment structure of derivative financial instruments are provided in Note 16, *Derivative financial assets and liabilities*.

The Group believes that the Group's total available liquidity, in addition to the funds that will be generated from operating and financing activities, will enable the Group to satisfy the requirements of its investing activities and working capital needs, fulfill its obligations to repay its debt at the natural due dates and ensure an appropriate level of operating and strategic flexibility.

Financial market risks

Due to the nature of our business, the Group is exposed to a variety of market risks, including foreign currency exchange rate risk, interest rate risk and commodity price risk.

The Group's exposure to foreign currency exchange rate risk arises both in connection with the geographical distribution of the Group's industrial activities compared to the markets in which it sells its products, and in relation to the use of external borrowing denominated in foreign currencies.

The Group's exposure to interest rate risk arises from the need to fund industrial and financial operating activities and the necessity to deploy surplus funds. Changes in market interest rates may have the effect of either increasing or decreasing the Group's Net profit, thereby indirectly affecting the costs and returns of financing and investing transactions.

The Group's exposure to commodity price risk arises from the risk of changes in the price of certain raw materials and energy used in production. Changes in the price of raw materials could have a significant effect on the Group's results by indirectly affecting costs and product margins.

These risks could significantly affect the Group's financial position and results and for this reason, these risks are systematically identified and monitored, in order to detect potential negative effects in advance and take the necessary actions to mitigate them, primarily through its operating and financing activities and if required, through the use of derivative financial instruments in accordance with its established risk management policies.

The Group's policy permits derivatives to be used only for managing the exposure to fluctuations in foreign currency exchange rates and interest rates as well as commodities prices connected with future cash flows and assets and liabilities, and not for speculative purposes.

The Group utilizes derivative financial instruments designated as fair value hedges mainly to hedge:

- the foreign currency exchange rate risk on financial instruments denominated in foreign currency; and
- the interest rate risk on fixed rate loans and borrowings.

The instruments used for these hedges are mainly foreign currency forward contracts, interest rate swaps and combined interest rate and foreign currency financial instruments.

The Group uses derivative financial instruments as cash flow hedges for the purpose of pre-determining:

- the exchange rate at which forecasted transactions denominated in foreign currencies will be accounted for;
- the interest paid on borrowings, both to match the fixed interest received on loans (customer financing activity), and to achieve a targeted mix of floating versus fixed rate funding structured loans; and
- the price of certain commodities.

The foreign currency exchange rate exposure on forecasted commercial flows is hedged by foreign currency swaps and forward contracts. Interest rate exposures are usually hedged by interest rate swaps and, in limited cases, by forward rate agreements. Exposure to changes in the price of commodities is generally hedged by using commodity swaps and commodity options. In addition, in order to manage the Group's foreign currency risk related to its investments in foreign operation, the Group enters into net investment hedges, in particular foreign currency swaps and forward contracts. Counterparties to these agreements are major financial institutions.

Information on the fair value of derivative financial instruments held at the balance sheet date is provided in Note 16, *Derivative financial assets and liabilities*.

Quantitative information on foreign currency exchange rate risk

The Group is exposed to risk resulting from changes in foreign currency exchange rates, which can affect its earnings and equity. In particular:

- where a Group company incurs costs in a currency different from that of its revenues, any change in exchange rates can affect the operating results of that company.
- the principal exchange rates to which the Group is exposed are:
 - EUR/U.S.\$, relating to sales and purchases in U.S.\$ made by Italian companies (primarily for Maserati and Alfa Romeo vehicles) and to sales and purchases in Euro made by FCA US;
 - U.S.\$/CAD, primarily relating to FCA Canada's sales of U.S. produced vehicles, net of FCA US sales of Canadian produced vehicles;
 - CNY, in relation to sales in China originating from FCA US and from Italian companies (primarily for Maserati and Alfa Romeo vehicles);
 - GBP, AUD, MXN, CHF, and ARS in relation to sales in the UK, Australian, Mexican, Swiss and Argentinian markets;
 - PLN and TRY, relating to manufacturing costs incurred in Poland and Turkey;
 - JPY mainly in relation to purchase of parts from Japanese suppliers and sales of vehicles in Japan; and
 - U.S.\$/BRL, EUR/BRL, relating to Brazilian manufacturing operations and the related import and export flows.

The Group's policy is to use derivative financial instruments to hedge a percentage of certain exposures subject to foreign currency exchange rate risk for the upcoming 12 months (including such risk before or beyond that date where it is deemed appropriate in relation to the characteristics of the business) and to hedge the exposure resulting from firm commitments unless not deemed appropriate.

Group companies may have trade receivables or payables denominated in a currency different from their respective functional currency. In addition, in a limited number of cases, it may be convenient from an economic point of view, or it may be required under local market conditions, for Group companies to obtain financing or use funds in a currency different from their respective functional currency. Changes in exchange rates may result in exchange gains or losses arising from these situations. The Group's policy is to hedge, whenever deemed appropriate, the exposure resulting from receivables, payables and securities denominated in foreign currencies different from the respective Group companies' functional currency.

Certain of the Group's companies are located in countries which are outside of the Eurozone, in particular the U.S., Brazil, Canada, Poland, Serbia, Turkey, Mexico, Argentina, the Czech Republic, India, China, Australia and South Africa. As the Group's reporting currency is the Euro, the income statements of those entities that have a reporting currency other than the Euro are translated into Euro using the average exchange rate for the period. In addition, the assets and liabilities of these consolidated companies are translated into Euro at the period-end foreign exchange rate. The effects of these changes in foreign exchange rates are recognized directly in the Cumulative translation adjustments reserve included in Other comprehensive income. Changes in exchange rates may lead to effects on the translated balances of revenues, costs and assets and liabilities reported in Euro, even when corresponding items are unchanged in the respective local currency of these companies.

The Group monitors its principal exposure to conversion exchange risk and, in certain circumstances, enters into derivatives for the purpose of hedging the specific risk.

There have been no substantial changes in 2018 in the nature or structure of exposure to foreign currency exchange rate risk or in the Group's hedging policies.

The potential loss in fair value of derivative financial instruments held for foreign currency exchange rate risk management (currency swaps/forwards) at December 31, 2018 resulting from a 10 percent change in the exchange rates would have been approximately €704 million (€1,010 million at December 31, 2017).

This analysis assumes that a hypothetical, unfavorable 10 percent change in exchange rates as at year-end is applied in the measurement of the fair value of derivative financial instruments. Receivables, payables and future trade flows whose hedging transactions have been analyzed were not included in this analysis. It is reasonable to assume that changes in market exchange rates will produce the opposite effect, of an equal or greater amount, on the underlying transactions that have been hedged.

Quantitative information on interest rate risk

The manufacturing companies and treasuries of the Group make use of external borrowings and invest in monetary and financial market instruments. In addition, Group companies sell receivables resulting from their trading activities on a continuing basis. Changes in market interest rates can affect the cost of the various forms of financing, including the sale of receivables, or the return on investments and the employment of funds, thus negatively impacting the net financial expenses incurred by the Group.

In addition, the financial services companies provide loans (mainly to customers and dealers), financing themselves using various forms of direct debt or asset-backed financing (e.g. factoring of receivables). Where the characteristics of the variability of the interest rate applied to loans granted differ from those of the variability of the cost of the financing obtained, changes in the current level of interest rates can affect the operating result of those companies and the Group as a whole.

In order to manage these risks, the Group uses interest rate derivative financial instruments, mainly interest rate swaps and forward rate agreements, when available in the market, with the objective of mitigating, under economically acceptable conditions, the potential variability of interest rates on the Group's Net profit.

In assessing the potential impact of changes in interest rates, the Group segregates fixed rate financial instruments (for which the impact is assessed in terms of fair value) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).

The fixed rate financial instruments used by the Group consist principally of part of the portfolio of the financial services companies (principally customer financing and financial leases) and part of debt (including subsidized loans and notes).

The potential loss in fair value of fixed rate financial instruments (including the effect of interest rate derivative financial instruments) held at December 31, 2018, resulting from a hypothetical 10 percent change in market interest rates, would have been approximately €83 million (approximately €71 million at December 31, 2017).

Floating rate financial instruments consist principally of cash and cash equivalents, loans provided by the financial services companies to the sales network and part of debt. The effect of the sale of receivables is also considered in the sensitivity analysis as well as the effect of hedging derivative instruments.

A hypothetical 10 percent change in short-term interest rates at December 31, 2018, applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivative financial instruments, would have resulted in increased net financial expenses before taxes, on an annual basis, of approximately €25 million (€27 million at December 31, 2017).

This analysis is based on the assumption that there is an unfavorable change of 10 percent proportionate to interest rate levels across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated. In addition, the sensitivity analysis applied to floating rate financial instruments assumes that cash and cash equivalents and other short-term financial assets and liabilities which expire during the projected 12-month period will be renewed or reinvested in similar instruments, bearing the hypothetical short-term interest rates.

Quantitative information on commodity price risk

The Group has entered into derivative contracts for certain commodities to hedge its exposure to commodity price risk associated with buying raw materials and energy used in its normal operations.

In connection with the commodity price derivative contracts outstanding at December 31, 2018, a hypothetical 10 percent change in the price of the commodities at that date would have caused a fair value loss of €91 million (€51 million at December 31, 2017). Future trade flows whose hedging transactions have been analyzed were not considered in this analysis. It is reasonable to assume that changes in commodity prices will produce the opposite effect, of an equal or greater amount, on the underlying transactions that have been hedged.

31. Subsequent events

The Group has evaluated subsequent events through February 22, 2019, which is the date the financial statements were authorized for issuance.

On February 14, 2019, FCA Italy and Groupe PSA announced a signed agreement to extend the Sevel cooperation agreement to 2023 and increase production capacity from 2019. The terms of the new agreement also include continued manufacture by Sevel of Fiat Ducato, Peugeot Boxer and Citroën Jumper large vans as well as additional versions to cover the needs of the Opel and Vauxhall brands.

FCA N.V. COMPANY FINANCIAL STATEMENTS

FIAT CHRYSLER AUTOMOBILES N.V.

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FIAT CHRYSLER AUTOMOBILES N.V.
INCOME STATEMENT
(in € million)

	Note	Years Ended December 31	
		2018	2017
Other operating income	2	33	61
Personnel costs	3	(12)	(12)
Other operating costs	4	(168)	(166)
Net financial expenses	5	(168)	(281)
Profit before taxes		(315)	(398)
Income tax benefit	6	14	12
Result from investments	1	3,624	3,667
Net profit from continuing operations		3,323	3,281
Profit from discontinued operations		285	210
Net profit		€ 3,608	€ 3,491

The accompanying notes are an integral part of the Company Financial Statements.

FIAT CHRYSLER AUTOMOBILES N.V.
STATEMENT OF FINANCIAL POSITION
(in € million - before appropriation of results)

	Note	At December 31	
		2018	2017
Assets			
Property, plant and equipment	7	€ 26	€ 27
Investments in Group companies and other equity investments	8	31,530	27,323
Other financial assets	9	3,380	3,228
Total Non-current assets		34,936	30,578
Current financial assets	10	3	239
Trade receivables	11	15	15
Other current receivables	12	205	329
Cash and cash equivalents	13	1	1
Total Current assets		224	584
Total Assets		€ 35,160	€ 31,162
Equity and Liabilities			
Equity			
	14		
Share capital		€ 19	€ 19
Capital reserves		5,920	5,817
Legal reserves		13,319	11,825
Retained profit/(loss)		1,836	(333)
Profit for the year		3,608	3,491
Total Equity		24,702	20,819
Liabilities			
Provisions for employee benefits and other provisions	15	8	39
Non-current debt	16	3,864	3,742
Other non-current liabilities	17	10	11
Total Non-current liabilities		3,882	3,792
Provisions for employee benefits and other current provisions	18	2	2
Trade payables	19	16	7
Current debt	20	6,320	6,142
Other debt	21	238	400
Total Current liabilities		6,576	6,551
Total Equity and liabilities		€ 35,160	€ 31,162

The accompanying notes are an integral part of the Company Financial Statements.

FIAT CHRYSLER AUTOMOBILES N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

PRINCIPAL ACTIVITIES

The FCA merger

On January 29, 2014, the Board of Directors of Fiat SpA (“Fiat”) approved a proposed corporate reorganization resulting in the formation of Fiat Chrysler Automobiles N.V. (“FCA” or the “Company”) as a fully integrated global automaker. The Board determined that a redomiciliation into the Netherlands with a listing on the NYSE and an additional listing on the Mercato Telematico Azionario (“MTA”) would be the structure most suitable to Fiat's profile and its strategic and financial objectives. FCA's principal executive offices were established in London, United Kingdom.

FCA was incorporated as a public limited liability company (*naamloze vennootschap*) under the laws of the Netherlands on April 1, 2014, under the name Fiat Investments N.V.. On June 15, 2014, the Board of Directors of Fiat approved the merger plan of Fiat into Fiat Investments N.V., and, at the extraordinary general meeting held on August 1, 2014, the shareholders of Fiat approved the merger that was completed and became effective on October 12, 2014. The merger, which took the form of a reverse merger, resulted in Fiat Investments N.V. being the surviving entity which was then renamed Fiat Chrysler Automobiles N.V.. On October 13, 2014, FCA common shares commenced trading on the NYSE and on the MTA.

Magneti Marelli Discontinued Operations

On April 5, 2018, the FCA Board of Directors announced that it had authorized FCA management to develop and implement a plan to separate the Magneti Marelli business from the Group.

On October, 22, 2018, FCA announced that it has entered into a definitive agreement to sell its Magneti Marelli business to CK Holdings, Ltd. Subject to regulatory approvals and other customary closing conditions, the transaction is expected to close in the second quarter of 2019. Refer to Note 3 - *Scope of consolidation* to the Consolidated Financial Statements included elsewhere in this document for additional information.

As a consequence of the agreement above, the results of Magneti Marelli have been excluded from continuing operations, and are shown as a single line item in the Profit from discontinued operations line item for the years ended December 31, 2018 and 2017.

ACCOUNTING POLICIES

Basis of preparation

The 2018 Company Financial Statements represent the separate financial statements of the parent company, Fiat Chrysler Automobiles N.V., and have been prepared in accordance with the legal requirements of Title 9, Book 2 of the Dutch Civil Code. Section 362 (8), Book 2, Dutch Civil Code, allows companies that apply IFRS as adopted by the European Union in their consolidated financial statements to use the same measurement principles in their company financial statements. The accounting policies are described in a specific section, *Significant accounting policies*, of the Consolidated Financial Statements included in this Annual Report. However, as allowed by the law, investments in subsidiaries, joint ventures and associates are accounted for using the net equity value in the Company Financial Statements.

Format of the financial statements

Given the activities carried out by FCA, presentation of the Company Income Statement is based on the nature of revenues and expenses. The Consolidated Income Statement for FCA is classified according to function (also referred to as the “cost of sales” method), which is considered more representative of the format used for internal reporting and management purposes and is in line with international practice in the industry.

FCA financial statements are prepared in Euros, also the Company's functional currency, representing the currency in which the main transactions of the Company are denominated.

The Statements of Income and of Financial Position and Notes to the Financial Statements are presented in millions of Euros, except where otherwise stated.

As parent company, FCA has also prepared consolidated financial statements for FCA Group for the year ended December 31, 2018.

New standards

The Company adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* from January 1, 2018.

The adoption of IFRS 15 did not affect the manner and timing of recognition of the Company's revenues, deriving only from service activities to subsidiaries that continue to be recognized when the services are transferred to customers and Company's performance obligations towards them are met.

IFRS 9 - *Financial Instruments* introduces new criteria for the classification and measurement of financial assets, for the impairment of financial assets and for hedge accounting. In accordance with the transitional provisions in IFRS 9, the Company did not restate prior periods. For hedge accounting, the Company applied the standard prospectively.

The main changes from the adoption of IFRS 9 are described below:

- According to IFRS 9 financial assets are measured at amortized cost, or at fair value through profit or loss or at fair value through the income statement according to their contractual characteristics and the business model used for their management. The classification and measurement of financial liabilities according to IFRS 9 is substantially unchanged compared to IAS 39. The application of the new classification measurement criteria of financial assets did not result in any reclassification for the Company as of January 1, 2018.
- The accounting for impairment of financial assets is based on an “expected credit loss” (ECL) impairment model, replacing the incurred loss method under IAS 39. Expected losses will be recorded on annual basis or taking into account the contractual duration of the financial activity. The application of these new rules did not have any significant effect on the Company's financial statements and on the date of first application of the standard.
- For financial guarantee contracts, IFRS 9 retains the same definition and initial recognition requirements as IAS 39 but introduces different subsequent measurement requirements. On subsequent measurement financial guarantees contracts are measured at the “higher of”:
 - The ECL allowance as defined above, and
 - The amount initially recognized (i.e. fair value) less any cumulative amount of income amortization recognized.

This new measurement criteria did not lead to any significant effect in the Company's financial statements.

Amounts due from Group companies

Amounts due from group companies are stated initially at fair value and subsequently at amortized cost. Amortized cost is determined using the effective interest rate method. The Company recognizes a credit loss for financial assets (such as a loan) based on an ECL which will occur in the next twelve months or, after a significant decrease in credit quality or when the simplified model can be used, based on the entire remaining loan term. Recognition of an ECL for intercompany receivables could result in differences between equity recognized in the consolidated and separate Company financial statements that would be reversed in profit and loss.

COMPOSITION AND PRINCIPAL CHANGES

1. Result from investments

The following table summarizes the Result from investments:

	Years Ended December 31	
	2018	2017
	(€ million)	
Share of the profit/(loss) of Group companies	€ 3,623	€ 3,617
Gains from disposal of investments	—	49
Dividends from other companies	1	1
Total Result from investments	€ 3,624	€ 3,667

Result from investments primarily related to the Company's share in the net profit or loss of subsidiaries and associates.

The share of the profit of Magneti Marelli was recognized within the line item Profit from discontinued operations within the Income Statement.

For the year ended December 31, 2017, gains from disposal of investments consisted of the gain realized on disposal of Italiana Editrice S.p.A., a subsidiary involved in the publishing business.

2. Other operating income

The following table summarizes Other operating income:

	Years Ended December 31	
	2018	2017
	(€ million)	
Revenues from services	€ 33	€ 31
Other revenues and income from third parties	—	30
Total Other operating income	€ 33	€ 61

Revenues from services consisted of services rendered to the principal subsidiaries of the Group, substantially in line with 2018.

Other revenues and income from third parties reflected the portion paid to FCA NV of the reimbursement from the final settlement of claims for the Tianjin (China) port explosions, which occurred in the third quarter of 2015 (refer to Note 28, *Segment reporting*, within the Consolidated Financial Statements).

3. Personnel costs

Personnel costs during the year ended December 31, 2018, of €12 million (€12 million in 2017) primarily related to wages and salaries. The average number of employees in 2018 was 46 (48 in 2017), based in the United Kingdom and Italy (all wholly outside the Netherlands).

4. Other operating costs

Other operating costs primarily includes costs for services rendered by Group companies (support and consulting in administration, IT systems, press activities, payroll, security and facility management), costs for legal, administrative, financial and IT services in addition to the compensation component from Share-based compensation plans representing the notional cost of the Long Term Incentive Plan awarded to the Chief Executive Officer and Executives (net of the portion already attributed to the relevant subsidiaries), which was recognized directly in the equity reserve, as reported in Note 18, *Share-based compensation*, within the Consolidated Financial Statements.

5. Net financial expenses

The following table summarizes Net financial expenses:

	Years Ended December 31	
	2018	2017
	(€ million)	
Financial income	€ 183	€ 194
Financial expense	(332)	(457)
Currency exchange gains/(losses)	35	(101)
Net (losses)/gains on derivative financial instruments	(54)	83
Total Net financial expenses	€ (168)	€ (281)

Financial income relates to interest on loans extended to Fiat Chrysler Automobiles North America Holdings LLC (“FCA NAH LLC”), as included within Other financial assets and Current financial assets. The decrease in financial income related primarily to foreign exchange differences following the revaluation of the 2018 average exchange rate of the Euro against the U.S.\$

Financial expense relates to interest payable on the intercompany debt included within Current debt, in addition to the interest on the unsecured senior debt securities of U.S. \$3.0 billion issued in April 2015 and €1.25 billion issued in March 2016. The decrease in financial expense related to both the lower average debt and the reduction in the interest rates during 2018 as compared to 2017.

Currency exchange gain of €35 million for the year ended December 31, 2018 reflected the net impact of revaluation of the U.S.\$ year end spot rate against the Euro on loans extended to FCA NAH LLC and the unsecured senior debt securities issued in April 2015, both denominated in U.S.\$, described above. These Net gains were partially offset by €54 million Net losses on derivative instruments entered into to hedge the foreign currency fluctuations.

6. Income tax benefit

In 2018 and 2017, income taxes were a benefit of €14 million and €12 million respectively, which are primarily related to compensation receivable for tax losses carried forward contributed to the Group's tax consolidation schemes in Italy and in the United Kingdom.

The Company reported losses for tax purposes as the result from investments is not considered for tax purposes.

7. Property, plant and equipment

At December 31, 2018, the carrying amount of property, plant and equipment was €26 million (€27 million at December 31, 2017), consisting of the gross carrying amount of assets of €71 million (€70 million at December 31, 2017) and accumulated depreciation of €45 million (€43 million at December 31, 2017), of which €24 million related to the Company's property in Turin (€25 million at December 31, 2017). No property was subject to liens, pledged as collateral or restricted in use.

Depreciation of property, plant and equipment is recognized in the Income statement within Other operating costs.

8. Investments in Group companies and other equity investments

The following table summarizes Investments in Group companies and other equity investments:

	At December 31		
	2018	2017	Change
	(€ million)		
Investments in Group companies	€ 31,512	€ 27,300	€ 4,212
Other equity investments	18	23	(5)
Total Investments in Group companies and other equity investments	€ 31,530	€ 27,323	€ 4,207

Investments in Group companies were subject to the following changes during 2018 and 2017:

	2018		2017	
	(€ million)			
Balance at beginning of year	€	27,300	€	25,087
Net acquisition/(disposal) of subsidiaries from/to Group companies		—		383
Net contributions made to subsidiaries		3,108		125
Dividends received from subsidiaries		(3,043)		(264)
Share of the profit of continuing operations		3,623		3,617
Share of the profit of discontinued operations		285		210
Cumulative translation adjustments and other OCI movements		140		(2,031)
Other		99		173
Balance at end of year	€	31,512	€	27,300

The increase in Investments in Group companies in 2018 primarily related to the Share of the profit of Group companies of €3,908 million (including discontinued operations) and net contributions made to subsidiaries of €3,108 million, primarily to FCA Italy S.p.A. for €2,711 million, partially offset by dividends received from FCA North America Holdings LLC and Fiat Chrysler UK LLP of €3,043 million.

The increase in Investments in Group companies in 2017 primarily related to the Share of the profit of Group companies of €3,827 million (including the discontinued operations), net acquisitions from Group companies of €383 million and net contributions made to subsidiaries of €125 million, partially offset by cumulative translation adjustments and other OCI movements of €2,031 million and dividends received from FCA North America Holdings LLC and Fiat Chrysler UK LLP of €264 million.

9. Other financial assets

At December 31, 2018, Other financial assets amounted to €3,380 million (€3,228 million at December 31, 2017), primarily represented by U.S. \$3.9 billion of intercompany loans extended to FCA NAH LLC.

The €152 million decrease in Other financial assets was fully attributable to foreign exchange differences due to the revaluation of the U.S.\$ year end spot rate against the Euro.

In January 2015, a loan of U.S. \$881.6 million, expiring December 2022, was extended to fund the acquisition of certain subsidiaries based in the U.S. The carrying amount of €770 million at December 31, 2018 (€735 million at December 31, 2017), related to the outstanding principal only, with no accrued interest receivable due.

In April 2015, a further U.S. \$2,970 million was extended in two loans of \$1,485 million, expiring in April 2020 and April 2023. The carrying amount of €2,594 million at December 31, 2018, related to the outstanding principal amount only, with no accrued interest receivable due (€2,476 million at December 31, 2017).

These loans were hedged into Euro by currency swaps with Fiat Chrysler Finance S.p.A. and Fiat Chrysler Finance

Europe S.A., resulting in €0.2 million of intercompany derivative liabilities at December 31, 2018 included within Other financial liabilities (€0.4 million at December 31, 2017).

10. Current financial assets

At December 31, 2018, Current financial assets amounted to €3 million primarily related to intercompany derivative assets with Fiat Chrysler Finance Europe S.A.

At December 31, 2017, Current financial assets were €239 million, primarily related to a short-term intercompany deposit of €201 million with Fiat Chrysler Finance Europe S.A.

11. Trade receivables

At December 31, 2018, trade receivables totaled €15 million, almost entirely related to Group companies.

The carrying amount of trade receivables is deemed to approximate their fair value. All trade receivables are due within one year and there are no overdue balances.

12. Other current receivables

At December 31, 2018, Other current receivables amounted to €205 million, a net decrease of €124 million as compared to December 31, 2017, and consisted of the following:

	At December 31		
	2018	2017	Change
	(€ million)		
Receivable from Group companies for consolidated Italian corporate tax	€ 69	€ 153	€ (84)
VAT receivables	87	134	(47)
Italian corporate tax receivables	17	19	(2)
Other	32	23	9
Total Other current receivables	€ 205	€ 329	€ (124)

Receivables from Group companies for consolidated Italian corporate tax relates to taxes calculated on the taxable income contributed by Italian subsidiaries participating in the domestic tax consolidation program.

VAT receivables relate primarily to VAT credits for Italian subsidiaries participating in the VAT tax consolidation.

Italian corporate tax receivables include credits transferred to FCA N.V. by Italian subsidiaries participating in the domestic tax consolidation program in 2018 and prior years.

13. Cash and cash equivalents

At December 31, 2018, Cash and cash equivalents totaled €1 million (€1 million as at December 31, 2017) and is primarily represented by amounts held in Euro. The carrying amount of Cash and cash equivalents is deemed to be in line with their fair value.

Credit risk associated with Cash and cash equivalents is considered limited as the counterparties are leading national and international banks.

14. Equity

Changes in Shareholders' equity during 2018 were as follows:

(€ million)	Share Capital	Capital Reserves	Legal Reserves: Cumulative translation adjustment reserve / OCI	Legal Reserves: Other	Retained profit/ (loss)	Profit/ (loss) for the year	Total equity
At December 31, 2016	€ 19	€ 5,766	€ 2,070	€ 10,866	€ (1,356)	€ 1,803	€ 19,168
Allocation of prior year result	—	—	—	—	1,803	(1,803)	—
Share-based compensation	—	115	—	—	—	—	115
Net profit for the year	—	—	—	—	—	3,491	3,491
Current period change in OCI, net of taxes	—	—	(1,839)	—	—	—	(1,839)
Legal Reserve	—	—	—	728	(728)	—	—
Other changes	—	(64)	—	—	(52)	—	(116)
At December 31, 2017	19	5,817	231	11,594	(333)	3,491	20,819
Allocation of prior year result	—	—	—	—	3,491	(3,491)	—
Share-based compensation	—	82	—	—	—	—	82
Net profit for the year	—	—	—	—	—	3,608	3,608
Current period change in OCI, net of taxes	—	—	257	—	—	—	257
Legal Reserve	—	—	—	1,237	(1,237)	—	—
Other changes	—	21	—	—	(85)	—	(64)
At December 31, 2018	€ 19	€ 5,920	€ 488	€ 12,831	€ 1,836	€ 3,608	€ 24,702

Shareholders' equity increased by €3,883 million in 2018, primarily due to profit for the year of €3,608 million, and movements in OCI of €257 million, relating primarily to the remeasurement of defined benefit plans.

Shareholders' equity increased by €1,651 million in 2017, primarily due to profit for the year of €3,491 million and movements in OCI of €1,839 million, relating to foreign exchange differences and the remeasurement of defined benefit plans.

Share capital

At December 31, 2018, the fully paid-up share capital of FCA amounted to €19 million (€19 million at December 31, 2017) and consisted of 1,550,617,563 common shares and 408,941,767 special voting shares, all with a par value of €0.01 each (1,540,089,690 common shares and 408,941,767 special voting shares at December 31, 2017).

Capital reserves

At December 31, 2018, capital reserves amounting to €5,920 million (€5,817 million at December 31, 2017) consisted mainly of the effects of the Merger, resulting in a different par value of FCA common shares (€0.01 each) as compared to Fiat S.p.A. ordinary shares (€3.58 each) where the consequent difference between the share capital before and after the Merger was recognized as an increase to the capital reserves. In addition, capital reserves include the impact of conversion in 2016 of the Mandatory Convertible Securities issued in 2014.

Legal reserves

Pursuant to Dutch law, limitations exist relating to the distribution of shareholders' equity up to at least the total amount of the legal reserve. By their nature, unrealized losses relating to OCI components reduce shareholders' equity and thereby distributable amounts.

At December 31, 2018, legal reserves amounted to €12,831 million (€11,594 million at December 31, 2017) and mainly related to development expenditures capitalized by subsidiaries of €10,405 million (€9,697 million at December 31, 2017), the earnings of subsidiaries subject to certain restrictions to distributions to the parent company of €2,422 million (€1,893 million at December 31, 2017), and the reserve in respect of special voting shares of €4 million (€4 million at December 31, 2017). Legal reserves also include unrealized foreign currency translation gains and losses and net gains from cash flow hedges of €1,056 million. Other OCI components primarily include unrealized losses of €567 million related to defined benefit plans.

Dividends

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.

15. Provisions for employee benefits and other provisions

At December 31, 2018, provisions for employee benefits and other provisions totaled €8 million, (€39 million at December 31, 2017) with the decrease primarily attributable to benefits related to the former CEO reclassified to other payables.

At December 31, 2017, provisions consisted primarily of unfunded post-employment benefits accruing to employees, former employees and Directors under supplemental company or individual agreements.

16. Non-current debt

At December 31, 2018, non-current debt totaled €3,864 million, representing an increase of €122 million from December 31, 2017, and consisted of the following:

	At December 31		
	2018	2017	Change
	(€ million)		
Third-party debt:			
- Unsecured senior debt securities	€ 3,848	€ 3,726	€ 122
Total third-party debt	€ 3,848	€ 3,726	€ 122
Intercompany debt:			
- Intercompany financial payables	€ 16	€ 16	€ —
Total intercompany debt	€ 16	€ 16	€ —
Total Non-current debt	€ 3,864	€ 3,742	€ 122

At December 31, 2018, Non-current debt of €3,864 million (€3,742 million at December 31, 2017), primarily related to the €1,250 million note issued in March 2016 and the U.S. \$3.0 billion unsecured senior debt notes issued in April 2015. The increase of €122 million as compared to December 31, 2017 was almost fully attributable to foreign exchange differences following the revaluation U.S. Dollar year end spot rate against the Euro.

As described in more detail in Note 21 - *Debt*, to the Consolidated Financial Statements, FCA issued a 3.75 percent note at par in March 2016 with a principal value of €1,250 million due March 2024, under the Global Medium Term Note (“GMTN”) Programme.

In April 2015, FCA issued €1.4 billion (U.S.\$1.5 billion) principal amount of 4.5 percent unsecured senior debt securities due April 15, 2020 (the “2020 Notes”) and €1.4 billion (U.S.\$1.5 billion) principal amount of 5.25 percent unsecured senior debt securities due April 15, 2023 (the “2023 Notes”) at par. The 2020 Notes and the 2023 Notes, collectively referred to as “the Notes”, rank *pari passu* in right of payment with respect to all of FCA's existing and future senior unsecured indebtedness and senior in right of payment to any of FCA's future subordinated indebtedness and existing indebtedness, which is by its terms subordinated in right of payment to the Notes. Interest on the 2020 Notes and the 2023 Notes is payable semi-annually in April and October.

17. Other non-current liabilities

At December 31, 2018, other non-current liabilities totaled €10 million:

	At December 31		
	2018	2017	Change
	(€ million)		
Other non-current liabilities	€ 10	€ 11	€ (1)
Total Other non-current liabilities	€ 10	€ 11	€ (1)

Other non-current liabilities relate to non-current post-employment benefits, being the present value of future benefits payable to a former CEO and management personnel that have left the Company.

18. Provisions for employee benefits and other current provisions

Employee benefit provisions primarily reflect the best estimate for variable components of compensation:

	At December 31		
	2018	2017	Change
	(€ million)		
Provisions for employee benefits and other current provisions	€ 2	€ 2	€ —
Total Provisions for employee benefits and other current provisions	€ 2	€ 2	€ —

19. Trade payables

At December 31, 2018, trade payables totaled €16 million, a increase of €9 million from December 31, 2017, and consisted of the following:

	At December 31		
	2018	2017	Change
	(€ million)		
Trade payables due to third parties	€ 11	€ 3	€ 8
Intercompany trade payables	5	4	1
Total trade payables	€ 16	€ 7	€ 9

Trade payables are due within one year and their carrying amount at the reporting date is deemed to approximate their fair value.

20. Current debt

At December 31, 2018, current debt totaled €6,320 million, a €178 million increase over December 31, 2017 and related to the following:

	At December 31		
	2018	2017	Change
	(€ million)		
Intercompany debt:			
- Current account with Fiat Chrysler Finance S.p.A.	€ 134	€ 99	€ 35
- Current account with Fiat Chrysler Finance Europe S.A.	6,121	5,981	140
Total intercompany debt	€ 6,255	€ 6,080	€ 175
Third party debt:			
- Accrued interest payable	65	62	3
Total third party debt	€ 65	€ 62	€ 3
Total current debt	€ 6,320	€ 6,142	€ 178

Current intercompany debt of €6,255 million (€6,080 million at December 31, 2017) is denominated in Euro and the carrying amount approximates fair value.

Current account with Fiat Chrysler Finance Europe S.A. represents the overdraft as part of the Group's centralized treasury management.

Accrued interest payable of €65 million (€62 million at December 31, 2017) relates to the unsecured senior debt securities referred to in Note 16, *Non-current debt*.

21. Other debt

At December 31, 2018, Other debt totaled €238 million, a net decrease of €162 million over December 31, 2017, and included the following:

	At December 31		
	2018	2017	Change
	(€ million)		
Intercompany other debt:			
- Consolidated Italian corporate tax	€ 65	€ 149	€ (84)
- Consolidated VAT	130	239	(109)
- Other	3	2	1
Total intercompany other debt	€ 198	€ 390	€ (192)
Other debt and taxes payable:			
- Taxes payable	2	1	1
- Accrued expenses	3	4	(1)
- Other payables	35	5	30
Total Other debt and taxes payable	€ 40	€ 10	€ 30
Total Other debt	€ 238	€ 400	€ (162)

At December 31, 2018, intercompany debt relating to consolidated VAT of €130 million (€239 million at December 31, 2017) consisted of VAT credits of Italian subsidiaries transferred to FCA as part of the consolidated VAT regime.

Intercompany debt relating to consolidated Italian corporate tax of €65 million (€149 million at December 31, 2017) consisted of compensation payable for tax losses and Italian corporate tax credits contributed by Italian subsidiaries participating in the domestic tax consolidation program for 2018, for which the Italian branch of FCA N.V. is the consolidating entity.

Other debt and taxes payable are all due within one year and their carrying amount is deemed to approximate their fair value.

22. Guarantees granted, commitments and contingent liabilities

Guarantees granted

At December 31, 2018, guarantees issued totaled €6,679 million (€9,318 million at December 31, 2017) wholly provided on behalf of Group companies. The decrease of €2,639 million as compared to 31 December 2017 related principally to the repayment of bonds from Fiat Chrysler Finance Europe S.A.

The main guarantees outstanding at 31 December 2018 were as follows:

- €3,914 million for bonds issued;
- €1,125 million for borrowings, of which €413 million in favor of the subsidiaries in Brazil mainly related to the construction of the new plant in Pernambuco and the remaining primarily to Fiat Chrysler Finance S.p.A; and
- €1,639 million for VAT reimbursements related to the VAT consolidation scheme in Italy.

In addition, in 2005, in relation to the advance received by FCA Partecipazioni S.p.A. on the consideration for the sale of the aviation business, FCA as the successor of Fiat S.p.A. is jointly and severally liable with the fully owned subsidiary FCA Partecipazioni S.p.A. to the purchaser, Avio Holding S.p.A., should FCA Partecipazioni S.p.A. fail to honor (following either an arbitration award or an out-of-court settlement) undertakings provided in relation to the sale and purchase agreement signed in 2003.

Other commitments, contractual rights and contingent liabilities

FCA has important commitments and rights derived from outstanding agreements in addition to contingent liabilities as described in the notes to the Consolidated Financial Statements at December 31, 2018, to which reference should be made.

23. Audit fees

The following table reports fees paid to the independent auditor Ernst & Young Accountants LLP, or entities in their network, for audit and other services:

(€ thousand)	Years Ended December 31	
	2018	2017
Audit fees	€ 18,607	€ 18,601
Audit-related fees	50	398
Tax fees	346	100
Total	€ 19,003	€ 19,099

Audit fees of Ernst & Young Accountants LLP amounted €260 thousand. No other services were performed by Ernst and Young Accountants LLP.

24. Board remuneration

Detailed information on Board of Directors compensation (including their shares and share awards) is included in the *REMUNERATION REPORT* section of this report.

25. Subsequent events

The Group has evaluated subsequent events through February 22, 2019, which is the date the financial statements were authorized for issuance, as described in Note 31, *Subsequent Events*, within the Consolidated Financial Statements.

February 22, 2019

The Board of Directors

John Elkann

Michael Manley

John Abbott

Andrea Agnelli

Tiberto Brandolini d'Adda

Glenn Earle

Valerie A. Mars

Ruth J. Simmons

Ronald L. Thompson

Michelangelo A. Volpi

Patience Wheatcroft

Ermenegildo Zegna

OTHER INFORMATION

ADDITIONAL INFORMATION FOR NETHERLANDS CORPORATE GOVERNANCE

Independent Auditor's Report

The report of the Company's independent auditor, Ernst & Young Accountants LLP, the Netherlands, is set forth following this Annual Report.

Dividends

Dividends will be determined in accordance with the article 23 of the Articles of Association of Fiat Chrysler Automobiles N.V. The relevant provisions of the Articles of Association read as follows:

1. The Company shall maintain a special capital reserve to be credited against the share premium exclusively for the purpose of facilitating any issuance or cancellation of special voting shares. The special voting shares shall not carry any entitlement to the balance of the special capital reserve. The Board of Directors shall be authorized to resolve upon (i) any distribution out of the special capital reserve to pay up special voting shares or (ii) re-allocation of amounts to credit or debit the special capital reserve against or in favor of the share premium reserve.
2. The Company shall maintain a separate dividend reserve for the special voting shares. The special voting shares shall not carry any entitlement to any other reserve of the Company. Any distribution out of the special voting rights dividend reserve or the partial or full release of such reserve will require a prior proposal from the Board of Directors and a subsequent resolution of the meeting of holders of special voting shares.
3. From the profits shown in the annual accounts, as adopted, such amounts shall be reserved as the Board of Directors may determine.
4. The profits remaining thereafter shall first be applied to allocate and add to the special voting shares dividend reserve an amount equal to one percent (1%) of the aggregate nominal value of all outstanding special voting shares. The calculation of the amount to be allocated and added to the special voting shares dividend reserve shall occur on a time-proportionate basis. If special voting shares are issued during the financial year to which the allocation and addition pertains, then the amount to be allocated and added to the special voting shares dividend reserve in respect of these newly issued special voting shares shall be calculated as from the date on which such special voting shares were issued until the last day of the financial year concerned. The special voting shares shall not carry any other entitlement to the profits.
5. Any profits remaining thereafter shall be at the disposal of the general meeting of Shareholders for distribution of profits on the common shares only, subject to the provision of paragraph 8 of this article.
6. Subject to a prior proposal of the Board of Directors, the general meeting of Shareholders may declare and pay distribution of profits and other distributions in United States Dollars. Furthermore, subject to the approval of the general meeting of Shareholders and the Board of Directors having been designated as the body competent to pass a resolution for the issuance of shares in accordance with Article 6, the Board of Directors may decide that a distribution shall be made in the form of shares or that Shareholders shall be given the option to receive a distribution either in cash or in the form of shares.
7. The Company shall only have power to make distributions to Shareholders and other persons entitled to distributable profits to the extent the Company's equity exceeds the sum of the paid in and called up part of the share capital and the reserves that must be maintained pursuant to Dutch law and the Company's Articles of Association. No distribution of profits or other distributions may be made to the Company itself for shares that the Company holds in its own share capital.
8. The distribution of profits shall be made after the adoption of the annual accounts, from which it appears that the same is permitted.

9. The Board of Directors shall have power to declare one or more interim distributions of profits, provided that the requirements of paragraph 7 hereof are duly observed as evidenced by an interim statement of assets and liabilities as referred to in Section 2:105 paragraph 4 of the Dutch Civil Code and provided further that the policy of the Company on additions to reserves and distributions of profits is duly observed. The provisions of paragraphs 2 and 3 hereof shall apply *mutatis mutandis*.
10. The Board of Directors may determine that distributions are made from the Company's share premium reserve or from any other reserve provided that payments from reserves may only be made to the Shareholders that are entitled to the relevant reserve upon the dissolution of the Company.
11. Distributions of profits and other distributions shall be made payable in the manner and at such date(s) - within four weeks after declaration thereof - and notice thereof shall be given as the general meeting of Shareholders, or the Board of Directors in the case of interim distributions of profits, shall determine.
12. Distributions of profits and other distributions, which have not been collected within five years and one day after the same have become payable, shall become the property of the Company.

Disclosures pursuant to Decree Article 10 EU-Directive on Takeovers

In accordance with the Dutch *Besluit artikel 10 overnamerichtlijn* (the *Decree*), the Company makes the following disclosures:

- a. For information on the capital structure of the Company, the composition of the issued share capital and the existence of the two classes of shares, please refer to Note 14, *Equity* to the Company Financial Statements in this Annual Report. For information on the rights attached to the common shares, please refer to the Articles of Association which can be found on the Company's website. To summarize, the rights attached to common shares comprise pre-emptive rights upon issue of common shares, the entitlement to attend the general meeting of Shareholders and to speak and vote at that meeting and the entitlement to distributions of such amount of the Company's profit as remains after allocation to reserves. For information on the rights attached to the special voting shares, please refer to the Articles of Association and the Terms and Conditions for the Special Voting Shares which can both be found on the Company's website and more in particular to the paragraph "Loyalty Voting Structure" of this Annual Report in the chapter "Corporate Governance". As at December 31, 2018, the issued share capital of the Company consisted of 1,550,617,563 common shares, representing 79 percent of the aggregate issued share capital, and 408,941,767 special voting shares, representing 21 percent of the aggregate issued share capital.
- b. The Company has imposed no limitations on the transfer of common shares. The Articles of Association provide in Article 13 for transfer restrictions for special voting shares.
- c. For information on participations in the Company's capital in respect of which pursuant to Sections 5:34, 5:35 and 5:43 of the Dutch Financial Supervision Acts (*Wet op het financieel toezicht*) notification requirements apply, please refer to the section "*Major Shareholders*" of this Annual Report. There you will find a list of Shareholders who are known to the Company to have holdings of 3 percent or more at the stated date.
- d. No special control rights or other rights accrue to shares in the capital of the Company.
- e. The Company does not operate an employee share participation scheme as mentioned in article 1 sub 1(e) of the Decree.
- f. No restrictions apply to voting rights attached to shares in the capital of the Company, nor are there any deadlines for exercising voting rights. The Articles of Association allow the Company to cooperate in the issuance of registered depository receipts for common shares, but only pursuant to a resolution to that effect of the Board of Directors. The Company is not aware of any depository receipts having been issued for shares in its capital.
- g. The Company is not aware of the existence of any agreements with Shareholders which may result in restrictions on the transfer of shares or limitation of voting rights.

- h. The rules governing the appointment and dismissal of members of the Board of Directors are stated in the Articles of Association of the Company. All members of the Board of Directors are appointed by the general meeting of Shareholders. The term of office of all members of the Board of Directors is for a period of approximately one year after appointment, with such a period expiring on the day the first Annual General Meeting of Shareholders is held in the following calendar year. The general meeting of Shareholders has the power to suspend or dismiss any member of the Board of Directors at any time. The rules governing an amendment of the Articles of Association are stated in the Articles of Association and require a resolution of the general meeting of Shareholders which can only be passed pursuant to a prior proposal of the Board of Directors.
- i. The general powers of the Board of Directors are stated in the Articles of Association of the Company. For a period of five years from October 12, 2014, the Board of Directors has been irrevocably authorized to issue shares and rights to subscribe for shares up to the maximum aggregate amount of shares as provided for in the Company's authorized share capital as set out in Article 4.1 of the Articles of Association, as amended from time to time. The Board of Directors has also been designated for the same period as the authorized body to limit or exclude the rights of pre-emption of shareholders in connection with the authority of the Board of Directors to issue common shares and grant rights to subscribe for common shares as referred to above. In the event of an issuance of special voting shares, shareholders have no right of pre-emptions. The Company has the authority to acquire fully paid-up shares in its own share capital, provided that such acquisition is made for no consideration. Further rules governing the acquisition of shares by the Company in its own share capital are set out in article 8 of the Articles of Association.
- j. The Company is not a party to any significant agreements which will take effect, be altered or terminated upon a change of control of the Company as a result of a public offer within the meaning of Section 5:70 of the Dutch Financial Supervision Acts (*Wet op het financieel toezicht*), provided that some of the loan agreements guaranteed by the Company and certain bonds guaranteed by the Company contain clauses that, as it is customary for such financial transactions, may require early repayment or termination in the event of a change of control of the guarantor or the borrower. In certain cases, that requirement may only be triggered if the change of control event coincides with other conditions, such as a rating downgrade.
- k. Under the terms of the Company's Equity Incentive Plan (EIP) and employment agreements entered into with certain executive officers, executives may be entitled to receive severance payments of up to two times annual cash compensation and accelerated vesting of awards under the EIP if, within twenty-four (24) months of a Change of Control (as defined therein), the executive's employment is involuntarily terminated by the Company (other than for Cause -as defined therein-) or is terminated by the participant for Good Reason (as defined therein).

ADDITIONAL INFORMATION FOR U.S. LISTING PURPOSES

Contractual Obligations

The following table summarizes payments due under our significant contractual commitments as of December 31, 2018:

(€ million)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt ⁽¹⁾	€ 11,331	€ 2,860	€ 3,412	€ 3,601	€ 1,458
Capital lease obligations ⁽²⁾	266	58	90	44	74
Interest on other liabilities ⁽³⁾	1,695	594	699	340	62
Operating lease obligations ⁽⁴⁾	1,027	325	331	172	199
Unconditional minimum purchase obligations ⁽⁵⁾	1,951	804	857	248	42
Purchase obligations ⁽⁶⁾	1,950	1,583	367	—	—
Pension contribution requirements ⁽⁷⁾	70	70	—	—	—
Total	€ 18,290	€ 6,294	€ 5,756	€ 4,405	€ 1,835

(1) Amounts presented relate to the principal amounts of long-term debt and exclude the related interest expense that will be paid when due, fair value adjustments, discounts, premiums and loan origination fees. For additional information see Note 21, Debt, within the Consolidated Financial Statements included elsewhere in this report.

(2) Capital lease obligations consist mainly of industrial buildings and plant, machinery and equipment used in our business. The amounts reported include the minimum future lease payments and payment commitments due under such leases. See Note 21, Debt, within the Consolidated Financial Statements included elsewhere in this report.

(3) Amounts include interest payments based on contractual terms and current interest rates on our debt and capital lease obligations. Interest rates based on variable rates included above were determined using the current interest rates in effect at December 31, 2018.

(4) Operating lease obligations mainly relate to leases for commercial and industrial properties used in our business. The amounts reported above include the minimum rental and payment commitments due under such leases.

(5) Unconditional minimum purchase obligations relate to our unconditional purchase obligations to purchase a fixed or minimum quantity of goods and/or services from suppliers with fixed and determinable price provisions. From time to time, in the ordinary course of our business, we enter into various arrangements with key suppliers in order to establish strategic and technological advantages.

(6) Purchase obligations are comprised of (i) the repurchase price guaranteed to certain customers on sales with a buy-back commitment in an aggregate amount of €1,336 million, (ii) commitments to purchase tangible fixed assets, mainly in connection with planned capital expenditure of various group companies, in an aggregate amount of approximately €539 million, and (iii) commitments to purchase intangible assets relating to regulatory emissions credits for an aggregate amount of approximately €75 million.

(7) Pension contribution requirements are based on the estimate of our minimum funding requirements under our funded pension plans. We may elect to make contributions in excess of the minimum funding requirements. The Group contributions to pension plans for 2019 are expected to be €508 million, of which €479 million relate to the U.S. and Canada, with €438 million being discretionary contributions and €41 million will be made to satisfy minimum funding requirements. Our minimum funding requirements after 2019 will depend on several factors, including investment performance and interest rates. Therefore, the above excludes payments beyond 2019, since we cannot predict with reasonable reliability the timing and amounts of future minimum funding requirements. Refer to Note 19, Employee benefits liabilities, within the Consolidated Financial Statements included elsewhere in this report for expected benefit payments for the Group's pension plans and for the Group's unfunded health care and life insurance plans.

Product warranties, recall campaigns and product liabilities

The contractual obligations set forth above do not include payments for product warranty and recall campaign costs. We issue various types of product warranties under which we generally guarantee the performance of products delivered for a certain period of time. The estimated future costs of product warranties are principally based on assumptions regarding the lifetime warranty costs of each vehicle line and each model year of that vehicle line, as well as historical claims experience for the Group's vehicles. We also periodically initiate voluntary service and recall actions to address various customer satisfaction, safety and emissions issues related to the vehicles that we sell. In NAFTA, we accrue estimated costs for recalls at the time of sale, which are based on historical claims experience as well as an additional actuarial analysis that gives greater weight to the more recent calendar year trends in recall campaign activity. In other regions and sectors, however, there generally is not sufficient historical data to support the application of an actuarial-based estimation technique. As a result, estimated recall costs for the other regions and sectors are accrued at the time when they are probable and reasonably estimable, which typically occurs once it is determined a specific recall campaign is approved and is announced. Estimates of the future costs of all these actions are inevitably imprecise due to numerous uncertainties, including the enactment of new laws and regulations, the number of vehicles affected by a service or recall action and the nature of the corrective action. It is reasonably possible that the ultimate costs of these services and recall actions may require us to make expenditures in excess of established reserves over an extended period of time and in a range of amounts that cannot be reasonably estimated. At December 31, 2018, our product warranty and recall campaigns provision was €6,760 million.

Significant Vehicle Assembly Plants

The following table provides information about our significant vehicle assembly plants as of December 31, 2018, excluding joint ventures, of which the largest by region are Belvidere (U.S.), Betim (Brazil) and Cassino (Italy).

Each of the assembly plants listed below have a covered area of more than 100,000 square meters:

Country	Location
NAFTA	
<i>U.S.</i>	Belvidere, Illinois
<i>U.S.</i>	Jefferson North, Michigan
<i>U.S.</i>	Sterling Heights, Michigan
<i>U.S.</i>	Toledo North, Ohio
<i>U.S.</i>	Toledo Supplier Park, Ohio
<i>U.S.</i>	Warren Truck, Michigan
<i>Mexico</i>	Toluca, Estado de México
<i>Mexico</i>	Saltillo, Coahuila
<i>Canada</i>	Brampton, Ontario
<i>Canada</i>	Windsor, Ontario
LATAM	
<i>Brazil</i>	Betim, Minas Gerais
<i>Brazil</i>	Goiana, Pernambuco
<i>Argentina</i>	Cordoba
EMEA	
<i>Italy</i>	Cassino
<i>Italy</i>	Melfi
<i>Italy</i>	Pomigliano
<i>Italy</i>	Turin (Mirafiori)
<i>Poland</i>	Tychy
<i>Serbia</i>	Kragujevac

We have three vehicle assembly plants for Maserati in Italy (including two plants owned by FCA Italy), thirteen plants for Comau and five for Teksid.

Our Share Information

On October 13, 2014, our common shares began trading on the NYSE under the symbol “FCAU” and on the MTA under the symbol “FCA”. Prior to October 13, 2014, our ordinary shares were listed and traded on the MTA under the symbol “Fiat”.

Dividend Policy

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.

For additional information on distribution of profits, refer to *ADDITIONAL INFORMATION FOR NETHERLANDS CORPORATE GOVERNANCE - Dividends* above.

Principal Accountant Fees and Services

EY S.p.A., the member firms of Ernst & Young and their respective affiliates (collectively, the “Ernst & Young Entities”) were appointed to serve as our independent registered public accounting firm for the years ended December 31, 2018 and 2017. We incurred the following fees from the Ernst & Young Entities for professional services for the years ended December 31, 2018 and 2017, respectively:

(€ thousands)	Years Ended December 31	
	2018	2017
Audit fees	€ 18,607	€ 18,601
Audit-related fees	50	398
Tax fees	346	100
Total	€ 19,003	€ 19,099

“Audit fees” are the aggregate fees billed by the Ernst & Young Entities for the audit of our consolidated annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements. “Audit-related fees” are fees charged by the Ernst & Young Entities for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit fees”. This category comprises fees for the audit of employee benefit plans and pension plans, agreed-upon procedure engagements and other attestation services subject to regulatory requirements.

Audit Committee’s pre-approval policies and procedures

Our Audit Committee nominates and engages our independent registered public accounting firm to audit our consolidated financial statements. Our Audit Committee has a policy requiring management to obtain the Audit Committee’s approval before engaging our independent registered public accounting firm to provide any other audit or permitted non-audit services to us or our subsidiaries. Pursuant to this policy, which is designed to ensure that such engagements do not impair the independence of our independent registered public accounting firm, the Audit Committee reviews and pre-approves (if appropriate) specific audit and non-audit services in the categories Audit Services, Audit-Related Services, Tax Services, and any other services that may be performed by our independent registered public accounting firm.

Taxation

Material U.S. Federal Income Tax Consequences

This section describes the material U.S. federal income tax consequences of owning FCA stock. It applies solely to persons that hold shares as capital assets for U.S. federal income tax purposes. This section does not apply to members of a special class of holders subject to special rules, including:

- a dealer in securities or foreign currencies;
- a regulated investment company;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a tax-exempt organization;
- a bank, financial institution, or insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10 percent or more, by vote or value, of FCA;
- a person that holds shares as part of a straddle or a hedging, conversion, or other risk reduction transaction for U.S. federal income tax purposes;

- a person that acquired shares pursuant to the exercise of employee stock options or otherwise as compensation; or
- a person whose functional currency is not the U.S. Dollar.

This section is based on the Internal Revenue Code of 1986, as amended, the Code, its legislative history, existing and proposed regulations, published rulings and court decisions, as well as on applicable tax treaties, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in an entity treated as a partnership for U.S. federal income tax purposes holding shares should consult its tax advisors with regard to the U.S. federal income tax treatment of the ownership of FCA stock.

No statutory, judicial or administrative authority directly discusses how the ownership of FCA stock should be treated for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of the ownership of FCA stock are uncertain. Shareholders should consult their own tax advisors regarding the U.S. federal, state and local and foreign and other tax consequences of owning and disposing of FCA stock in their particular circumstances.

For the purposes of this discussion, a “U.S. Shareholder” is a beneficial owner of shares that is:

- an individual that is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized under the laws of the United States;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust if a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust.

Tax Consequences of Owning FCA Stock

Taxation of Dividends

Under the U.S. federal income tax laws, and subject to the discussion of PFIC taxation below, a U.S. Shareholder must include in its gross income the gross amount of any dividend paid by FCA to the extent of its current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Dividends will be taxed as ordinary income to the extent that they are paid out of FCA’s current or accumulated earnings and profits. Dividends paid to a non-corporate U.S. Shareholder by certain “qualified foreign corporations” that constitute qualified dividend income are taxable to the shareholder at the preferential rates applicable to long-term capital gains provided that the shareholder holds the shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meets other holding period requirements. For this purpose, stock of FCA is treated as stock of a qualified foreign corporation if FCA is eligible for the benefits of an applicable comprehensive income tax treaty with the United States or if such stock is listed on an established securities market in the United States. The common shares of FCA are listed on the NYSE and FCA expects to be eligible for the benefits of such a treaty. Accordingly, subject to the discussion of PFIC taxation below, dividends FCA pays with respect to the shares will constitute qualified dividend income, assuming the holding period requirements are met.

A U.S. Shareholder must include any foreign tax withheld from the dividend payment in this gross amount even though the shareholder does not in fact receive the amount withheld. The dividend is taxable to a U.S. Shareholder when the U.S. Shareholder receives the dividend, actually or constructively.

The dividend will not be eligible for the dividends-received deduction allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the U.S. Shareholder’s basis in the shares of FCA stock, causing a reduction in the U.S. Shareholder’s adjusted basis in FCA stock, and thereafter as capital gain.

Subject to certain limitations, any non-U.S. tax withheld and paid over to a non-U.S. taxing authority is eligible for credit against a U.S. Shareholder's U.S. federal income tax liability except to the extent a refund of the tax withheld is available to the U.S. Shareholder under non-U.S. tax law or under an applicable tax treaty. The amount allowed to a U.S. Shareholder as a credit is limited to the amount of the U.S. Shareholder's U.S. federal income tax liability that is attributable to income from sources outside the U.S. and is computed separately with respect to different types of income that the U.S. Shareholder receives from non-U.S. sources. Subject to the discussion below regarding Section 904(h) of the Code, dividends paid by FCA will be foreign source income and depending on the circumstances of the U.S. Shareholder, will be either "passive" or "general" income for purposes of computing the foreign tax credit allowable to a U.S. Shareholder.

Under Section 904(h) of the Code, dividends paid by a foreign corporation that is treated as 50 percent or more owned, by vote or value, by U.S. persons may be treated as U.S. source income (rather than foreign source income) for foreign tax credit purposes, to the extent the foreign corporation earns U.S. source income. In certain circumstances, U.S. Shareholders may be able to choose the benefits of Section 904(h)(10) of the Code and elect to treat dividends that would otherwise be U.S. source dividends as foreign source dividends, but in such a case the foreign tax credit limitations would be separately determined with respect to such "resourced" income. In general, therefore, the application of Section 904(h) of the Code may adversely affect a U.S. Shareholder's ability to use foreign tax credits. FCA does not believe that it is 50 percent or more owned by U.S. persons, but this conclusion is a factual determination and is subject to change; no assurance can therefore be given that FCA may not be treated as 50 percent or more owned by U.S. persons for purposes of Section 904(h) of the Code. U.S. Shareholders are strongly urged to consult their own tax advisors regarding the possible impact if Section 904(h) of the Code should apply.

Taxation of Capital Gains

Subject to the discussion of PFIC taxation below, a U.S. Shareholder that sells or otherwise disposes of its FCA common shares will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the U.S. Dollar value of the amount that the U.S. Shareholder realizes and the U.S. Shareholder's tax basis in those shares. Capital gain of a noncorporate U.S. Shareholder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will be U.S. source income or loss for foreign tax credit limitation purposes. The deduction of capital losses is subject to limitations.

Loyalty Voting Structure

NO STATUTORY, JUDICIAL OR ADMINISTRATIVE AUTHORITY DIRECTLY DISCUSSES HOW THE RECEIPT, OWNERSHIP OR DISPOSITION OF SPECIAL VOTING SHARES SHOULD BE TREATED FOR U.S. FEDERAL INCOME TAX PURPOSES AND AS A RESULT, THE U.S. FEDERAL INCOME TAX CONSEQUENCES ARE UNCERTAIN. ACCORDINGLY, WE URGE U.S. SHAREHOLDERS TO CONSULT THEIR TAX ADVISOR AS TO THE TAX CONSEQUENCES OF THE RECEIPT, OWNERSHIP AND DISPOSITION OF SPECIAL VOTING SHARES.

If a U.S. Shareholder receives special voting shares after requesting all or some of the number of its FCA common shares be registered on the Loyalty Register, the tax consequences of the receipt of special voting shares is unclear. While distributions of stock are tax-free in certain circumstances, the distribution of special voting shares would be taxable if it were considered to result in a "disproportionate distribution." A disproportionate distribution is a distribution or series of distributions, including deemed distributions, that have the effect of the receipt of cash or other property by some shareholders of FCA and an increase in the proportionate interest of other shareholders of FCA in FCA's assets or earnings and profits. It is possible that the distribution of special voting shares to a U.S. Shareholder that has requested all or some of the number of its FCA common shares be registered on the Loyalty Register and a distribution of cash in respect of FCA common shares could be considered together to constitute a "disproportionate distribution." Unless FCA has not paid cash dividends in the 36 months prior to a U.S. Shareholder's receipt of special voting shares and FCA does not intend to pay cash dividends in the 36 months following a U.S. Shareholder's receipt of special voting shares, FCA intends to treat the receipt of special voting shares as a distribution that is subject to tax as described above in "Consequences of Owning FCA Stock—Taxation of Dividends." The amount of the dividend should equal the fair market value of the special voting shares received. For the reasons stated above, FCA believes and intends to take the position that the value of each special voting share is minimal. However, because the fair market value of the special voting shares is factual and is not governed by any guidance that directly addresses such a situation, the IRS could assert that the value of the special voting shares (and thus the amount of the dividend) as determined by FCA is incorrect.

Ownership of Special Voting Shares

FCA believes that U.S. Shareholders holding special voting shares should not have to recognize income in respect of amounts transferred to the special voting shares dividend reserve that are not paid out as dividends. Section 305 of the Code may, in certain circumstances, require a holder of preferred shares to recognize income even if no dividends are actually received on such shares if the preferred shares are redeemable at a premium and the redemption premium results in a “constructive distribution.” Preferred shares for this purpose refer to shares that do not participate in corporate growth to any significant extent. FCA believes that Section 305 of the Code should not apply to any amounts transferred to the special voting shares dividend reserve that are not paid out as dividends so as to require current income inclusion by U.S. Shareholders because, among other things, (i) the special voting shares are not redeemable on a specific date and a U.S. Shareholder is only entitled to receive amounts in respect of the special voting shares upon liquidation, (ii) Section 305 of the Code does not require the recognition of income in respect of a redemption premium if the redemption premium does not exceed a de minimis amount and, even if the amounts transferred to the special voting shares dividend reserve that are not paid out as dividends are considered redemption premium, the amount of the redemption premium is likely to be “de minimis” as such term is used in the applicable Treasury Regulations. FCA therefore intends to take the position that the transfer of amounts to the special voting shares dividend reserve that are not paid out as dividends does not result in a “constructive distribution,” and this determination is binding on all U.S. Shareholders of special voting shares other than a U.S. Shareholder that explicitly discloses its contrary determination in the manner prescribed by the applicable regulations. However, because the tax treatment of the loyalty voting structure is unclear and because FCA’s determination is not binding on the IRS, it is possible that the IRS could disagree with FCA’s determination and require current income inclusion in respect of such amounts transferred to the special voting shares dividend reserve that are not paid out as dividends.

Disposition of Special Voting Shares

The tax treatment of a U.S. Shareholder that has its special voting shares redeemed for zero consideration after removing its common shares from the Loyalty Register is unclear. It is possible that a U.S. Shareholder would recognize a loss to the extent of the U.S. Shareholder’s basis in its special voting shares, which should equal (i) if the special voting shares were received in connection with the Merger, the basis allocated to the special voting shares, and (ii) if the special voting shares were received after the requisite holding period on the Loyalty Register, the amount that was included in income upon receipt. Such loss would be a capital loss and would be a long-term capital loss if a U.S. Shareholder has held its special voting shares for more than one year. It is also possible that a U.S. Shareholder would not be allowed to recognize a loss upon the redemption of its special voting shares and instead a U.S. Shareholder should increase the basis in its FCA common shares by an amount equal to the basis in its special voting shares. Such basis increase in a U.S. Shareholder’s FCA common shares would decrease the gain, or increase the loss, that a U.S. Shareholder would recognize upon the sale or other taxable disposition of its FCA common shares.

THE U.S. FEDERAL INCOME TAX TREATMENT OF THE LOYALTY VOTING STRUCTURE IS UNCLEAR AND U.S. SHAREHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS IN RESPECT OF THE CONSEQUENCES OF ACQUIRING, OWNING, AND DISPOSING OF SPECIAL VOTING SHARES.

PFIC Considerations—Consequences of Holding FCA Stock

FCA believes that shares of its stock are not stock of a PFIC for U.S. federal income tax purposes, but this conclusion is based on a factual determination made annually and thus is subject to change. As discussed in greater detail below, if shares of FCA stock were to be treated as stock of a PFIC, gain realized (subject to the discussion below regarding a mark-to-market election) on the sale or other disposition of shares of FCA stock would not be treated as capital gain, and a U.S. Shareholder would be treated as if such U.S. Shareholder had realized such gain and certain “excess distributions” ratably over the U.S. Shareholder’s holding period for its shares of FCA stock and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, a U.S. Shareholder’s shares of FCA stock would be treated as stock in a PFIC if FCA were a PFIC at any time during such U.S. Shareholder’s holding period in the shares. Dividends received from FCA would not be eligible for the special tax rates applicable to qualified dividend income if FCA were treated as a PFIC in the taxable years in which the dividends are paid or in the preceding taxable year (regardless of whether the U.S. holder held shares of FCA stock in such year) but instead would be taxable at rates applicable to ordinary income.

FCA would be a PFIC with respect to a U.S. Shareholder if for any taxable year in which the U.S. Shareholder held shares of FCA stock, after the application of applicable “look-through rules”:

- 75 percent or more of FCA’s 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
- 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.

Because the determination whether a foreign corporation is a PFIC is primarily factual and there is little administrative or judicial authority on which to rely to make a determination, the IRS might not agree that FCA is not a PFIC. Moreover, no assurance can be given that FCA would not become a PFIC for any future taxable year if there were to be changes in FCA’s assets, income or operations.

If FCA were to be treated as a PFIC for any taxable year (and regardless of whether FCA remains a PFIC for subsequent taxable years), each U.S. Shareholder that is treated as owning FCA stock for purposes of the PFIC rules (i) would be liable to pay U.S. federal income tax at the highest applicable income tax rates on (a) ordinary income upon the receipt of excess distributions (the portion of any distributions received by the U.S. Shareholder on FCA stock in a taxable year in excess of 125 percent of the average annual distributions received by the U.S. Shareholder in the three preceding taxable years or, if shorter, the U.S. Shareholder’s holding period for the FCA stock) and (b) on any gain from the disposition of FCA stock, plus interest on such amounts, as if such excess distributions or gain had been recognized ratably over the U.S. Shareholder’s holding period of the FCA stock, and (ii) may be required to annually file Form 8621 with the IRS reporting information concerning FCA.

If FCA were to be treated as a PFIC for any taxable year and provided that FCA common shares are treated as “marketable stock” within the meaning of applicable Treasury Regulations, which FCA believes will be the case, a U.S. Shareholder may make a mark-to-market election. Under a mark-to-market election, any excess of the fair market value of the FCA common shares at the close of any taxable year over the U.S. Shareholder’s adjusted tax basis in the FCA common shares is included in the U.S. Shareholder’s income as ordinary income. These amounts of ordinary income would not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. In addition, the excess, if any, of the U.S. Shareholder’s adjusted tax basis at the close of any taxable year over the fair market value of the FCA common shares is deductible in an amount equal to the lesser of the amount of the excess or the amount of the net mark-to-market gains that the U.S. Shareholder included in income in prior years. A U.S. Shareholder’s tax basis in FCA common shares would be adjusted to reflect any such income or loss. Gain realized on the sale, exchange or other disposition of FCA common shares would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of FCA common shares would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Shareholder. It is not expected that the special voting shares would be treated as “marketable stock” and eligible for the mark-to-market election.

The adverse consequences of owning stock in a PFIC could also be mitigated if a U.S. Shareholder makes a valid “qualified electing fund” election, or QEF election, which, among other things, would require a U.S. Shareholder to include currently in income its pro rata share of the PFIC’s net capital gain and ordinary earnings, based on earnings and profits as determined for U.S. federal income tax purposes. Because of the administrative burdens involved, FCA does not intend to provide information to its shareholders that would be required to make such election effective.

A U.S. Shareholder which holds FCA stock during a period when FCA is a PFIC will be subject to the foregoing rules for that taxable year and all subsequent taxable years with respect to that U.S. Shareholder’s holding of FCA stock, even if FCA ceases to be a PFIC, subject to certain exceptions for U.S. Shareholders which made a mark-to-market or QEF election. U.S. Shareholders are strongly urged to consult their tax advisors regarding the PFIC rules, and the potential tax consequences to them if FCA were determined to be a PFIC.

Medicare Tax on Net Investment Income

A U.S. person that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8 percent tax, the Medicare tax, on the lesser of (i) the U.S. person's "net investment income" (or undistributed net investment income in the case of an estate or trust) for the relevant taxable year and (ii) the excess of the U.S. person's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between U.S.\$125,000 and U.S.\$250,000, depending on the individual's circumstances). A shareholder's net investment income generally includes its dividend income and its net gains from the disposition of shares, unless such dividends or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If a shareholder is a U.S. person that is an individual, estate or trust, the shareholder is urged to consult the shareholder's tax advisors regarding the applicability of the Medicare tax to the shareholder's income and gains in respect of the shareholder's investment in FCA stock.

Information with Respect to Foreign Financial Assets

Owners of "specified foreign financial assets" with an aggregate value in excess of U.S.\$50,000, (and in some cases, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons; (ii) financial instruments and contracts that have non-U.S. issuers or counterparties; and (iii) interests in foreign entities. U.S. Shareholders are urged to consult their tax advisors regarding the application of this legislation to their ownership of FCA stock.

Backup Withholding and Information Reporting

Information reporting requirements for a noncorporate U.S. Shareholder, on IRS Form 1099, will apply to:

- dividend payments or other taxable distributions made to such U.S. Shareholder within the U.S.; and
- the payment of proceeds to such U.S. Shareholder from the sale of FCA stock effected at a U.S. office of a broker.

Additionally, backup withholding (currently at a 24 percent rate) may apply to such payments to a non-corporate U.S. Shareholder that:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that such U.S. Shareholder has failed to report all interest and dividends required to be shown on such U.S. Shareholder's federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

A person may obtain a refund of any amounts withheld under the backup withholding rules that exceed the person's income tax liability by properly filing a refund claim with the IRS.

Material Netherlands Tax Consequences

This section describes solely the material Dutch tax consequences of the acquisition, ownership and disposal of FCA common shares and, if applicable, FCA special voting shares by Non-resident holders of such shares (as defined below). It does not consider every aspect of Dutch taxation that may be relevant to a particular holder of FCA common shares and, if applicable, FCA special voting shares in special circumstances or who is subject to special treatment under applicable law. Shareholders and any potential investor should consult their own tax advisors regarding the Dutch tax consequences of acquiring, owning and disposing of FCA common shares and, if applicable, FCA special voting shares in their particular circumstances.

Where in this section English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law. Where in this section the terms “the Netherlands” and “Dutch” are used, these refer solely to the European part of the Kingdom of the Netherlands. This summary also assumes that the board shall control the conduct of the affairs of FCA and shall procure that FCA is organized in accordance with the facts, based upon which the competent authorities of the United Kingdom and The Netherlands have ruled that FCA should be treated as solely resident of the United Kingdom for the application of the tax treaty as concluded between the United Kingdom and The Netherlands. A change in facts and circumstances based upon which the ruling was issued may invalidate the contents of this section, which will not be updated to reflect any such change.

This description is based on the tax law of the Netherlands (unpublished case law not included) as it stands at the date of this Form. The law upon which this description is based is subject to change, possibly with retroactive effect. Any such change may invalidate the contents of this description, which will not be updated to reflect such change.

Where in this Dutch taxation discussion reference is made to “a holder of FCA common shares and, if applicable, FCA special voting shares”, that concept includes, without limitation:

1. an owner of one or more FCA common shares and/or FCA special voting shares who in addition to the title to such FCA common shares and/or FCA special voting shares, has an economic interest in such FCA common shares and/or FCA special voting shares;
2. a person who or an entity that holds the entire economic interest in one or more FCA common shares and/or FCA special voting shares;
3. a person who or an entity that holds an interest in an entity, such as a partnership or a mutual fund, that is transparent for Dutch tax purposes, the assets of which comprise one or more FCA common shares and/or FCA special voting shares, within the meaning of 1. or 2. above; or
4. a person who is deemed to hold an interest in FCA common shares and/or FCA special voting shares, as referred to under 1. to 3., pursuant to the attribution rules of article 2.14a, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), with respect to property that has been segregated, for instance in a trust or a foundation.

Scope of the summary

The summary of Dutch taxes set out in this section “Material Dutch tax consequences” only applies to a holder of FCA common shares and, if applicable FCA special voting shares who is a Non-Resident holder of such shares. For the purpose of this summary a holder of FCA common shares and, if applicable FCA special voting shares is a Non-Resident holder of such shares if such holder is neither a resident nor deemed to be resident in The Netherlands for purposes of Dutch income tax or corporation tax as the case may be.

This summary does not describe the tax considerations for holders of FCA common shares and, if applicable FCA special voting shares who are individuals and derive benefits from FCA common shares and, if applicable FCA special voting shares that are a remuneration or deemed to be a remuneration in connection with past, present or future employment performed in The Netherlands or management activities and functions or membership of a management board (*bestuurder*) or a supervisory board (*commissaris*) of a Netherlands resident entity by such holder or certain individuals related to such holder (as defined in The Dutch Income Tax Act 2001).

Taxes on income and capital gains

A Non-Resident holder (as defined above) of FCA common shares and, if applicable, FCA special voting shares will not be subject to any Dutch taxes on income or capital gains in respect of any benefits derived or deemed to be derived by such holder from such holder’s FCA common shares and, if applicable, FCA special voting shares, including any capital gain realized on the disposal thereof, unless:

- such holder derives profits from an enterprise directly, or pursuant to a co-entitlement to the net value of such enterprise, other than as a holder of securities, which enterprise either is managed in the Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative which is taxable in the Netherlands, and such holder's FCA common shares and, if applicable, FCA special voting shares are attributable to such enterprise; or
- such holder is an individual and such holder derives benefits from FCA common shares and, if applicable, FCA special voting shares that are taxable as benefits from miscellaneous activities (*resultaat uit overige werkzaamheden*) in the Netherlands. Such holder may, inter alia, derive, or be deemed to derive, benefits from FCA common shares and, if applicable, FCA special voting shares that are taxable as benefits from miscellaneous activities if such holder's investment activities go beyond the activities of an active portfolio investor, for instance in the case of use of insider knowledge or comparable forms of special knowledge.

Benefits derived or deemed to be derived from certain miscellaneous activities by a child or a foster child who is under eighteen years of age are attributed to the parent who exercises, or the parents who exercise, authority over the child, irrespective of the country of residence of the child.

Dividend withholding tax

FCA is generally required to withhold Dutch dividend withholding tax at a rate of 15 percent from dividends distributed by it. However, the competent authorities of the United Kingdom and The Netherlands have ruled that FCA is resident of the United Kingdom for the application of the tax treaty as concluded between The Netherlands and the United Kingdom. Consequently payments made by FCA on the common shares and or the special voting shares to non-resident shareholders may be made free from Dutch dividend withholding tax.

Gift and inheritance taxes

If a holder of FCA common shares and, if applicable, FCA special voting shares disposes of FCA common shares and, if applicable, FCA special voting shares by way of gift, in form or in substance, or if a holder of FCA common shares and, if applicable, FCA special voting shares who is an individual dies, no Dutch gift tax or Dutch inheritance tax, as applicable, will be due, unless:

- the donor is, or the deceased was, resident or deemed to be resident in the Netherlands for purposes of Dutch gift tax or Dutch inheritance tax, as applicable; or
- the donor made a gift of FCA common shares and, if applicable, FCA special voting shares, then became a resident or deemed resident of the Netherlands, and died as a resident or deemed resident of the Netherlands within 180 days of the date of the gift.

For purposes of the above, a gift of FCA common shares and, if applicable, FCA special voting shares made under a condition precedent is deemed to be made at the time the condition precedent is satisfied.

Value Added Tax

No Dutch value added tax will arise in respect of any payment in consideration for the issue of FCA common shares and, if applicable, FCA special voting shares.

Registration taxes and duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, is payable in the Netherlands by a holder in respect of or in connection with (i) the subscription, issue, placement or allotment of FCA common shares and, if applicable, FCA special voting shares, (ii) the enforcement by way of legal proceedings (including the enforcement of any foreign judgment in the courts of the Netherlands) of the documents relating to the issue of FCA common shares and, if applicable, FCA special voting shares or the performance by FCA of FCA's obligations under such documents, or (iii) the transfer of FCA common shares and, if applicable, FCA special voting shares.

Material UK Tax Consequences

This section describes the material United Kingdom tax consequences of the ownership of FCA common shares for U.S. Shareholders. It does not purport to be a complete analysis of all potential UK tax consequences of holding FCA common shares. This section is based on current UK tax law and what is understood to be the current practice of H.M. Revenue and Customs, as well as on applicable tax treaties. This law and practice and these treaties are subject to change, possibly on a retroactive basis.

This section applies only to shareholders of FCA that are U.S. Shareholders, that are not resident or domiciled in the UK, that are not individuals temporarily non-resident in the UK for a period of up to five years, that hold their shares as an investment (other than through an individual savings account), and that are the absolute beneficial owner of both the shares and any dividends paid on them. This section does not apply to members of any special class of shareholders subject to special rules, such as:

- a pension fund;
- a charity;
- persons acquiring their shares in connection with an office or employment;
- a dealer in securities;
- an insurance company; or
- a collective investment scheme.

In addition, this section may not apply to:

- any shareholders that, either alone or together, with one or more associated persons, such as personal trusts and connected persons, control directly or indirectly at least ten percent of the voting rights or of any class of share capital of FCA; or
- any person holding shares as a borrower under a stock loan or an interim holder under a repo.

Shareholders should consult their own tax advisors on the UK tax consequences of owning and disposing of FCA common shares in their particular circumstances.

Tax Consequences of Owning FCA Common Shares

Taxation of Dividends

Dividend payments may be made without withholding or deduction for or on account of UK income tax.

A U.S. Shareholder will not be liable to account for income or corporation tax in the UK on dividends paid on the shares unless the shareholder carries on a trade (or profession or vocation) in the UK and the dividends are either a receipt of that trade or, in the case of corporation tax, the shares are held by or for a UK permanent establishment through which the trade is carried on (unless, if certain conditions are met, the trade is carried on through an independent broker or investment manager).

Taxation of Capital Gains

A disposal of FCA common shares by a shareholder that is not resident in the United Kingdom for tax purposes will not give rise to a chargeable gain or allowable loss unless that shareholder carries on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment (excluding, if certain conditions are met, an independent broker or investment manager) and has used, held or acquired FCA common shares for the purposes of that trade, profession or vocation or that branch, agency or permanent establishment.

Stamp Duty and Stamp Duty Reserve Tax

No liability to UK stamp duty or Stamp Duty Reserve Tax (“SDRT”) will arise on the issue of FCA common shares to shareholders. FCA will not maintain any share register in the UK and, accordingly, (i) UK stamp duty will not normally be payable in connection with a transfer of common shares, provided that the instrument of transfer is executed and retained outside the UK and no other action is taken in the UK by the transferor or transferee, and (ii) no UK SDRT will be payable in respect of any agreement to transfer FCA common shares.

Tax Consequences of Participating in the Loyalty Voting Structure

A U.S. Shareholder that would not be subject to tax on dividends or capital gains in respect of FCA common shares will not be subject to tax in respect of the special voting shares.

FCA will not maintain any share register in the UK and, accordingly, no liability to UK stamp duty or SDRT will arise to shareholders on the issue or repurchase of special voting shares.

Exhibits

Exhibit Number	Description of Documents
<u>1.1</u>	<u>English translation of the Articles of Association of Fiat Chrysler Automobiles N.V. (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to Registration Statement on Form F-1, filed with the SEC on December 4, 2014, File No. 333-199285)</u>
<u>1.2</u>	<u>English translation of the Deed of Incorporation of Fiat Chrysler Automobiles N.V. (incorporated by reference to Exhibit 3.2 to Registration Statement on Form F-4, filed with the SEC on July 3, 2014, File No. 333-197229)</u>
<u>2.1</u>	<u>Terms and Conditions of the Global Medium Term Notes (incorporated by reference to Exhibit 4.1 to Registration Statement on Form F-4, filed with the SEC on July 3, 2014, File No. 333-197229)</u>
<u>2.2</u>	<u>Deed of Guarantee, dated as of March 19, 2013, by Fiat S.p.A. in favor of the Relevant Account Holders and the holders for the time being of the Global Medium Term Notes and the interest coupons appertaining to the Global Medium Term Notes (incorporated by reference to Exhibit 4.2 to Registration Statement on Form F-4, filed with the SEC on July 3, 2014, File No. 333-197229)</u>
<u>2.3</u>	<u>Indenture, dated as of April 14, 2015, between Fiat Chrysler Automobiles N.V. and The Bank of New York Mellon, as Trustee, relating to senior debt securities (incorporated by reference to Exhibit 4.1 to Report on Form 6-K, filed with the SEC on April 16, 2015, File No. 001-36676)</u>
<u>2.4</u>	<u>Form of 4.500% Global Security for Exchange Notes due 2020 (incorporated by reference to Exhibit 4.3 to Registration Statement on Form F-4, filed with the SEC on May 19, 2015, File No. 333-204303)</u>
<u>2.5</u>	<u>Form of 5.250% Global Security for Exchange Notes due 2023 (incorporated by reference to Exhibit 4.4 to Registration Statement on Form F-4, filed with the SEC on May 19, 2015, File No. 333-204303)</u>
	There have not been filed as exhibits to this Form 20-F certain long-term debt instruments, none of which relates to indebtedness that exceeds 10% of the consolidated assets of Fiat Chrysler Automobiles N.V. Fiat Chrysler Automobiles N.V. agrees to furnish the Securities and Exchange Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of Fiat Chrysler Automobiles N.V. and its consolidated subsidiaries.
<u>4.1</u>	<u>Fiat Chrysler Automobiles N.V. Equity Incentive Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8, filed with the SEC on January 12, 2015, File No. 333-201440)</u>
<u>4.2</u>	<u>Fiat Chrysler Automobiles N.V. Remuneration Policy (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-8, filed with the SEC on January 12, 2015, File No. 333-201440)</u>
<u>8.1</u>	<u>Subsidiaries</u>
<u>12.1</u>	<u>Section 302 Certification of the Chief Executive Officer</u>
<u>12.2</u>	<u>Section 302 Certification of the Chief Financial Officer</u>
<u>13.1</u>	<u>Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>13.2</u>	<u>Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>23</u>	<u>Consent of Independent Registered Public Accounting Firm</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Independent auditor's report

To: the shareholders and audit committee of Fiat Chrysler Automobiles N.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

We have audited the financial statements 2018 of Fiat Chrysler Automobiles N.V. (the Company), incorporated in Amsterdam, the Netherlands. The financial statements include the consolidated financial statements and the Company financial statements (collectively referred to as the Financial statements).

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Fiat Chrysler Automobiles N.V. as at December 31, 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying Company financial statements give a true and fair view of the financial position of Fiat Chrysler Automobiles N.V. as at December 31, 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- The consolidated statement of financial position as at December 31, 2018
- The following statements for 2018: consolidated income statement, the consolidated statements of comprehensive income, cash flows and changes in equity
- The notes comprising a summary of the significant accounting policies and other explanatory information

The Company financial statements comprise:

- The Company statement of financial position as at December 31, 2018
- The Company income statement for 2018
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Fiat Chrysler Automobiles N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountants organisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags - en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€370 million (2017: €400 million)
Benchmark applied	5% of Adjusted EBIT (earnings before interest and income taxes)
Explanation	Based on our professional judgement we consider Adjusted EBIT as an appropriate benchmark to determine materiality as we believe this is an important measure of the Company's performance. Last year, the applied Adjusted EBIT included a forward looking element while this year it is based on the actual Adjusted EBIT reported.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the audit committee that misstatements in excess of €20 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Fiat Chrysler Automobiles N.V. is the parent of a group of entities. The financial information of this group is included in the consolidated financial statements of Fiat Chrysler Automobiles N.V. The Company is organized along operating segments and has identified five reportable segments being NAFTA, EMEA, LATAM, APAC, and Maserati, along with certain other corporate functions and unallocated items which are not included within the reportable segments.

Our group audit mainly focused on significant group entities. Group entities are considered significant components either because of their individual financial significance or because they are likely to include significant risks of material misstatement due to their specific nature or circumstances. All such significant group entities (comprising 41 entities) were included in the scope of our group audit.

Accordingly, we identified 5 of Fiat Chrysler Automobiles N.V.'s group entities, which, in our view, required an audit of their complete financial information due to their overall size and their risk characteristics. Specific scope audit procedures on certain balances and transactions were performed on 19 entities. Other procedures are performed on a further 17 entities. The remaining 291 components which are not included in our group scope have been subject to risk assessment analytics.

In establishing the overall approach to the audit, we determined the type of work that is needed to be done by us, as group auditors, or by component auditors from Ernst & Young Global member firms and operating under our instructions. The following matters are audited directly by the group audit team:

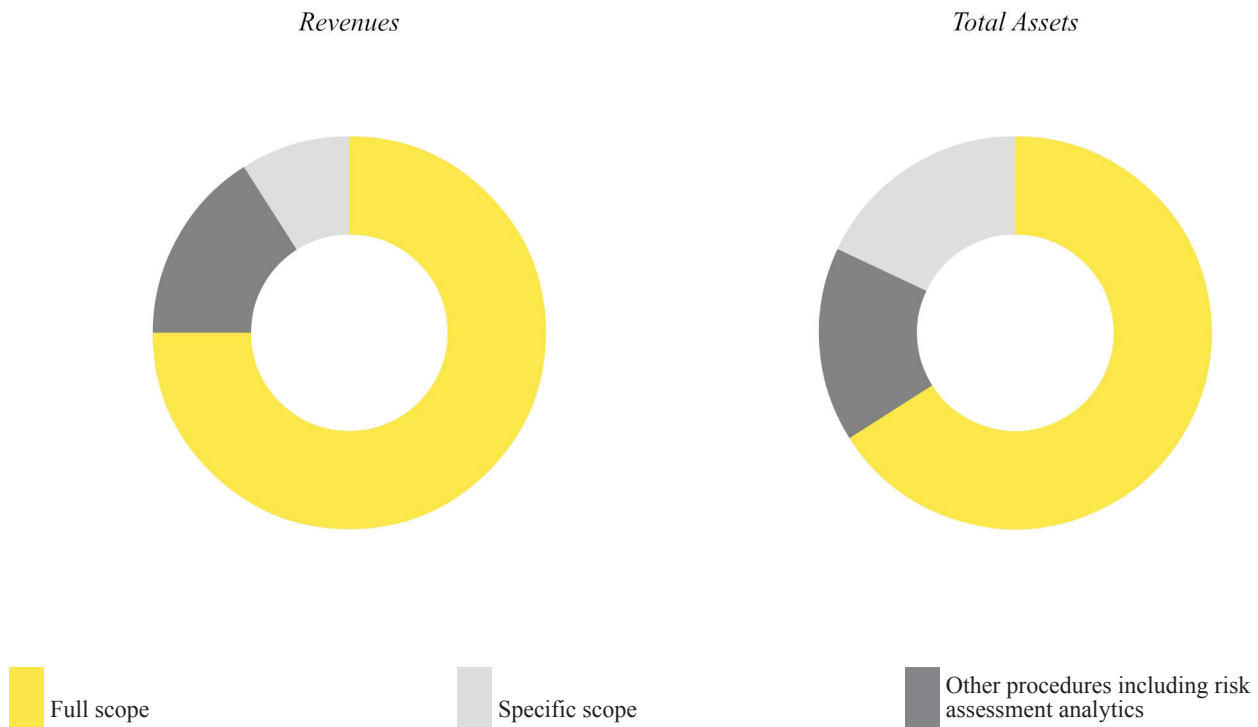
- The group consolidation, financial statements and disclosures and the audit of the key audit matters:
 - Valuation of goodwill and other non-current assets with indefinite useful lives, with particular reference to APAC goodwill,
 - Recoverability of non-current assets with definite useful lives with particular reference to EMEA,
 - Income taxes with focus on recoverability of the Italian deferred tax assets

The two other key audit matters, provision for NAFTA product warranty and recall campaigns and US emission investigations were audited by the US component team under our direction and supervision.

- The group engagement team visited at least once the local management and their auditors of the components which are significant based on size and their related risk: FCA US, FCA Italy and FCA Brasil. For each of these locations we reviewed the audit files of the component auditor and determined the sufficiency and appropriateness of the work performed.

- The group engagement team visited FCA management in China for CHRYSLER GR. (CHINA) LTD, FCA AUTOM FINANCE CO LTD and MASERATI (CHINA) CARS CO. In addition, we have visited their component auditors as part of our direction and supervision of the group audit.
- All component audit teams included in the group scope received detailed instructions from the group engagement team including key risk areas and significant accounts and the group engagement team reviewed their deliverables.

In total these procedures represent 100% of the group’s total assets and 100% of revenues.



By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group’s financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the audit committee. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This year two new key audit matters related to the recoverability of non-current assets with definite useful lives with particular reference to EMEA and the US emissions investigations have been added.

Valuation of goodwill and other non-current assets with indefinite useful lives, with particular reference to APAC goodwill

Risk At December 31, 2018 the recorded amount of goodwill and other non-current assets with indefinite useful lives was €10,834 million and €3,136 million respectively. These amounts have primarily been allocated to the Company's four cash generating units ('CGU') that align with the mass market operating segments (NAFTA, APAC, LATAM and EMEA) as set out in note 9. The amount of goodwill allocated to APAC was €1.1 billion.

The Company's assessment of the recoverable amount of each CGU involves judgement about the future performance of the business and the discount rates applied to future cash flow forecasts.

Specifically for APAC, expected future cash flows are sensitive to certain assumptions, primarily the expected margins for the terminal period which directly impact the valuation of goodwill.

Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount we have determined that this area constitutes a significant risk.

Our audit approach We designed and performed the following audit procedures to be responsive to this risk:

- We obtained an understanding of the impairment assessment processes and evaluated the design and tested the effectiveness of controls in this area relevant to our audit.
- We validated that the level at which goodwill and other non-current assets are tested continues to be appropriate. We tested the carrying amounts included in the impairment tests.
- We evaluated whether the impairment methodology applied by the Company is in line with the requirements per IAS 36, Impairment of Assets
- We obtained an understanding of the work performed by the management specialists used for the valuation.
- We performed procedures to assess the reasonableness of cash flow forecasts including comparisons to industry forecasts and sector data.

In addition, we:

- Reconciled the cash flow forecasts for each CGU to the Group's business plan for the period 2019-2022.
- Evaluated the appropriateness of the use of these forecasts in light of the historical accuracy of the Company's forecasts.
- Tested the operational margins, discount rates and long term growth rates applied within the model were assessed by EY valuation specialists who independently performed their own calculations and also performed sensitivity analyses of key assumptions for each CGU to determine which changes could materially impact the valuation of the recoverable amount.

Finally, we reviewed the adequacy of the disclosures made in Note 2, Basis of preparation by the Company in this area, in particular focusing on whether any reasonable possible changes in key assumptions will lead to an impairment of goodwill.

Key observations Based on the results of our work, we agree with the Company's conclusion that no impairment of goodwill is required in the current year.

With regards to APAC, as the carrying amount of goodwill is sensitive to certain assumptions, primarily the expected margins for the terminal period, we agree with the additional disclosure made in the consolidated financial statements.

Income taxes - recoverability of the Italian deferred tax assets

Risk At December 31, 2018, the Company had deferred tax assets on deductible temporary differences of €6,064 million which were recognized and €898 million which were not recognized. At the same date the Company also had deferred tax assets in respect of tax losses carried forward of €976 million which were recognized and €3,987 million which were not recognized. The recognized and unrecognized amounts related to Italy are €884 million and €2,486 million respectively.

The recognition and recoverability of the deferred tax assets in Italy were significant to our audit because the amounts are material and the assessment of the amounts of deferred tax assets to be recognized involves judgements and estimates in relation to future taxable profits and hence the capacity to utilize available tax assets in both these tax jurisdictions.

The disclosures in relation to income taxes are included in note 7.

Our audit approach We designed the following audit procedures to be responsive to this risk:

- We obtained an understanding of the income taxes process, and evaluated the design and tested the effectiveness of controls in this area relevant to our audit.
- We evaluated the forecast periods selected in determining the likelihood of the Group generating suitable future profits to support the recognition of the deferred tax assets.
- We have evaluated the Company's assumptions and sensitivities in relation to the likelihood of generating sufficient future taxable income, taking into account local tax regulations.
- We evaluated the historical accuracy of forecasting taxable profits for this tax jurisdiction, the integrity of the forecast models and consistency of the projections with both other forecasts made by the Company and with findings from other areas of our audit.
- We considered the appropriateness of the Company's disclosures in respect of deferred tax.
- We involved EY tax specialists to assist both the Group and component audit teams in performing these procedures.

Key observations Based on the procedures performed, we concluded that the deferred tax asset balance for the Italian tax jurisdiction, at December 31, 2018, is materially correct.

Provision for NAFTA product warranty and recall campaigns

Risk

At December 31, 2018 the provisions for product warranties and recall campaigns amounted to €6,760 million with the most significant amounts related to the NAFTA segment.

The Company establishes provisions for product warranty obligations, including the estimated cost of service and recall actions in the NAFTA region, at the time the vehicle is sold.

The estimated future costs of these actions are principally based on assumptions regarding the lifetime warranty costs of each vehicle line and each model year of that vehicle line, as well as historical claims experience for the vehicles. Estimates of the future costs of these actions are inevitably imprecise due to numerous uncertainties, especially related to the NAFTA region's warranty and campaign provisions, including the recent enactment of new laws and regulations, the number of vehicles affected by a service or recall action and the nature of the corrective action that may result in adjustments to the established reserves. Costs associated with these actions are recorded in cost of sales in the Consolidated Income Statements.

Due to the size and the uncertainty and potential volatility of these estimated future costs and other factors, such as recently introduced new laws and regulations, changes in assumptions used could materially affect the result of the company's operations.

The disclosures on warranty provisions are included in note 20.

Our audit approach

We designed the following audit procedures to be responsive to this risk:

- We obtained an understanding of the warranty process, evaluated the design of, and performed tests of controls in this area.
- We involved EY actuaries to evaluate the appropriateness of the Company's methodology, evaluate and test the basis for the assumptions developed and used in the determination of the warranty provisions, and to perform sensitivity analyses to evaluate the judgements made by management.
- EY actuaries determined their own independent range for the provision for the NAFTA product warranty and recall campaigns amount.
- We performed other substantive audit procedures to validate the data applied in the model including warranty payments made in the year and third party confirmations in respect of the completeness and accuracy of current year claims.

Finally, we reviewed the adequacy of the disclosures made by the Company in this area.

Key observations

Based on the results of our procedures, including our assessment that the Company's provision was within the range of possible outcomes independently determined by EY actuaries, we are satisfied that the NAFTA product warranty and recall campaigns provision is appropriate at December 31, 2018.

Recoverability of non-current assets with definite useful lives with particular reference to EMEA

Risk

At December 31, 2018 the non-current assets with definite useful lives amounted to €38,056 million. Non-current assets with definite useful lives include property, plant and equipment (€26,307 million), intangible assets (€11,749 million). Intangible assets with definite useful lives mainly consist of capitalized development expenditures primarily related to NAFTA and EMEA.

The recoverability of non-current assets with definite useful lives is based on the estimated future cash flows, using the Company's current business plan, of the cash generating units to which the assets relate. The Company's business plan could change in response to evolving requirements and emerging technologies, which may result in changes to Company's estimated future cash flows and could affect the recoverability of Company's non-current assets with definite useful lives. Any change in recoverability would be accounted for at the time such change to the business plan occurs.

As a result of the operational and financial performance in EMEA, the Company performed an impairment assessment on the non-current assets with definite useful lives of EMEA region.

Due to the size and the uncertainty and potential volatility of the estimated future volumes, contribution margin and other factors, such as new laws and regulations, used in the impairment test, any change in the assumptions used could materially affect the result of the company's operations.

The disclosures on non-current assets with definite useful lives are included in note 10 and 11.

Our audit approach

We designed the following audit procedures to be responsive to this risk:

- We obtained an understanding of the impairment assessment processes and evaluated whether the impairment methodology applied by the Company is in line with the requirements per IAS 36, *Impairment of Assets*.
- We involved our EY valuation specialists, to test the methodology used in performing the impairment test as of December 31, 2018, including:
 - Assessment of the impairment test model and evaluation of the discount rates applied within the model and development of EY independent calculations.
 - Sensitivity analyses of key assumptions for each platform and alternative scenarios, to determine which changes could materially impact the valuation of the recoverable amount.
- We evaluated the other key assumption applied in determining the recoverable amount with particular reference to volume, contribution margin, D&A, capex and contributory charge.
- We validated that the CGUs (i.e., platforms) identified continue to be appropriate in the current year and tested the allocation of asset to the carrying value of each platform.
- We performed procedures to assess the reasonableness of cash flow forecasts for each platform, including comparisons to industry forecasts and sector data.
- We analyzed the consistency and reconciliation of the forecasted cash flow by platform to the EMEA regional business plan as used in the goodwill impairment analysis.
- We evaluated the appropriateness of the use of these forecasts in light of the historical accuracy of the Company's forecasts.
- We performed controls and substantive testing over the Prospective Financial Information used for the purposes of the impairment assessment.
- We reviewed any subsequent events which might significantly impact the impairment conclusions reached.

Finally, we reviewed the adequacy of the disclosures made by the Company in this area, which is disclosed in Note 2, Basis of preparation.

Key observations

We concur with the Company's methodology used in performing the impairment test of EMEA segment as of December 31, 2018.

As the recoverability of the carrying amount of non-current assets with definite lives in EMEA depend on the development and launch of additional vehicles, we agree with the additional disclosure made in the consolidated financial statements.

US emissions investigations

Risk On January 10, 2019, the Company 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, U.S. Customs and Border Protection and in connection with a putative class action on behalf of consumers, for which the Company has accrued €748 million.

The Company remains subject to diesel emissions-related investigations by the U.S. Securities and Exchange Commission and the U.S. Department of Justice, Criminal Division. In addition, the Company remains subject to a number of related private lawsuits and the potential for additional claims by consumers who choose not to participate in the class action settlement.

The US emissions investigation was elevated to a significant risk during our audit due to the material impact to the financial statements coupled with the uncertainty associated to the timing of the negotiations between the Company and the several counterparties, which might impact the determination of a reasonable range and the related accounting of the provision in the correct period.

Although the Company reached an agreement to settle certain aspects of this litigation in January 2019, and the related level of uncertainty and management judgement has been reduced to a lower level, the US emissions investigation was a matter that was of most significance in the audit of the consolidated financial statements as of and for the year ended December 31, 2018.

The disclosures on the US emissions investigation are included in note 25.

Our audit approach We designed the following audit procedures to be responsive to this risk:

General litigation matters:

- We obtained an understanding of the Company’s process, evaluated the design of, and performed tests of controls in this area.
- Performed controls and substantive testing over the underlying calculations and supporting documentation.
- We obtained internal and external legal opinions which supports management position.
- We inquired with management, internal and external legal counsel to test the conclusions reached.
- We use EY specialists in certain litigation matters.

With respect to the US emission settlement and related charge:

- We monitored the progress of the US investigation and related settlement discussions through our 2018 audit opinion date including obtaining and reviewing written communications between regulators and the Company.
- We discussed the status and progression of the US investigation with the Company’s internal and external counsel through the 2018 audit opinion date.
- We reviewed the settlement amounts from the January 2019 subsequent event as compared to the September 30, 2018 provision, including the additional charge of €35 million (\$41 million).
- We reviewed the tax treatment of the various components of the settlement.
- We monitored and evaluated management’s conclusions regarding the accounting impact of investigation on the consolidated financial statements, including review of the Company’s accounting position paper and settlement agreements.

With respect to the open matters associated with the emissions investigation:

- We continued our shadow review with the help of EY specialists, including a review of correspondence with the various regulators and reviewing documentation submitted to the regulators in response to the ongoing investigation through the issuance of our auditor’s reports

Finally, we reviewed the adequacy of the disclosures made by the Company in this area.

Key observations Based on the procedures performed, we concur with the provisions for legal proceedings and disputes as of December 31, 2018.

With regards to the US Emissions investigations, we agree with the accounting for the settlements and the related charge as well as the disclosures made in the financial statements on the open matters associated with the US emissions investigations.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The board report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were initially engaged by the audit committee of Fiat Chrysler Automobiles N.V. on October 28, 2014 to perform the audit of its 2014 financial statements and have continued as its statutory auditor since then.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of management and the audit committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The audit committee is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a Company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Rotterdam, February 22, 2019
Ernst & Young Accountants LLP
Signed by Pieter Laan