

**2006 Fiat Investor & Analyst Meeting**

**Turin, November 8-9, 2006**

**Speech by the Chief Executive Officer of Fiat  
Sergio Marchionne**

**From Balocco to Lingotto:  
A Journey to a Different Fiat**



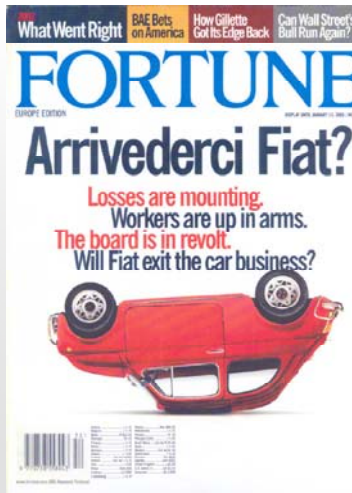
Ladies and Gentlemen,

We have finally come to the end of two very long days, filled with product pictures and information, financial data, and a description of a set of aspirations of a group of relatively large businesses that make up the fabric of what is now the Fiat Group.

I suspect that Fiat will ultimately end up as a case history of a turnaround that appeared nearly impossible only two and half years ago, accomplished in the face of a mountain of negative external and internal factors.

It represents today the beginning of a genuine transformation, but there was and there is nothing miraculous about it. Instead, it reflects the decision to focus on a few strong, precise choices that have triggered rapid change, including a significant redefinition of leadership and the expectations associated with the role.

A lot of you, including large international media groups, just about everyone, were ready to bet on our going bankrupt.



Fortune  
January 13, 2003



Business Week,  
May 13, 2002

The death of Fiat was widely expected.

In 2002-2003, it was clear to everyone that Fiat was in dire straits. The number of rescue plans increased in inverse proportion to the number of cars sold.



Everyone had a magic recipe for saving the company.

The government had one, the banks had one, and you, labour unions and individual businessmen had yet others.

As the *Wall Street Journal* wrote at that time:

**“Fiat is like Italy’s soccer team. Everybody in the country seems to have a view about how it can improve its performance”.**

The Observer, the FT’s most irreverent column, ironically commented on the melody that people calling Fiat heard when put on hold: they suggested that a “Wonderful life be changed with a song by Tracy Chapman, “Fast Car,” where she says, “starting from zero got nothing to lose”.

The demise of the Italian automotive industry seemed to be just around the corner.

Fortunately, history, including recent history, is full of inaccurate predictions.

And you, probably better than anyone, know what has been accomplished. No bragging because it is not our style, but there is enough substance behind us how to get started on some serious business. This is what the 2007-2010 represents.

Our revival and our plans for the future are based on 5 core principles which govern the exercise of Leadership in our Group.

The first is the clear acknowledgement that we are a meritocracy. The right to lead is a privilege that is granted only to those who have demonstrated the ability or a clear potential to lead and who have delivered in terms of business performance.

Our leaders – the ones who had the right skills and values to become promoters of the cultural change – have been given a wide margin of operating freedom. Traditional control has been replaced by accountability for outputs and results. Speed, simplicity and self-confidence are key.

The selection of these individuals, their right to lead has been determined by a rather thorough assessment of their leadership skills. This represents the

second key element of the new Fiat context. Leadership is combined abilities to lead change and to lead people.

But it is the exercise of these abilities in the markets that ultimately matters.

It is my experience that static models which rely on sustainable competitive advantage as the basis for long-term survival are inadequate means to deal with the turbulence and speed of today's global, competitive market place. Evidence has shown that this type of advantage is competed away, at most within five years. Survival, and even more so superior performance, is earned by those who have the courage and the stamina to constantly change their position to stay one step ahead. The objective in order to ensure survival is to match or exceed the speed of the market.

That is why the third element of Fiat's new context is a requirement that embrace and cherish competition. Because we understand that it is at the heart of our survival.

The sharing of that objective is the fabric that holds organizations together and that motivates people in replicating, and if possible, setting the speed of the market.

## The European Market

FIAT  
GROUP



*Automotive News Europe*, March 21, 2005

Lingotto - November 8 & 9, 2006

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This cartoon appeared in the March 21, 2005 edition of Automotive News Europe, one of if not the most authoritative periodical in the industry. It predicts a bloodbath in the European Markets as foreign entrants, the Chinese, the Koreans and the Japanese fight for market share against a group of unprepared European car manufacturers. Of note is the predicted near death experience of Fiat.

That was last year. The work we have done and are doing on the organizational side of our business is to ensure that we have the right leadership to take on this inevitable battle. We are the ones, Europeans and Americans alike, that in colonizing China in 70's, 80's and 90's have created the environment for the emergence of powerful local manufacturers with global ambitions. To complain about this now appears a touch hypocritical. It is one more example of the gales of creative destruction heralded by the Austrian economist Schumpeter. The timing is unknown, but there is near certainty that it will happen.

Fiat has now entered the Red Queen race, fully aware of the risks associated with the engagement, but equally aware that a refusal to engage would lead to extinction.

It is for this reason that it has also set, as the fourth element of its new context, the ambition to achieve best-in-class performance against the relevant competitor class.

You have seen over the last two days the clear acknowledgement of our inadequacies in some sectors, and a commitment to close all competitive gaps by 2010. In fact, in the first semester of 2006, we have already made significant strides in closing them, but the next phase is going to be harder and much more intensive.

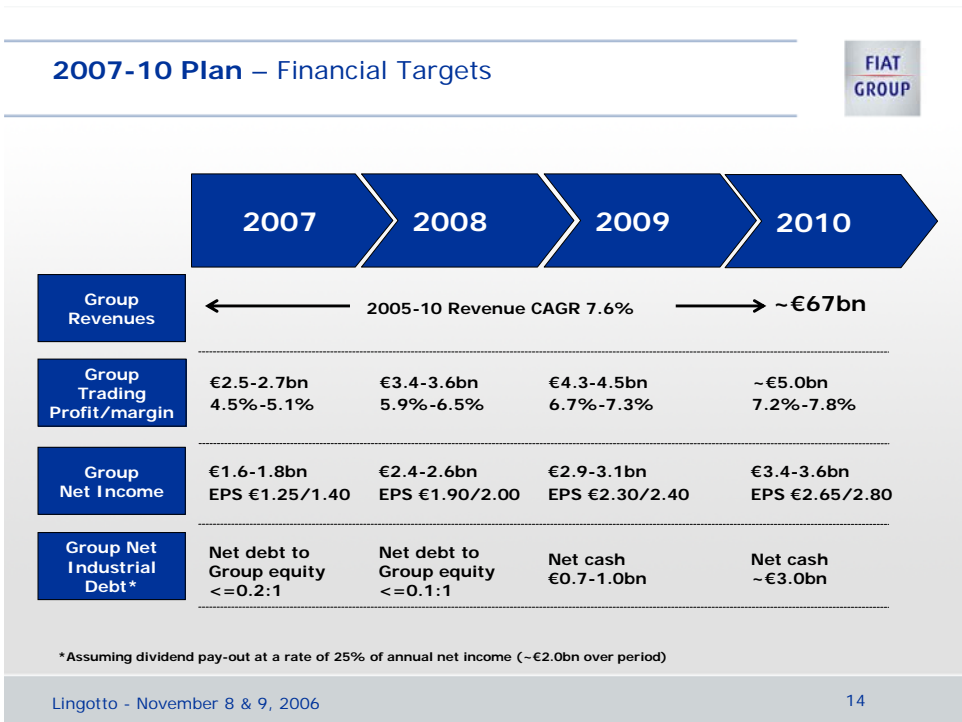
The mobilization of resources and the engagement of the leadership in the achievement of this ambition has probably been the most difficult part of my tenure as CEO of Fiat Group. The problem I found in 2004 when I arrived is

that the organization was totally inward looking, it never saw the need to benchmark itself: it no longer understood competition.

But now, the men and women who work at Fiat are beginning to rediscover their self-confidence.

Their confidence has restored the credibility of Fiat.

Consistent with this confidence, we have now set precise targets for ourselves, in terms of trading profit, net income, trading margins, debt levels and generation of cash until the end of this decade.



A similar process was put in place in July 2004 for the first phase of the permanent fix of Fiat.

We have achieved the ones that were due and, in certain cases, even exceeded them. And we fully intend to achieve the remaining ones for 2007.

1. We are a meritocracy
2. Leadership is a function of leading change and leading people
3. We embrace and cherish competition
4. We aim to achieve best in class performance
5. We deliver what we promise

The moral of the story is that Fiat has saved itself from extinction. Five simple core principles: nothing else.

The inevitable conclusion that I have reached after all my experiences as Chief Executive, not just at Fiat, is that change is possible.

At Fiat, it was carried out by a group of leaders who have the mentality of global competition, who are willing to take on the risks and challenges posed by the market.

They are motivated and tenacious managers who believe in themselves and in their collaborators, people who do not flinch in the face of responsibility and have an extraordinary capacity to design creative collaboration inside their teams.

This group of leaders is our best guarantee for the future.

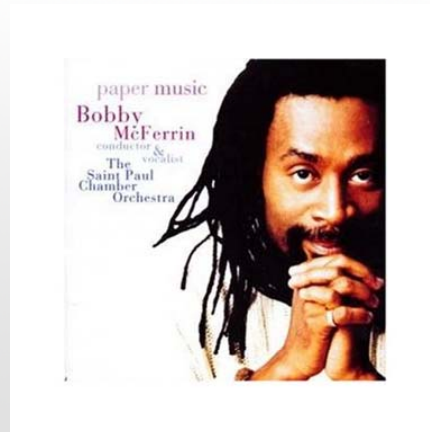
There is an untold story in what I have just laid out. One that in a sense is too early to tell, and that involves the personal transformation of the leaders who have been involved in this revival of Fiat's fortunes, and of the people whose

lives they hold in their hands. There are dozens of similar and probably more valid and powerful examples out there: Lou Gerstner's resurrection of IBM, Robert Oppenheimer's experiences with the team that built the atomic bomb in the Manhattan project, Bill Clinton's remarkable victory in the 1992 presidential race. But the common element with all of them is that they leave an indelible mark on the formation and growth of leaders. They are changed forever.

We ran a television ad, on the very last day of 2005, immediately before the annual New Year's greeting to the nation by then President Ciampi. It was a collection of footage of the cars we launched in 2005, with a delightful combined musical score of "it's a wonderful world" and "somewhere over the rainbow". We wanted to thank the Italian consumers for placing confidence again in our brands, and it ended with the following written statements: "It has been an extraordinary year: The next one will be even better." For people who lived through the transformation process, the statement is loaded with emotions: for they were responsible for turning Fiat into a "place called hope".

Fiat today is radically different, but the work is not yet done.

Ultimately the Fiat story is a story about the power of leadership and of the fearlessness of a class of leaders, shaped by hubris, by a commitment to performance and by integrity. As Mel Gibson's character in the movie *Braveheart* says: "Men do not follow men: they follow courage."



During the breaks of this conference and on the way into the auditorium in the morning, you had a chance of to listen to a collection of music that came out of my personal collection. Two of the pieces came out of a CD by Bobby McFerrin, a musician you probably know because his tune “don’t worry, be happy” became quite popular a few years ago. But this CD, titled “Paper Music” is a collection of classical music, in which he uses his voice as an instrument while at the same time leading the St. Paul Chamber Orchestra. Buried inside the cover of the CD is an editor’s note on the title of the CD. Part of it says:

The most difficult thing for the conductor may not be simply getting through the piece with the orchestra still intact but actually having something to say about the music. The composer of classical music puts splotches of ink on paper to suggest to performers what they must do to recreate the sounds heard by the composer in his or her inner hear. The music always exists – even if it’s not being performed at the moment. Some African musicians, however, whose tradition is an oral one, call notated music “paper music”. To capture sound in notation is an odd, abstract idea for people whose music exists because they keep it in their minds and hearts. Perhaps that’s where the key to

Bobby McFerrin's conducting lies: like many of the greatest composers – Bach, Beethoven and Mozart, for example – he is an accomplished improviser and has the ability to reach that place where the joy of making music overcomes the routine of weekly rehearsals and performances of black shorthand symbols on white paper to attempt to reproduce what they think someone else wanted them to say. Then it's not just paper music: it is music.

The presentations you heard over the last two days were naturally uneven: they represent the views of sectors, and of the people who lead them, that are at different stages of evolution in the adoption of our new culture at Fiat. Some are still reading paper music. But our commitment, the commitment of the Group, is to help and coach them into dropping sheet music, and accept the uncertainties and excitement associated with competition, naturally, because it is the only way to derive strength and build great businesses.

And the 2007-10 plan is ultimately, when all is said and done, a commitment to build great businesses.

Thank you for coming, and safe travels home.