ANNUAL REPORT

CONSOLIDATED AND STATUTORY FINANCIAL STATEMENTS

AT DECEMBER 31, 2004 — 99TH FISCAL YEAR

FIAT GROUP

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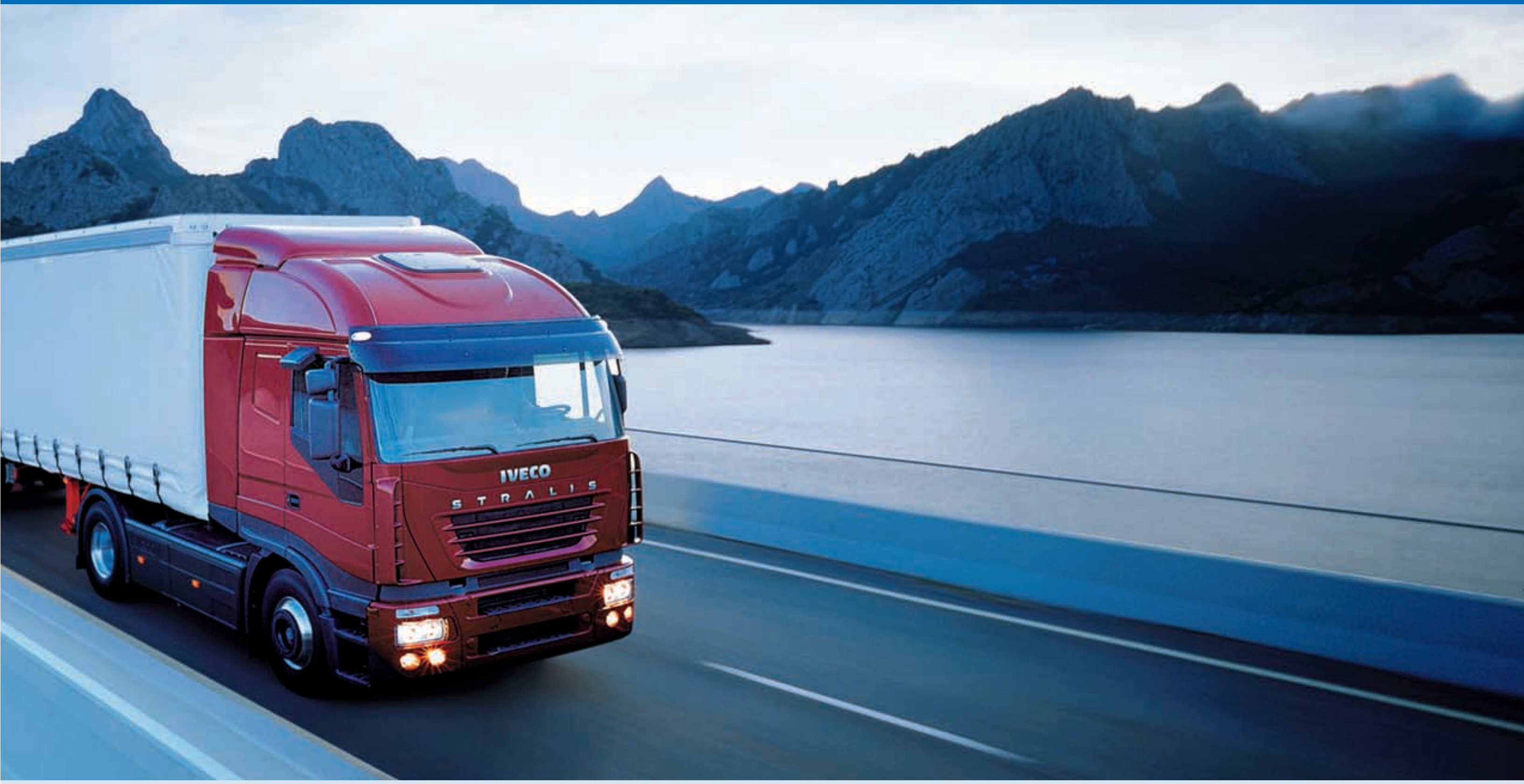
FIAT GROUP

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2004



Fiat S.p.A.

Corporate Headquarter: 250 Via Nizza, Turin, Italy
Paid-in Capital: 4,918,113,540 euros
Entered in the Turin Company Register
Fiscal Code: 00469580013

CONSOLIDATED BALANCE SHEET

■ ASSETS

(in millions of euros)		*December 31, 2004*		*December 31, 2003*	
AMOUNTS DUE FROM STOCKHOLDERS FOR SHARES SUBSCRIBED BUT NOT CALLED			–		–
FIXED ASSETS					
Intangible fixed assets	(note 1)				
Start-up and expansion costs		115		144	
Research, development and advertising expenses		28		22	
Industrial patents and intellectual property rights		402		406	
Concessions, licenses, trademarks and similar rights		297		347	
Goodwill		151		151	
Intangible assets in progress and advances		204		246	
Other intangible assets		136		157	
Differences on consolidation		1,989		2,251	
Total			3,322		3,724
Property, plant and equipment	(note 2)				
Land and buildings		2,696		2,736	
Plant and machinery		3,204		3,393	
Industrial and commercial equipment		1,708		1,504	
Other assets		1,232		1,314	
Construction in progress and advances		697		728	
Total			9,537		9,675
Financial fixed assets	(note 3)				
Investments in:					
unconsolidated subsidiaries		236		435	
associated companies		3,330		3202	
other companies		158		257	
Total Investments			3,724		3,894
Receivables from					
others:					
due within one year		18		4	
due beyond one year		1		25	
Total Receivables from others		19		29	
Total Receivables			19		29
Other securities			55		56
Treasury Stock			–		–
Finance lease contracts receivable			1,727		1,797
Total			5,525		5,776
TOTAL FIXED ASSETS			18,384		19,175
CURRENT ASSETS					
Inventories	(note 4)				
Raw materials and supplies		1,155		1,099	
Work in progress and semifinished products		789		944	
Contract work in progress		2,886		4,077	
Finished goods and merchandise		3,711		4,052	
Advances to suppliers		7,076		5,188	
Total			15,617		15,360

CONSOLIDATED BALANCE SHEET

(in millions of euros)			*December 31, 2004*		*December 31, 2003*
CURRENT ASSETS (continued)					
Receivables	(note 5)				
Trade receivables:					
due within one year		3,899		3,733	
due beyond one year		29		25	
Total Trade receivables			3,928		3,758
Receivables from unconsolidated subsidiaries:					
due within one year		49		73	
due beyond one year		3		3	
Total Receivables from unconsolidated subsidiaries			52		76
Receivables from associated companies:					
due within one year		855		764	
due beyond one year		9		–	
Total Receivables from associated companies			864		764
Taxes Receivable:					
due within one year		1,114		1,413	
due beyond one year		123		137	
Total Taxes receivable			1,237		1,550
Deferred tax assets					
due within one year		748		536	
due beyond one year		1,413		1,343	
Total Deferred tax assets			2,161		1,879
Other receivables:					
due within one year		1,575		1,319	
due beyond one year		142		167	
Total Other receivables			1,717		1,486
Total			9,959		9,513
Financial assets not held as fixed assets	(note 6)				
Investments					
in other companies		33		32	
Total Investments			33		32
Other securities			2,184		3,845
Treasury stock			26		32
Financial receivables					
Receivables from unconsolidated subsidiaries:					
due within one year		565		475	
due beyond one year		–		46	
Total Financial receivables from unconsolidated subsidiaries		565		521	
Receivables from associated companies:					
due within one year		225		413	
due beyond one year		181		231	
Total Financial receivables from associated companies		406		644	
Receivables from others:					
due within one year		3,806		6,488	
due beyond one year		2,374		3,097	
Total Financial receivables from others		6,180		9,585	
Total Financial receivables			7,151		10,750
Total			9,394		14,659
Cash	(note 7)				
Bank and post office accounts		3,151		3,195	
Checks		3		9	
Cash on hand		10		7	
Total			3,164		3,211
TOTAL CURRENT ASSETS			38,134		42,743
ACCRUED INCOME AND PREPAID EXPENSES	(note 8)				
Other accrued income and prepaid expenses		725		793	
TOTAL ACCRUED INCOME AND PREPAID EXPENSE			725		793
■ TOTAL ASSETS			57,243		62,711

CONSOLIDATED BALANCE SHEET

■ LIABILITIES AND STOCKHOLDERS' EQUITY

(in millions of euros)		*December 31, 2004*		*December 31, 2003*	
STOCKHOLDERS' EQUITY	(note 9)				
Stockholders' equity of the Group					
Capital stock		4,918		4,918	
Additional paid-in capital		–		279	
Legal reserve		447		659	
Treasury stock valuation reserve		26		32	
Retained earnings and other reserves		1,294		2,805	
Net loss		(1,586)		(1,900)	
Total			5,099		6,793
Minority interest			658		701
TOTAL STOCKHOLDERS' EQUITY			5,757		7,494
RESERVES FOR RISKS AND CHARGES	(note 10)				
Reserve for pensions and similar obligations		1,432		1,503	
Income tax reserves		274		309	
Other reserves		3,585		3,478	
Insurance policy liabilities and accruals		91		89	
TOTAL RESERVES FOR RISKS AND CHARGES			5,382		5,379
RESERVE FOR EMPLOYEE SEVERANCE INDEMNITIES	(note 11)		1,286		1,313
PAYABLES	(note 12)				
Bonds:					
due within one year		1,868		1,034	
due beyond one year		6,944		8,576	
Total Bonds			8,812		9,610
Convertible bonds:					
due within one year		–		1,765	
due beyond one year		13		–	
Total Convertible bonds			13		1,765
Financial Payables from stockholders:					
due within one year		–		–	
due beyond one year		–		–	
Total Financial payables from stockholders:			–		–
Borrowings from banks:					
due within one year		6,949		2,697	
due beyond one year		1,815		6,687	
Total Borrowings from banks			8,764		9,384
Other financial payables:					
due within one year		704		809	
due beyond one year		161		155	
Total Other financial payables			865		964
Advances:					
due within one year		2,556		2,877	
due beyond one year		7,361		6,272	
Total Advances			9,917		9,149
Trade payables:					
due within one year		10,949		11,733	
due beyond one year		43		36	
Total Trade payables			10,992		11,769
Notes payable:					
due within one year		207		224	
due beyond one year		–		1	
Total Notes payable			207		225
Payables to unconsolidated subsidiaries					
due within one year		49		68	
Total Payables to unconsolidated subsidiaries			49		68

CONSOLIDATED BALANCE SHEET

(in millions of euros)			*December 31, 2004*		*December 31, 2003*
PAYABLES (continued)					
Payables to associated companies:					
due within one year		997		842	
Total Payables to associated companies			997		842
Taxes payable:					
due within one year		714		833	
due beyond one year		29		28	
Total Taxes payable			743		861
Social security payable:					
due within one year		308		283	
due beyond one year		2		4	
Total Social security payable			310		287
Other payables:					
due within one year		1,202		1,288	
due beyond one year		37		28	
Total Other payables			1,239		1,316
TOTAL PAYABLES			42,908		46,240
ACCRUED EXPENSES AND DEFERRED INCOME	(note 13)				
Other accrued expenses and deferred income		1,910		2,285	
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME			1,910		2,285
■ TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY			57,243		62,711

CONSOLIDATED BALANCE SHEET

■ MEMORANDUM ACCOUNTS (note 14)

(in millions of euros)	*December 31, 2004*		*December 31, 2003*	
GUARANTEES GRANTED				
Unsecured guarantees				
Suretyships				
on behalf of associated companies	–		10	
on behalf of others	2,719		3,050	
Total Suretyships		2,719		3,060
Guarantees of notes				
on behalf of others	217		259	
Total Guarantees of notes		217		259
Other unsecured guarantees				
on behalf of unconsolidated companies	30		–	
on behalf of associated companies	269		295	
on behalf of others	2,235		2,780	
Total Other unsecured guarantees		2,534		3,075
Total Unsecured guarantees		5,470		6,394
Secured guarantees				
on behalf of others	50		36	
Total Secured guarantees		50		36
TOTAL GUARANTEES GRANTED		5,520		6,430
COMMITMENTS				
Commitments related to derivative financial instruments	21,319		20,798	
Commitments to purchase property, plant and equipment	408		329	
Other commitments	12,813		10,350	
TOTAL COMMITMENTS		34,540		31,477
THIRD-PARTY ASSETS HELD BY THE GROUP		1,594		1,923
GROUP ASSETS HELD BY THIRD PARTIES		3,218		4,496
OTHER MEMORANDUM ACCOUNTS		284		380
■ TOTAL MEMORANDUM OF ACCOUNTS		45,156		44,706

CONSOLIDATED STATEMENT OF OPERATIONS

(in millions of euros)			*2004*		*2003*		*2002*
VALUE OF PRODUCTION	(note 15)						
Revenues from sales and services			**46,488**		48,346		55,427
Change in work in progress, semifinished and finished products inventories			**(202)**		700		(816)
Change in contract work in progress			**215**		(1,075)		222
Additions to internally produced fixed assets			**809**		688		1,107
Other income and revenues:							
revenue grants		**54**		52		47	
other		**1,462**		1,637		2,105	
Total Other income and revenues			**1,516**		1,689		2,152
TOTAL VALUE OF PRODUCTION			**48,826**		50,348		58,092
COSTS OF PRODUCTION	(note 16)						
Raw materials, supplies and merchandise			**28,951**		28,392		30,289
Services			**7,984**		8,505		9,890
Leases and rentals			**364**		367		468
Personnel:							
salaries and wages		**4,462**		4,707		5,457	
social security contributions		**1,168**		1,249		1,365	
employee severance indemnities		**187**		244		256	
employee pensions and similar obligations		**178**		185		100	
other costs		**374**		303		376	
Total Personnel costs			**6,369**		6,688		7,554
Amortization, depreciation and writedowns:							
amortization of intangible fixed assets		**475**		519		595	
depreciation of property, plant and equipment		**1,693**		1,750		2,019	
writedown of fixed assets		**31**		35		3	
writedown of receivables among current assets and cash		**287**		278		366	
Total Amortization, depreciation and writedowns			**2,486**		2,582		2,983
Change in raw materials, supplies and merchandise inventories			**(230)**		81		38
Provisions for risks			**1,394**		1,163		1,138
Other provisions			**15**		17		30
Other operating costs			**1,075**		1,028		1,304
Expenses of financial services companies			**376**		668		1,115
Insurance claims and other insurance costs			**20**		1,367		4,045
TOTAL COSTS OF PRODUCTION			**48,804**		50,858		58,854
DIFFERENCE BETWEEN THE VALUE AND COSTS OF PRODUCTION			**22**		(510)		(762)
FINANCIAL INCOME AND EXPENSES	(note 17)						
Investment income from:							
unconsolidated subsidiaries		**–**		–		4	
associated companies		**1**		1		1	
other companies		**8**		21		151	
Total Investment income			**9**		22		156
Other financial income:							
from receivables held as fixed assets:							
from others		**–**		3		2	
from securities held as fixed assets other than equity investments		**1**		–		156	
from securities held as current assets other than equity investments		**39**		119		147	

CONSOLIDATED STATEMENT OF OPERATIONS

(in millions of euros)		*2004*		*2003*		*2002*	
FINANCIAL INCOME AND EXPENSES (continued)							
Other financial income (continued)							
Other income from:							
unconsolidated subsidiaries		**4**		8		25	
associated companies		**6**		7		23	
others		**1,221**		1,320		1,866	
Total Other income		**1,231**		1,335		1,914	
Total Other financial income			**1,271**		1,457		2,219
Interest and other financial expenses from:							
unconsolidated subsidiaries		**–**		3		2	
associated companies		**5**		6		2	
others		**1,939**		2,480		2,931	
Total Interest and other financial expenses			**1,944**		2,489		2,935
Foreign exchange gains and losses			**25**		47		(111)
TOTAL FINANCIAL INCOME AND EXPENSES			**(639)**		(963)		(671)
ADJUSTMENTS TO FINANCIAL ASSETS	(note 18)						
Revaluations of:							
equity investments		**125**		91		68	
financial fixed assets other than equity investments		**–**		–		–	
securities held in current assets other than equity investments		**–**		14		7	
Total Revaluations			**125**		105		75
Writedowns of:							
equity investments		**126**		263		809	
financial fixed assets other than equity investments		**23**		1		84	
securities held in current assets other than equity investments		**2**		8		45	
financial receivables		**71**		5		18	
Total Writedowns			**222**		277		956
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS			**(97)**		(172)		(881)
EXTRAORDINARY INCOME AND EXPENSES	(note 19)						
Income:							
gains on disposals		**162**		1,826		1,081	
other income		**154**		191		154	
Total Income			**316**		2,017		1,235
Expenses:							
losses on disposals		**5**		50		1,239	
taxes relating to prior years		**39**		26		79	
other expenses		**1,135**		1,594		2,420	
Total Expenses			**1,179**		1,670		3,738
TOTAL EXTRAORDINARY INCOME AND EXPENSES			**(863)**		347		(2,503)
LOSS BEFORE TAXES			**(1,577)**		(1,298)		(4,817)
Income taxes	(note 20)		**(29)**		650		(554)
LOSS BEFORE MINORITY INTEREST			**(1,548)**		(1,948)		(4,263)
Minority interest			**(38)**		48		315
NET LOSS			**(1,586)**		(1,900)		(3,948)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The 2004 consolidated financial statements have been prepared in accordance with the rules contained in Italian Legislative Decree No. 127 dated April 9, 1991, which fulfilled the Fourth and Seventh EC Directives and the revisions introduced by Legislative Decree No. 6 of 2003 "Reform of Corporate Law". The significant events which occurred after the end of the fiscal year described in the Report of Operations are an integral part of the notes to the consolidated financial statements.

The consolidated financial statements include the financial statements of Fiat S.p.A., the Parent Company, and of all Italian and foreign subsidiaries that constitute the Fiat Group ("Fiat" or "The Group"), in which Fiat S.p.A. holds directly or indirectly more than 50% of the voting capital and/or has de facto control over operations. The companies in which the Parent Company holds, directly or indirectly, control jointly with other partners, are normally accounted for using the equity method. The same is true for the associated companies in which the Group exercises a significant influence.

Certain insignificant subsidiaries, including those acquired for resale, which total less than 0.3% in 2004 (0.3% in 2003 and 0.5% in 2002) of total consolidated revenues and for which it is not practicable to obtain the necessary information on a timely basis without disproportionate expense, have been excluded from consolidation. This exclusion does not affect the assertion that the consolidated financial statements are a true and fair representation of the financial position and results of operations of the Group. Furthermore, the subsidiary BUC – Banca Unione di Credito, as allowed by law, has been excluded from the scope of consolidation inasmuch as it has non-homogeneous operations and is accounted for using the equity method.

As discussed in Report on Operations, the composition of the Fiat Group underwent several significant changes in 2004, and in particular:

- In February 2004, 100% of the interest held in Fiat Engineering S.p.A. was sold to Maire Investimenti S.p.A. and the company was therefore deconsolidated as of the beginning of the year. At the same time, the Fiat Group subscribed to a capital increase at Maire Investimenti S.p.A. (now Maire Engineering S.p.A.) and currently owns 30% of the capital of this company. On said 30% interest, both parties hold put (Fiat Group) and call (Maire Engineering S.p.A.) options that are exercisable within three years at a predetermined price.
- In the second quarter of 2004, the Group consolidated Magneti Marelli Electronic Systems (formerly Ixfin Magneti Marelli Sistemi Elettronici) on a line-by-line basis following gradual acquisition of actual control over this strategic supplier of Fiat Auto and other automotive groups. In 2002 this business had been sold to the Mekfin Group, which in turn sold it to the Ixfin Group. So that the company would punctually respect the commitments it had made to its customers and continue pursuing its growth strategies, an agreement was signed at the end of 2003 between the Ixfin Group and the Fiat Group, on the basis of which Magneti Marelli, pursuant to an agreement providing for the beneficial interest in the shares of Ixfin Magneti Marelli Sistemi Elettronici, started to take an increasingly active role in the management of Electronic Systems in 2004. Finally, on July 28, 2004 the Fiat Group decided to acquire full ownership thereof by exercising a call option.
- In September, Magneti Marelli sold the 100% interest in the **Midas** business (automotive repair and maintenance services) in Europe and Latin America to the Norauto Group and deconsolidated the related activities from September 30, 2004.

For a better understanding of the variations in the statement of operations, it should be noted that major changes in the composition of the Group took place during 2003, the most important of which that had an impact on 2004 are indicated below:

- At the end of March 2003, the **retail financing** activities of Fiat Auto Holdings in **Brazil** were sold to the Itaù banking group and deconsolidated from that date.
- On May 2, 2003, the agreement for the sale of the Toro Assicurazioni Group to the DeAgostini Group was executed and the Toro Group was deconsolidated as of that date.
- On May 27, 2003, Fiat and a pool of banks completed the sale of 51% of Fidis Retail Italia (FRI), a company which at that time controlled part of the European consumer credit business of Fiat Auto Holdings for retail automobile purchases; another part of this business was sold to FRI in October 2003, while the sale of the Company operating in the United Kingdom was concluded in 2004.
- In July 2003 the agreement was executed for the sale of the aerospace activities of FiatAvio S.p.A. to Avio Holding S.p.A., 70% owned by The Carlyle Group and 30% by Finmeccanica S.p.A.

PRINCIPLES OF CONSOLIDATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared from the statutory financial statements of the Group's single companies or consolidated Sectors approved by the Boards of Directors and adjusted, where necessary, by the directors of the companies to conform with Group accounting principles and to eliminate tax-driven adjustments. The Group's accounting principles respect the requirements set forth by Legislative Decree No. 127 of April 9, 1991, interpreted and supplemented by the Italian accounting principles issued by

the National Boards of Dottori Commercialisti and of Ragionieri and, where there are none and not at variance, by those laid down by the International Accounting Standards Board (I.A.S.B.).
As regards the transition to International Accounting Standards "International Financial Reporting Standards IFRS" issued by the I.A.S.B., reference should be made to the specific section in the Report on Operations.

In order to obtain a true and fair representation of the financial position and results of operations of the Group, taking into account their functional integration, the financial companies that provide services to the industrial Sectors and the insurance companies have been consolidated on a line-by-line basis. As a result, adjustments to the balance sheet and statement of operations format have been made in applying Article 32 of Legislative Decree No. 127/91, which provides for changes to be made to obtain a more clear, true and correct representation of the financial position and results of operations.

Again in reference to the financial statement formats, integrations have been made to comply with Legislative Decree No. 6 of 2003 "Reform of Corporate Law". Accordingly, the corresponding figures for the previous years have been reclassified.

Principles of consolidation

Assets and liabilities, and revenues and expenses, of subsidiaries consolidated on a line-by-line basis are included in the consolidated financial statements, regardless of the percentage of ownership. Carrying values of investments are eliminated against the subsidiaries' related stockholders' equity. The portion of stockholders' equity and results of operations attributed to minority interests are disclosed separately. When losses pertaining to minority interests exceed the value of their share of the relevant capital stock, the excess, or deficit, is charged to the Group, unless the minority stockholders are expressly committed to reimbursing the losses, in which case the excess is recorded as an asset in the consolidated financial statements. If no such commitment is in place, should income be realized in the future, the minority interests' share of that income will be attributed to the Group, up to the amount necessary to recover the losses previously attributed to the Group.

Differences arising from the elimination of investments (since 1994) against the related stockholders' equity of the investment at the date of acquisition are allocated to the assets and liabilities of the company being consolidated, up to the limit of their current value. The residual value, if positive, is capitalized as an asset, "Differences on consolidation", and is amortized on the straight-line basis over the estimated period of recoverability. Negative residual amounts are recorded as a component of stockholders' equity, "Consolidation reserve" (or as a liability, "Consolidation reserve for future risks and charges", when due to a forecast of unfavorable economic results).

Intercompany profits and losses are eliminated net of related tax effects, together with all intercompany receivables, payables, revenues and expenses arising on transactions within the Group. Exceptions are the gross margins on intercompany sales of plant and equipment produced and sold at prices in line with market conditions, in which case such eliminations would be effectively irrelevant and not cost-beneficial.
Also subject to elimination are guarantees, commitments and risks relating to companies included in the scope of consolidation.

The balance sheets of foreign subsidiaries are translated into euros by applying the exchange rates in effect at year end. The statements of operations of foreign subsidiaries are translated using the average exchange rates for the year. In the financial statements of subsidiaries operating in high-inflation countries (cumulative inflation in excess of 100% in three years), accounting principles for hyperinflationary economies are used.

Exchange differences resulting from the translation of opening stockholders' equity at current exchange rates and at the exchange rates used at the end of the previous year, as well as differences between net income expressed at average exchange rates and expressed at current exchange rates, are reflected in the stockholders' equity caption "Cumulative translation adjustments".

The exchange rates used are summarized in Note 23.

OTHER INFORMATION

The following information is presented in the Report on Operations:

- Significant events occurring since the end of the fiscal year and business outlook;
- Transactions among Group Companies and with related parties;
- Statement of cash flows.

Accounting principles

Balance sheet

Fixed assets

Intangible fixed assets

Intangible assets and deferred charges expected to benefit future periods are recorded at cost, adjusted by amortization calculated on a straight-line basis over the period to be benefited. In particular, goodwill and differences on consolidation are amortized over a period of no more than 20 years, taking into account their expected period of recovery. In general, the Group periodically reviews that the carrying value of such assets is not higher than the estimated recovery value, in relation to their use or realization, as determined by reference to the most recent corporate plans according to the method indicated in the Italian Accounting Principle No. 24 "Intangible assets". In cases in which there is a permanent impairment in the estimated recovery value that is lower than carrying value, appropriate writedowns are recorded.

The costs of researching and developing new products and/or processes are mainly included in the results of operations in the period in which such costs are incurred.

Goodwill is recorded as an asset when acquired for consideration.

Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost. These values are adjusted where specific laws of the country in which the assets are located allow or require revaluation, in order to reflect, even if only partially, changes in the purchasing power of the currency. Cost also includes financing expenses incurred during the construction period for specific loans, where significant.

Depreciation is provided on a straight-line basis at rates that reflect the estimated useful life of the related assets.

When, at the balance sheet date, property, plant and equipment show a permanent impairment in value below their carrying value, such assets are written down to the lower value, according to the method indicated in the Italian Accounting Principle No. 16, "Tangible assets".

Ordinary repairs and maintenance expenses related to property, plant and equipment are charged to the statement of operations in the year in which they are incurred, while maintenance expenses which increase the value of property, plant and equipment are capitalized and depreciated over the estimated useful lives of the assets.

Capital investment grants related to investments in property, plant and equipment are recorded as deferred income when collection becomes certain and credited to income over the useful life of the related asset.

The revaluation of assets allowed by Law No. 342/2000, which effected only a very few Italian companies of the Group, was reversed in the consolidated financial statements, for purposes of giving preference to the uniformity and comparability of the accounting principles.

Financial fixed assets

Financial fixed assets include investments in unconsolidated subsidiaries, associated companies and other companies, financial receivables held for investment purposes and other securities.

Investments in unconsolidated subsidiaries, in companies in which Fiat exercises joint control with other partners, as well as in associated companies (those in which Fiat exercises, directly or indirectly, a significant influence), are normally accounted for using the equity method. This method is not used in cases in which the investor no longer exercises significant influence over the investee, in which case the cost is considered to be the value of the investment taken from the prior year's financial statements.

Investments in other companies are valued at cost. In the event of a permanent impairment in value, a specific allowance is provided as a direct reduction of the asset account.

Financial receivables are recorded at estimated realizable value.

Securities are recorded at cost, including additional direct charges. In the event of permanent impairment, a valuation allowance is provided as a direct reduction of the securities.

Financial fixed assets include finance lease contracts receivable, recorded at cost. The related depreciation is calculated, according to the financial method, based on the life of the lease and the related risk in managing such contracts.

Current assets

Inventories of raw materials, semifinished products, finished goods and contract work in progress completed within the fiscal year are valued at the lower of cost or market, cost being determined on a First In-First-Out (FIFO) basis. The valuation of inventories includes the direct costs of materials, labor and indirect costs (variable and fixed). 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.

Work in progress on long-term contracts is valued based on the stage of completion and is recorded gross of advance payments received from customers. Eventual losses on such contracts are fully recorded when they become known.

Receivables are recorded at estimated realizable value. Any unearned interest included in the nominal value of financial receivables has been deferred to future periods. Receivables sold to third parties with recourse or without recourse (including those sold as part of securitization transactions) are eliminated from receivables and disclosed in the memorandum accounts. Receivables denominated in foreign currency are translated at the exchange rate in effect at year end. Resulting exchange gains and losses are included in the statement of operations.

Other receivables also include deposits to guarantee the securitization transactions of trade receivables (securitization refers to particular programs of discounting trade receivables without recourse, with a collateral deposit as a guarantee).

Current assets also include investments and securities acquired as short-term investments which are valued at the lower of cost or market, cost being determined on a Last-In First-Out (LIFO) basis.

Treasury stock consists of Fiat S.p.A. shares bought by Fiat; it is valued at the lower of cost or market, cost being determined on a Last-In First-Out (LIFO) basis or the exercise price of the stock options serviced by the treasury stock.

A specific reserve for treasury stock is also recorded under the stockholders' equity of the Group for the same amount.

Reserves for risks and charges and employee severance indemnities

The reserves for risks and charges include provisions to cover losses or liabilities likely to be incurred but uncertain as to the amount or as to the date on which they will arise.

In particular, the reserve for pensions and similar obligations includes provisions for long-term service or other bonuses (including pension funds required by some countries in which the Group operates), payable to employees and former employees under contractual agreements or by law, recorded on an actuarial basis, where applicable. In particular, where reference is made to IAS 19 "Employee Benefits" for the accounting of certain contractual features in the absence of specific Italian regulations, the Group has adopted the "corridor" method.

Restructuring reserves include the costs to carry out corporate reorganization and restructuring plans and are provided in the year the company formally decides to commence such plans and the relative costs can be reasonably estimated.

The reserve for employee severance indemnities comprises liability for severance indemnities that Italian companies accrue each year end for employees, as determined in accordance with labor legislation. In particular, the liability includes a portion of the employee's annual salary and is indexed for inflation in accordance with Italian rules.

Payables

Payables are recorded at face value; the portion of interest included in the nominal amount is deferred until future periods in which it is earned. Accounts payable denominated in foreign currency are translated at the exchange rate in effect at year end. Resulting exchange gains and losses are included in the statement of operations.

Taxes payable includes the tax charge for the current year recorded in the statement of operations.

Accruals and deferrals

Accruals and deferrals are determined using the accrual method based on the income and expense to which they relate.

Securitization of financial receivables

The Fiat Group has programs for discounting financial receivables originated by the financial services companies using securitization transactions. This discounting of financial receivables calls for the sale without recourse of a portfolio of financial receivables to a non-Group securitization vehicle. This company finances the purchase of the portfolio by issuing securities which it backs (Asset Backed Securities). The securities issued are divided into two types having different characteristics: the first is placed on the market, occasionally subdivided by various classes of ratings, and subscribed to by investors; the second, the reimbursement of which is subordinated to the first, is subscribed to by the seller. The risk for the seller is limited to the portion of the securities which it has subscribed. At the end of each accounting period, therefore, such securities are evaluated in relation to the performance of the receivables sold and may be written down on the basis of this evaluation. These securities are recorded in Financial receivables.

Lastly, these sales without recourse require the immediate recognition of the present value of the future margin implicit in the receivables sold, net of discounting costs. This net value is included in the Value of production since it relates to revenues arising out of the normal operations of the financial services companies (to this end, the financial income of such companies is included in revenues from sales and services, as described in the relevant note).

Memorandum accounts

Derivative financial instruments

Financial instruments used to hedge exchange and interest rate fluctuations and, in general, changes in the assets and liabilities, are presented in Note 14. Derivative financial instruments are recorded at inception in the memorandum accounts at their notional contract amount.

Beginning in 2001, the Fiat Group adopted – to the extent that it is consistent and not in contrast with general principles set forth in the Italian law governing financial statements – the international accounting standard IAS 39 "Financial Instruments: Recognition and Measurement", applicable beginning January 1, 2001. Such principle covers the accounting treatment of all financial assets and liabilities in and off-balance sheet and, in particular, states that derivative financial instruments should be valued at fair value. Taking into account the restrictions under Italian law and the evolution of the law now underway, the Group maintains, consistently with Consob rulings, that IAS 39 is applicable only in part and only in reference to the designation of derivative financial instruments as "hedging" or "non-hedging instruments" and with respect to the symmetrical accounting of the result of the valuation of the derivative hedging instrument and the result attributable to the hedged item ("hedge accounting"). The transactions which, according to the Group's policy for risk management, are able to meet the conditions stated by the accounting principle for hedge accounting treatment are designated as hedging transactions; the others although set up for the purpose of managing risk (inasmuch as the Group's policy does not permit speculative transactions), have been designated as "trading".

Details of the accounting treatment adopted are as follows.

For foreign exchange instruments designated as hedges, the premium or discount, representing the difference between the spot exchange rate at the inception of the contract and the forward exchange rate, is recorded in the statement of operations, in Financial income and expenses, in accordance with the accrual method. Differences between the value of such instruments using the exchange rates at inception and those at year end are also included in the statement of operations to offset the exchange effects of the items being hedged. In particular, for contracts put into place to hedge the exchange risk of future transactions that are considered highly probable, the effects of the alignment with the year-end exchange rate are deferred until the year in which the underlying transactions are recorded.

For interest rate instruments designated as hedges, the interest rate differential is included in the statement of operations, in Financial income and expenses, in accordance with the accrual method, offsetting the effects of the hedged transaction.

Derivative financial instruments hedging interest rate fluctuations that are designated as trading instruments are valued at market value and the differential, if negative compared to the contractual value, is recorded in the statement of operations as Financial income and expenses, in accordance with the concept of prudence.

The same prudent principle is followed in recording derivative financial instruments to manage trading risks (for example equity swaps) that do not meet the conditions for hedge accounting treatment.

Statement of Operations

Revenue recognition

Revenues from sales and services are recognized on the accrual basis net of returns, discounts, allowances and rebates.

Revenues from sales of products are recognized at the moment title passes to the customer, which is generally at the time of shipment. Under contracts for vehicle sale and buy-back at a specified price, a specific reserve for future risks and charges is set aside based on the difference between the guaranteed residual value and the estimated realizable value of the used asset, taking into account the probability that such option will be exercised; this reserve is set up at the time of the initial sale and adjusted periodically over the period of the contract.

Revenues from services are recorded when they are performed. Revenues from long-term contracts are recognized using the percentage of completion method.

Revenues from sales and services include income from the normal business of the financial services companies.

Revenues also include amounts received from financing leases, net of depreciation, and income from company assets on operating leases.

Premiums collected by the insurance companies are recognized in the statement of operations on an accrual basis.

Costs

Costs are recognized on an accrual basis.

Research and development costs are principally charged to the statement of operations in the period in which they are incurred. Research-related revenue grants provided by the Government or the EU are credited to the statement of operations when collection becomes certain.

Advertising and promotion expenses are charged to the statement of operations in the year incurred.

Estimated product warranty costs are charged to the statement of operations at the time the sale is recorded.

The Costs of production include the interest and expenses in the normal course of business of the financial services companies, as well as insurance claims and other technical costs of the insurance companies.

Financial income and expenses

Financial income and expenses are recorded on an accrual basis.

Income and expenses resulting from derivative financial instruments, as well as relevant year-end exchange differences, are included in the statement of operations in accordance with the above mentioned policies disclosed under the memorandum accounts.

Costs relating to the factoring of receivables and notes of any type (with recourse, without recourse, securitization) and nature (trade, financial, other) are charged to the statement of operations on an accrual basis.

Income taxes

Income taxes currently payable are provided for in accordance with the existing legislation of the countries in which the Group operates.

Deferred tax liabilities or deferred tax assets are determined for all of the temporary differences between the consolidated assets and liabilities and the corresponding amounts for purposes of taxation, including those deriving from the most significant consolidation adjustments. As allowed by the applicable Accounting Principles, deferred tax assets are also recorded to account for the tax benefit of tax loss carryforwards whenever the specific conditions for future recoverability are met.

In particular, deferred tax assets have only been recorded if there is a reasonable certainty of their future recovery. Deferred tax liabilities are not recorded if it is unlikely that a future liability will arise.

Deferred tax assets and liabilities are offset if they refer to the same company and to taxes which can be compensated. The balance from offsetting the amounts is recorded in deferred tax assets in current assets, if a deferred tax asset, and in the Deferred tax reserve, if a deferred tax liability.

COMPOSITION, PRINCIPAL CHANGES AND OTHER INFORMATION

Fixed assets

1 Intangible fixed assets

(in millions of euros)	*Net of amortization 12/31/2003*	*Additions*	*Amortization*	*Change in the scope of consolidation*	*Reclassi-fications*	*Foreign exchange effects*	*Disposals and Other changes*	*Net of amortization 12/31/2004*
Start-up and expansion costs	144	11	(41)	–	–	1	–	**115**
Research, development and advertising expenses	22	4	(9)	–	11	–	–	**28**
Industrial patents and intellectual property rights	406	48	(116)	3	85	(14)	(10)	**402**
Concessions, licenses, trademarks and similar rights	347	37	(82)	(16)	21	(10)	–	**297**
Goodwill	151	1	(16)	38	–	(9)	(14)	**151**
Intangible assets in progress and advances	246	99	–	–	(131)	–	(10)	**204**
Other intangible assets	157	38	(65)	(7)	14	–	(1)	**136**
Differences on consolidation	2,251	26	(146)	–	–	(130)	(12)	**1,989**
Total Intangible fixed assets	3,724	264	(475)	18	–	(162)	(47)	**3,322**

Intangible fixed assets are shown net of writedowns of 662 million euros (614 million euros at December 31, 2003) of which 604 million euros (579 million euros at December 31, 2003) relates to Goodwill and Differences on consolidation. Writedowns recorded in 2004 amount to 48 million euros (55 million euros in 2003) and are included in the Disposals and Other changes column.

Start-up and expansion costs at December 31, 2004 consist of deferred plant start-up costs and corporate formation costs of 57 million euros (60 million euros at December 31, 2003) and capital increase costs of 58 million euros (84 million euros at December 31, 2003).

Differences on consolidation amount to 1,989 million euros at December 31, 2004, (2,251 million euros at December 31, 2003) and include the net goodwill (net of amortization and writedowns, as described below) on the acquisition of the Case Group and other CNH Group companies for 1,756 million euros, the Irisbus Group for 43 million euros, Meridian Technologies Inc. for 23 million euros, certain Components Sector companies for 39 million euros (including 20 million euros as a result of the purchase of Magneti Marelli Sistemi Elettronici in 2004), certain Production Systems Sector companies for 39 million euros and other minor companies for 26 million euros. Differences on consolidation also include goodwill deriving from the Tender Offer issued in 2000 for the shares of Magneti Marelli S.p.A. for 15 million euros, as well as goodwill from the CNH Global N.V. capital increase effected in 2000 for 48 million euros.

As regards the amounts recorded in Goodwill and Differences on consolidation, amortization is charged over periods ranging from five to twenty years, on the basis of the expected recoverability of these amounts. At the end of the year, however, specific reviews were conducted to verify whether such amounts are recoverable by considering the existing prospects of earnings. From the analyses performed, taking into consideration the changed market conditions, the restructuring plans initiated by certain Sectors of the Group and the consequent impact on the business plans of various Sectors, permanent impairments in value were identified at December 31, 2004 that gave rise to writedowns totaling 25 million euros (38 million euros at December 31, 2003).

2 Property, plant and equipment

(in millions of euros)	Net of depreciation 12/31/2003	Additions	Depreciation	Change in the scope of consolidation	Reclassi-fications	Foreign exchange effects	Disposals and Other changes	Net of depreciation 12/31/2004	Accumulated depreciation 12/31/2004
Land and buildings	2,736	61	(139)	16	56	29	(63)	**2,696**	**2,010**
Plant and machinery	3,393	293	(605)	28	167	4	(76)	**3,204**	**7,810**
Industrial and commercial equipment	1,504	493	(627)	14	323	16	(15)	**1,708**	**6,828**
Other assets	1,314	616	(322)	(1)	11	(11)	(375)	**1,232**	**1,716**
Construction in progress and advances	728	649	–	3	(557)	(1)	(125)	**697**	**–**
Total Property, plant and equipment	9,675	2,112	(1,693)	60	–	37	(654)	**9,537**	**18,364**

Property, plant and equipment include revaluations required or allowed by national laws, which, net of related accumulated depreciation, amount to 197 million euros at December 31, 2004 (231 million euros at December 31, 2003).

No interest expenses were capitalized in 2004 or in 2003.

The change in the scope of consolidation shows a positive balance of 60 million euros as a result of the inclusion of companies in consolidation for 125 million euros and the sale of companies for 65 million euros.

Reclassifications refer to a reduction in construction in progress and advances on purchases of property, plant and equipment existing at the end of the prior year which were reclassified at the time they were effectively acquired and put into operation.

Disposals and Other changes, with a negative balance of 654 million euros, also includes the writedowns recorded during the year for 84 million euros (351 million euros in 2003), detailed by Sector as follows: Automobiles 75 million euros, Metallurgical Products 4 million euros, Components 1 million euros, and other minor companies 4 million euros. This item also comprises disposals relating to assets on operating leases of 303 million euros.

Other assets include vehicles on operating leases for 828 million euros at December 31, 2004 (914 million euros at December 31, 2003), mainly relating to long-term leases.

The depreciation rates used are determined on the basis of the estimated useful lives of the assets and are listed below:

	Depreciation rates
Land and buildings	3% – 9%
Plant and machinery	8% – 21%
Industrial and commercial equipment	16% – 28%
Other assets	11% – 25%

3 Financial fixed assets

Investments

(in millions of euros)	*Value at 12/31/2003*	*Equity in earnings*	*Equity in losses*	*Change in the scope of consolidation*	*Acquisitions and Capitalizations*	*Foreign exchange effects*	*Disposals and Other changes*	*Value at 12/31/2004*
Unconsolidated subsidiaries	435	11	(31)	(13)	16	2	(184)	**236**
Associated companies	3,202	113	(70)	3	74	17	(9)	**3,330**
Other companies	257	1	(9)	(3)	7	–	(95)	**158**
Total Investments	3,894	125	(110)	(13)	97	19	(288)	**3,724**

Equity in earnings and Equity in losses include the Group's share of the income or the loss of companies accounted for using the equity method. With regard to the companies accounted for at cost, Equity in losses includes the loss in value recorded in the year.

The negative Change in the scope of consolidation of 13 million euros, with reference to Investments in unconsolidated subsidiaries, is due to the line-by-line consolidation of some minor subsidiaries.

The amounts included in "Acquisitions and Capitalizations" (97 million euros) are mainly related to the following acquisitions and capitalizations:

- Investments in unconsolidated subsidiaries (16 million euros): capitalization of the company Fiat Auto S.A. de Ahorro para Fines Determinados (6 million euros), acquisition of the company BMI S.p.A. (4 million euros) and other minor companies (6 million euros);
- Investments in associated companies (74 million euros): acquisitions of the companies Maire Engineering S.p.A (35 million euros) and Immobiliare Novoli S.p.A. (21 million euros); capitalization of the companies CNH Capital Europe S.A.S. (8 million euros), CNH de Mexico SA de CV (5 million euros) and other minor companies (5 million euros);
- Investments in other companies (7 million euros): acquisition of the company Lingotto S.p.A. (3 million euros) and other minor companies (4 million euros).

Disposals and Other changes, which show a decrease of 288 million euros, refer principally to:

- Investments in unconsolidated subsidiaries (-184 million euros): the change refers to the dividends distributed by BUC-Banca Unione Credito;
- Investments in associated companies (-9 million euros): sale of the company Toro Targa Assicurazioni S.p.A. (-13 million euros) and other minor companies (4 million euros);
- Investments in other companies (-95 million euros): the decrease is due to the sale of Edison S.p.A. shares for 65 million euros and the sale of the company Gas Turbine Technologies S.p.A. for 6 million euros, the liquidation of Kish Receivables Company (21 million euros) and sales of other minor companies (3 million euros).

Investments held at December 31, 2004, by type of consolidation method, are analyzed as follows:

(in millions of euros)		At 12/31/2004		At 12/31/2003
Investments accounted for using the equity method		3,465		3,539
Investments valued on a cost basis:				
listed companies	93		158	
unlisted companies	166		197	
Total Investments valued at cost		259		355
Total Investments		3,724		3,894

Investments accounted for using the equity method: the decrease (74 million euros) is due to the dividends distributed mainly by BUC – Banca Unione di Credito and is partially offset by adjustments to account for the equity in the earnings and losses of the other companies accounted for using the equity method.

Investments valued on a cost basis: the decrease (65 million euros) in listed companies is mainly due to the sale of Edison S.p.A. shares. The reduction in unlisted companies valued at cost (-31 million euros) is the result of the liquidation of the Kish Receivables Company (-21 million euros) and the sale of other minor companies (-10 million euros).

The principal investments in unconsolidated subsidiaries are the following:

	At 12/31/2004		At 12/31/2003	
(in millions of euros)	%	Amount	%	Amount
Unconsolidated subsidiaries:				
Buc - Banca Unione di Credito	100.0	171	100.0	340
Leasys S.p.A.	51.0	16	51.0	36
Other unconsolidated subsidiaries (minor amounts)		49		59
Total		236		435

As allowed by law, the above companies have not been consolidated either because their operations are so dissimilar (BUC – Banca Unione di Credito) or because it would not have been possible to obtain the necessary information for their consolidation on a timely basis without disproportionate expense or because their operations are not significant. Such companies show a negative net financial position of 443 million euros (297 million euros at December 31, 2003).

As regards the investment in Leasys S.p.A., this company is subject to joint control with the other partner, even though the Fiat Group holds 51% of capital stock; like the other principal jointly controlled companies, the investment is accounted for using the equity method.

Investments in associated companies are as follows:

(in millions of euros)	At 12/31/2004 %	At 12/31/2004 Amount	At 12/31/2003 %	At 12/31/2003 Amount
Associated companies:				
Fiat-GM Powertrain B.V.	**50.0**	**1,258**	50.0	1,172
Italenergia Bis S.p.A	**24.6**	**514**	24.6	512
Fidis Retail Italia S.p.A.	**49.0**	**420**	49.0	372
Tofas-Turk Otomobil Fabrikasi Tofas A.S.	**37.9**	**183**	37.9	156
Sevel S.p.A.	**50.0**	**120**	50.0	118
Rizzoli Corriere della Sera MediaGroup S.p.A.	**9.8**	**101**	9.8	99
Kobelco Construction Machinery Co. Ltd.	**20.0**	**99**	20.0	103
Naveco Ltd.	**50.0**	**94**	50.0	102
CNH Capital Europe S.a.S.	**49.9**	**58**	49.9	45
Société Européenne de Véhicules Légers du Nord-Sevelnord Société Anonyme	**50.0**	**52**	50.0	49
Consolidated Diesel Company	**50.0**	**49**	50.0	54
Jiangsu Nanya Auto Co. Ltd.	**50.0**	**39**	50.0	54
New Holland HFT Japan Inc.	**50.0**	**30**	50.0	32
Turk Traktor Ve Ziraat Makineleri A.S.	**37.5**	**30**	37.5	33
CBC-Iveco Ltd.	**50.0**	**21**	50.0	40
Immobiliare Novoli S.p.A.	**40.0**	**21**	–	–
IPI S.p.A.	**10.0**	**16**	10.0	16
LBX Company LLC	**50.0**	**16**	50.0	15
Transolver Finance Establecimiento Financiero de Credito S.A.	**50.0**	**15**	50.0	14
Global Value Services S.p.A.	**50.0**	**14**	50.0	36
New Holland Trakmak Traktor A.S.	**37.5**	**13**	37.5	14
Maire Engineering S.p.A.	**30.0**	**12**	–	–
Al-Ghazi Tractors Ltd.	**43.2**	**12**	43.2	12
Hua Dong Teksid Automotive Foundry Co. Ltd.	**50.0**	**7**	50.0	7
CNH de Mexico SA de CV	**50.0**	**7**	50.0	6
Toro Targa Assicurazioni S.p.A.	**–**	**–**	49.0	13
Other associated companies		**129**		128
Total		3,330		3,202

The above list also comprises certain companies under joint control, the most important of which are Fiat-GM Powertrain B.V., Sevel S.p.A., Société Européenne de Véhicules Légers du Nord-Sevelnord Société Anonyme and Naveco Ltd. Such companies carry a negative net financial position of 1,203 million euros (negative of 1,093 million euros at December 31, 2003).

Fiat-GM Powertrain B.V.

Fiat-GM Powertrain B.V. is an industrial joint venture for the manufacture of engines and gears for cars that was set up in the second half of 2001 between Fiat and General Motors Corporation (General Motors) under the well-known strategic alliance. The key figures taken from the financial statements of Fiat-GM Powertrain, drawn up in accordance with the accounting principles of the Group for the valuation of the investment using the equity method at December 31, 2004 and 2003 are as follows:

(in millions of euros)	At 12/31/2004	At 12/31/2003
Balance sheet data		
Fixed assets	**3,149**	3,250
Total assets	**6,581**	6,611
Net indebtedness	**(1,273)**	(1,238)
Stockholders' equity	2,516	2,344

(in millions of euros)	*2004*	*2003*
Statement of operations data		
Net sales	**6,530**	6,598
Operating income	**255**	296
Net financial expenses	**31**	38
Net income	**139**	180

In view of the strictly industrial nature of the joint venture and in order to achieve a reading of its industrial performance that is consistent with the past, commencing in 2001 and during the period in which the industrial convergence is being implemented (estimated in approximately three years), the Group's share of the results of the company has been included in the consolidated statement of operations as a split between the operating/industrial component and the other non-operating components. In particular, the Group's share of the operating result of the company (127 million euros in 2004, 147 million euros in 2003, 143 million euros in 2002 and 47 in the second half of 2001), determined by the transfer pricing policy adopted, is included in the consolidated statement of operations as an adjustment to the cost of the products purchased from the joint venture, whereas the share of the result in the other non-operating components is allocated to the respective principal captions, without effect on the total net result recorded by the Group.

Lastly, as a consequence of the "Termination Agreement" signed between Fiat and General Motors on February 13, 2005, the joint venture will be dissolved during the first half of 2005 in the manner described previously in the Report on Operations – Significant events occurring since the end of the fiscal year and business outlook. Based upon the rules established in the agreement for the allocation of the assets between the two partners, it is deemed that the carrying value of Fiat-GM Powertrain recorded in the financial statements is fully recoverable.

Italenergia Bis

With reference to the investment in Italenergia Bis S.p.A., during the second half of 2002, the Fiat Group sold a 14% holding to certain other stockholders of the company (Banca Intesa, IMI Investimenti and Capitalia, hereinafter the "Banks") for 548 million euros, realizing a gain of 189 million euros. The related sales contracts and the contemporaneous agreements with another stockholder of Italenergia Bis (Electricité de France, hereinafter "EDF") provide, among other things, that:

- By virtue of an option acquired in respect of EDF (the so-called EDF Put), Fiat may elect, between March and April 2005, to sell the shares it still holds in Italenergia Bis (223,151,568 shares, equal to 24.6%,) to EDF, at a price corresponding to the value of the investment, as estimated on the basis of the valuations performed by three experts appointed for that purpose. That price, less a premium of 127 million euros, payable only in the event the option is exercised, may not be less than a minimum (floor) of 1,147 million euros, or 5.141698 euros per share.
- In connection with the EDF Put, the Banks (in addition to the put agreements negotiated independently with EDF for their respective initial holdings in Italenergia Bis) obtained a so-called "tag along/drag along" agreement from Fiat, and Fiat arranged a symmetrical Put/Call contract with EDF (conditional upon the prior exercise of the EDF Put by Fiat) that gives rise to two scenarios:

  a) Fiat independently exercises the EDF Put on its own 24.6% holding and in this case:

  – The Banks exercise the "tag along" under which the Banks ask Fiat to exercise for each of them the put clause of the put/call agreed with EDF at the same price conditions as the EDF Put (valuation at fair market value, minimum floor of 5.141698 euro per share).

  – The corresponding "drag along" allows Fiat to reacquire the Banks' shares in any case and to surrender them to EDF which in turn has, by means of the call clauses in the Put/Call, the right to ask Fiat to acquire and surrender the shares. In substance, by means of the call, EDF may (providing that Fiat exercised the EDF Put, which is a condition for the Put/Call) acquire the entire original Fiat investment.

  b) Fiat does not independently exercise the EDF Put on its own 24.6% holding and in this case:

  – The individual Banks, separately, have the right to request Fiat to exercise its Put on EDF which allows the Banks to exercise the "tag along", as described above, and to realize a gain.

  – Fiat may elect not to exercise the EDF Put, as instead requested, and the Banks have the right to ask that Fiat purchase from the same Banks their respective 4.66% holdings at the lower of the price determined pursuant to the EDF Put, in accordance with the same criteria and procedures agreed with EDF, and 6.5 euros per share.

  – Fiat does not have a call right on the Banks' holdings which were sold to the Banks definitively.

In conclusion, the 14% holding in Italenergia Bis sold by Fiat is subject to Put options exercisable in 2005 by each of the Banks. Nevertheless, the effects of the sale were considered final and the resulting gain realized in 2002, in that Fiat had contemporaneously stipulated a put option with EDF that will give it the right, in the event that the Banks ask to purchase said shares, to sell them to EDF at the same price conditions as the EDF Put.

In order to complete disclosure, it should be pointed out that in December 2004 Fiat received a letter in which EDF advised that it intends to invoke the arbitration rights available under the Put Option Agreement signed in September 2002 with Fiat. EDF claims that certain recent changes to Italian legislation have raised uncertainty regarding the nature and extent of the rights and interests that it would acquire under the Put Option Agreement. Fiat has reviewed its legal position on the issues raised by EDF and it believes that its rights under the Put Option Agreement are unaffected by the position communicated by EDF. At the end of December 2004, EDF asked the organization which administers arbitration proceedings – the London Court of International Arbitration – to commence arbitration for the above reasons. Fiat has presented its defense case before the Court. It is probable that the arbitration will end by the end of the year.

Again in December, EDF initiated arbitration proceedings against Fiat with regard to the Put on the 14% holding sold to the three Banks in 2002 and functionally at the service of the tag-along/drag-along right granted to the same Banks in the event of exercising the Put Option relative to the 24.6% holding. In this request, too, EDF claims that certain recent changes to Italian legislation have raised uncertainty regarding the nature and extent of the rights and interests that it would acquire under the Put Option Agreement. Also in this case, Fiat has reviewed its legal position on the issues raised by EDF and it believes that its rights under the Put Option Agreement are well-founded. The arbitration is under the administration of the International Chamber of Commerce and in its initial stages.

The legal steps taken by EDF are to be associated with similar actions undertaken by EDF with regard to the other stockholders of Italenergia Bis and with the well-known initiatives, according to press reports, advanced in relation to other operators in the sector and financial operators aimed at identifying an industrial or financial partner in Italenergia Bis. Press sources have also revealed that negotiations are underway between the Italian and French governments concerning the reciprocal opening of the electricity market.

On March 21, 2005 Fiat exercised the Put option relating to 24.6% of the shares as well as the Put on the 14% holding sold to the three banks in 2002.

Fidis Retail Italia (FRI)

With reference to the associated company Fidis Retail Italia S.p.A. ("FRI"), this company was set up to take over the European activities of the Automobile Sector in the area of consumer financing for retail automobile purchases. To this end, those activities, performed by various companies operating in different countries in Europe, were gradually sold to FRI, after obtaining the necessary authorizations from the local regulatory agencies. As envisaged by the Framework Agreement signed on May 27, 2002 by Fiat and the "Money Lending Banks" (Capitalia, Banca Intesa, SanPaolo IMI and later Unicredito Italiano), on May 27, 2003, the Fiat Group sold 51% of FRI's shares and, as a result, the relative control, to Synesis Finanziaria S.p.A., an Italian company held equally by the four Banks, at the price of 370 million euros. This transaction led to a loss of 15 million euros that had already been set aside in a specific reserve for risks in the consolidated financial statements at December 31, 2002, based upon the binding agreements signed by the parties at that time. The sale contract calls for Put and Call options that can be summarized as follows:

- Call Option by Fiat Auto to purchase 51% of Fidis Retail Italia, held by Synesis Finanziaria, exercisable quarterly up to January 31, 2008 (initially up to January 31, 2006, before the extension agreed on February 4, 2005) at a price increased prorata temporis over the sales price plus additional payments less any distributions.
- Synesis Finanziaria's right to ask Fiat Auto to exercise the above purchase option on 51% of Fidis Retail Italia in the event of which, by January 31, 2008 (January 31, 2006, before the above mentioned extension) there is a change in control of Fiat or Fiat Auto (also through the sale of a substantial part of the companies owned by Fiat Auto or one of its brands Fiat, Alfa and Lancia) as set forth in the relative stockholders agreement between Fiat Auto, Synesis Finanziaria and the four money lending banks.
- So-called "tag along" option on behalf of Synesis Finanziaria if the same events referred to in the preceding point occur after January 31, 2008 (originally January 31, 2006).
- So-called "drag along" option on behalf of Fiat Auto in the event of the sale of the investment after January 31, 2008 (January 31, 2006, before the above mentioned extension).

As a result of the transaction, FRI was deconsolidated and has repaid all the loans it previously obtained from the centralized treasury department of the Group.

Investments in other companies

Investments in other companies are as follows:

(in millions of euros)	At 12/31/2004	At 12/31/2003
Other companies:		
Other listed companies	93	158
Other unlisted companies	65	99
Total	158	257

Other listed companies principally comprise shares of Mediobanca S.p.A. for 93 million euros (93 million euros in 2003). During 2004 Edison S.p.A. shares have been sold that had a carrying value of 65 million euros at December 31, 2003.

Had the portfolio of the major listed stocks at December 31, 2004 been valued at fair value based on market prices, it would have been approximately 75 million euros higher than the carrying value in the financial statements (approximately 59 million euros higher than the carrying value at December 31, 2003).

No fair values have been determined for the Other unlisted companies as this type of calculation would require a significant effort which would outweigh the benefits of obtaining such information.

Receivables

	At 12/31/2004				At 12/31/2003			
(in millions of euros)	Due within one year	Due beyond one year	Of which due beyond 5 year	Total	Due within one year	Due beyond one year	Of which due beyond 5 year	Total
Receivables from others	18	1	–	19	4	25	2	29
Total Receivables	18	1	–	19	4	25	2	29

Financial receivables held as fixed assets are shown net of the allowances for doubtful accounts of 3 million euros (5 million euros at December 31, 2003), with a provision of 3 million euros during the year 2004.

Financial receivables recorded in the financial statements at December 31, 2004 and 2003 approximate their fair values which have been calculated using the present value method, based on a discount rate which reflects market conditions, the duration and the risk of insolvency.

Other securities

(in millions of euros)	At 12/31/2004	At 12/31/2003	Change
Other securities	55	56	(1)

Other securities are shown in the financial statements net of the allowance for writedowns of 24 million euros (32 million euros at December 31, 2003). The writedown refers to the adjustment of the securities to estimated realizable value.

At December 31, 2004, the carrying values are substantially in line with fair value.

Finance lease contracts receivable

(in millions of euros)	Net amount 12/31/2003	Additions	Financial amortization	Foreign exchange effects	Change in the scope of consolidation	Disposal and Other changes	Net amount 12/31/2004	Accumulated amortization and writedowns 12/31/2004
Finance lease contracts receivable	1,797	793	(557)	(5)	4	(305)	1,727	1,192

Finance lease contracts receivable refer to vehicles sold by the Automotive Sectors under finance leases.

Finance lease contracts receivable do not include vehicles on operating leases, which are included under Property, plant and equipment.

Current assets

4 Inventories

(in millions of euros)	At 12/31/2004 Gross	Allowance	Net	At 12/31/2003 Gross	Allowance	Net
Raw materials and supplies	1,343	(188)	1,155	1,306	(207)	1,099
Work in progress and semifinished products	815	(26)	789	966	(22)	944
Contract work in progress	2,886	–	2,886	4,077	–	4,077
Finished goods and merchandise	4,080	(369)	3,711	4,482	(430)	4,052
Advances to suppliers	7,076	–	7,076	5,188	–	5,188
Total Inventories	16,200	(583)	15,617	16,019	(659)	15,360
Advance payments on contract work in progress (*)	(9,645)	–	(9,645)	(8,876)	–	(8,876)
Net inventories	6,555	(583)	5,972	7,143	(659)	6,484

(*) For the sake of clarity, certain items involving customer advances on contract work recorded previously under "Other Payables" (Note 12), were included in the item Advance payments on contract work in progress at December 31, 2004. Consistently with this change, the value of Advance payments on contract work in progress at December 31, 2003 was adjusted by 428 million euros.

Movements in the inventory allowance accounts during the year were as follows:

(in millions of euros)	At 12/31/2003	Use and provisions	Foreign exchange effects	Change in the scope of consolidation	At 12/31/2004
Allowance for inventory writedowns	659	(78)	(2)	4	583

Inventories of 15,617 million euros at December 31, 2004 (15,360 million euros at December 31, 2003) increased by 257 million euros compared to the prior year. Advance payments received from customers on contract work in progress (mainly connected with work to complete the T.A.V. project) amount to 9,645 million euros (8,876 million euros at December 31, 2003) and are recorded in Payables (Note 12). Inventories, net of such advance payments received from customers, amount to 5,972 million euros (6,484 million euros at December 31, 2003). Advances to suppliers principally relate to the amounts paid by Fiat S.p.A. to the consortiums involved in the T.A.V. project. Contract work in progress decreased mainly as a result of the Change in the scope of consolidation.

5 Receivables

An analysis of receivables by due date is as follows:

(in millions of euros)	At 12/31/2004 Due within one year	Due beyond one year	Of which due beyond 5 year	Total	At 12/31/2003 Due within one year	Due beyond one year	Of which due beyond 5 year	Total
Trade receivables	3,899	29	11	3,928	3,733	25	3	3,758
Receivables from unconsolidated subsidiaries	49	3	–	52	73	3	–	76
Receivables from associated companies	855	9	–	864	764	–	–	764
Tax receivables	1,114	123	41	1,237	1,413	137	–	1,550
Deferred tax assets	748	1,413	–	2,161	536	1,343	–	1,879
Other receivables from:								
Employees	36	2	–	38	33	2	–	35
Social security agencies	25	–	–	25	14	–	–	14
Others	1,514	140	8	1,654	1,272	165	9	1,437
Total Other receivables	1,575	142	8	1,717	1,319	167	9	1,486
Total Receivables	8,240	1,719	60	9,959	7,838	1,675	12	9,513

An analysis of receivables by type is as follows:

(in millions of euros)		At 12/31/2004			At 12/31/2003	
	Trade	Other	Total	Trade	Other	Total
Trade receivables	3,928	–	3,928	3,758	–	3,758
Receivables from unconsolidated subsidiaries	36	16	52	53	23	76
Receivables from associated companies	813	51	864	742	22	764
Tax receivables	–	1,237	1,237	–	1,550	1,550
Deferred tax assets	–	2,161	2,161	–	1,879	1,879
Other receivables from:						
Employees	–	38	38	–	35	35
Social security agencies	–	25	25	–	14	14
Other	–	1,654	1,654	–	1,437	1,437
Total Other receivables	–	1,717	1,717	–	1,486	1,486
Total Receivables	4,777	5,182	9,959	4,553	4,960	9,513

Trade receivables amount to 4,777 million euros, a growth of 224 million euros compared to 4,553 million euros at the end of 2003. The increase is mainly attributable to Iveco and Ferrari-Maserati, which raised their levels of business in 2004, producing a growth in revenues of 10% and 20%, respectively.

Trade receivables are shown net of allowances for doubtful accounts of 474 million euros at December 31, 2004 (476 million euros at December 31, 2003). Movements in the allowance accounts during the year are as follows:

(in millions of euros)	At 12/31/2003	Provisions	Use and other changes	Change in the scope of consolidation	At 12/31/2004
Allowances for doubtful accounts	476	110	(106)	(6)	474

Receivables from tax authorities principally refer to VAT and income taxes receivable from the Italian tax authorities and include the tax credit relating to the advance payments of income tax on employee severance indemnities paid by Italian companies. The portion of interest accrued on that receivable relating to the current year is recorded in Financial income and expenses.

"Other receivables from others" include deferred tax assets of 2,161 million euros (1,879 million euros at December 31, 2003), accounted for in accordance with the accounting policies described previously. Additional information on these assets is provided in Note 10 - Reserves for risks and charges, under Deferred income tax reserve.

6 Financial assets not held as fixed assets

Investments

Investments in other companies amount to 33 million euros at December 31, 2004 (32 million euros at December 31, 2003) and consist of investments held by insurance companies.

Other securities

(in millions of euros)	At 12/31/2004	At 12/31/2003	Change
Italian government securities	95	55	40
Other securities	2,089	3,790	(1,701)
Total Other securities	2,184	3,845	(1,661)

Italian government securities also include securities issued by other public entities and guaranteed by the Italian government.

At December 31, 2004, Other securities include short-term bonds and commercial paper for 703 million euros (1,480 million euros at December 31, 2003) and highly rated liquidity funds of leading international banks for 1,481 million euros (2,365 million euros at December 31, 2003) in which mainly the treasury management companies of the Group had made temporary and highly liquid investments of available cash resources. Additional liquidity in the form of bank accounts and cash is included in Cash for 3,164 million euros (3,211 million euros at December 31, 2003 - Note 7).

The securities portfolio of 2,184 million euros at December 31, 2004 (3,845 million euros at December 31, 2003) approximates fair value.

Treasury stock

	At 12/31/2004		At 12/31/2003	
(in milioni di euro)	*Number of shares (thousands)*	*Cost (in millions of euros)*	*Number of shares (thousands)*	*Cost (in millions of euros)*
Fiat S.p.A. shares held by Fiat S.p.A. and subsidiaries:				
Ordinary	**4,384**	**26**	4,969	32
Total Treasury stock	4,384	26	4,969	32

Treasury stock consists of 4,384,019 Fiat ordinary shares held by Fiat S.p.A. and amounts to 26 million euros, net of writedowns recorded during the year totaling 2 million euros. Such stock is held to cover the commitments for the Stock Options granted to directors and employees. In particular, 2,667,615 shares are for coverage of the Stock Options accruing to Mr. Morchio and exercisable up to May 30, 2005 at the price of 5.623 euros and 670,000 shares are for the partial coverage of the Stock Options granted to Mr. Marchionne, as described in greater detail in Note 14, in the paragraph commenting on commitments for derivative financial instruments.

Financial receivables

	At 12/31/2004				At 12/31/2003			
(in millions of euros)	*Due within one year*	*Due beyond one year*	*Of which due beyond 5 year*	*Total*	*Due within one year*	*Due beyond one year*	*Of which due beyond 5 year*	*Total*
Receivables from unconsolidated subsidiaries	**565**	–	–	**565**	475	46	–	521
Receivables from associated companies	**225**	**181**	–	**406**	413	231	–	644
Receivables from others	**3,806**	**2,374**	**414**	**6,180**	6,488	3,097	422	9,585
Total Financial receivables	4,596	2,555	414	7,151	7,376	3,374	422	10,750

Financial receivables amounting to 7,151 million euros at December 31, 2004 (10,750 million euros at December 31, 2003), net of allowances for doubtful accounts of 440 million euros (316 million euros at December 31, 2003), decreased by 3,599 million euros compared to the end of the prior year. This reduction reflects lower loans made to dealer networks in the Automobile Sector, as well as the decline in the loans made to suppliers. Also contributing to the decrease in financial receivable are the sale of the financial activities of the Automobile Sector in the United Kingdom (deconsolidation of financial receivables for about 690 million euros) and the collection of receivables and deposits held at December 31, 2003 by industrial companies and treasury management companies of the Group.

Movements in the allowances for doubtful financial accounts receivable during the year are as follows:

(in millions of euros)	*At 12/31/2003*	*Provisions*	*Use and other changes*	*Change in the scope of consolidation*	*At 12/31/2004*
Allowances for doubtful accounts	316	239	(96)	(19)	**440**

The fair value of Financial receivables would be approximately 7,143 million euros at December 31, 2004 (10,800 million euros at December 31, 2003). The fair value of financial receivables was determined in accordance with the method indicated in Note 3 - Financial fixed assets – Receivables.

Receivables from associated companies of 406 million euros at December 31, 2004 (644 million euros at December 31, 2003) decreased by 238 million euros mainly due to loan repayments.

Financial receivables from others amount to 6,180 million euros at December 31, 2004 (9,585 million euros at December 31, 2003), of which 5,302 million euros (7,914 million euros at December 31, 2003) consist of financing granted to retail customers as well as dealer networks and suppliers. As regards the receivables from the dealer networks, reference can be made to the information provided in the Report on operations Financial Review of the Fiat Group and Fiat S.p.A., with regard to the note on the Net Financial Position. Financial receivables from others also include the net value of subordinated securities of 319 million euros (214 million euros at December 31, 2003) subscribed as part of the securitization of financial receivables.

7 Cash

(in millions of euros)	*At 12/31/2004*	*At 12/31/2003*
Bank and post office accounts	**3,151**	3,195
Checks	**3**	9
Cash on hand	**10**	7
Total Cash	**3,164**	3,211

Cash recorded in the financial statements at December 31, 2004 and 2003 is in line with the fair value at the same dates.

8 Accrued income and expenses

(in millions of euros)		*At 12/31/2004*		*At 12/31/2003*
Other Accrued income and prepaid expenses:				
Commercial accrued income				
Accrued interest and commissions	**2**		5	
Other	**17**		14	
Total Commercial accrued income		**19**		19
Commercial prepaid expenses				
Interest	**8**		39	
Other	**371**		349	
Total Commercial prepaid expenses		**379**		388
Financial accrued income		**234**		301
Financial prepaid expenses		**93**		85
Total Accrued income and prepaid expenses		**725**		793

Financial accrued income mainly includes day-to-day interest earned on securities and derivative financial instruments.

9 Stockholders' equity

Statement of changes in Stockholders' equity of the Group

(in millions of euros)	*Capital stock*	*Additional paid-in capital*	*Legal reserve*	*Treasury stock valuation reserve*	*Cumulative translation adjustments*	*Retained earnings, Other reserves, Net loss for the year*	*Total*
Balance at December 31, 2001	2,753	1,636	659	282	28	6,812	12,170
Capital stock increase as resolved on December 10, 2001	329	691	–	–	–	–	1,020
Dividends paid (0.310 euros per ordinary and preference share and 0.465 euros per savings share)	–	–	–	–	–	(198)	(198)
Foreign exchange translation adjustments	–	–	–	–	(1,407)	–	(1,407)
Change in treasury stock in portfolio	–	–	–	(29)	–	29	–
Other minor changes	–	–	–	–	–	4	4
Net loss	–	–	–	–	–	(3,948)	(3,948)
Balance at December 31, 2002	3,082	2,327	659	253	(1,379)	2,699	7,641
Capital stock increase as resolved on June 26, 2003	1,836	–	–	–	–	–	1,836
Fiat S.p.A. fiscal 2002 loss covered by Additional paid-in capital	–	(2,053)	–	–	–	2,053	–
Allocation of the value of unopted rights sold on the market to Additional paid-in capital	–	5	–	–	–	–	5
Foreign exchange translation adjustments	–	–	–	–	(802)	–	(802)
Change in treasury stock in portfolio	–	–	–	(221)	–	221	–
Other minor changes	–	–	–	–	–	13	13
Net loss	–	–	–	–	–	(1,900)	(1,900)
Balance at December 31, 2003	4,918	279	659	32	(2,181)	3,086	6,793
Fiat S.p.A. fiscal 2003 loss covered by Additional paid-in capital and Legal reserve	–	(279)	(212)	–	–	491	–
Foreign exchange translation adjustment	–	–	–	–	(106)	–	(106)
Change in treasury stock in portfolio	–	–	–	(6)	–	6	–
Other minor changes	–	–	–	–	–	(2)	(2)
Net loss	–	–	–	–	–	(1,586)	(1,586)
Balance at December 31, 2004	**4,918**	**–**	**447**	**26**	**(2,287)**	**1,995**	**5,099**

Capital stock

Capital stock, fully paid-in, amounts to 4,918 million euros at December 31, 2004 and consists of 983,622,708 shares as follows:

- 800,417,598 ordinary shares;
- 103,292,310 preference shares;
- 79,912,800 savings shares;

all with a par value of 5 euros each.

With reference to Capital stock, it should be mentioned that:

- Pursuant to resolutions by the Board of Directors on December 10, 2001 and June 26, 2003, the capital may be further increased through rights offerings for a maximum of 82 million euros, and thus reach a total of 5 billion euros, with the issuance of a maximum of 16,377,292 ordinary shares at a par value of 5 euros each on February 1, 2007, following exercise of the residual "FIAT ordinary share warrants 2007" issued as part of the capital increase of February 2002 and still outstanding. It should be recalled that Fiat reserved the right to pay the warrant holders in cash, starting on January 2, 2007, in lieu of the shares to be issued (shares in exchange for warrants), for the difference between the arithmetic average of the official market price of Fiat ordinary shares in December 2006 and the warrant exercise price, unless this difference exceeds the maximum amount set and previously communicated by Fiat, in which case the holder of the warrants may opt to subscribe to the shares in exchange for the warrants.
- Pursuant to the resolution by the Extraordinary Stockholders' Meeting on September 12, 2002, the Board of Directors has the right to increase the capital one or more times by September 11, 2007, up to a maximum of 8 billion euros, of which 3 billion

euros are to be reserved, pursuant to paragraph 7 of Article 2441 of the Italian Civil Code, to the banks that underwrote the "Mandatory Convertible Facility" described in Note 12 if the facility is not reimbursed earlier than the contractual deadline of September 2005. In fact, in this case, any residual debt for the principal will be reimbursed in the form of ordinary shares of Fiat S.p.A. subscribed by the banks, with the obligation that they be offered as an option to all Fiat stockholders.

- The resolutions for the capital increases servicing the stock option plans (28 million euros) have been revoked, as the Board of Directors decided on June 26, 2003 to use ordinary treasury stock to be purchased for this purpose.

Additional paid-in capital

Additional paid-in capital, which amounted to 279 million euros at December 31, 2003, has been totally offset in 2004 following its utilization to cover the loss for fiscal 2003 as voted by the Stockholders' Meeting held May 11, 2004.

Legal reserve

The legal reserve amounts to 447 million euros at December 31, 2004 with a reduction of 212 million euros in respect of December 31, 2003 following its utilization to cover the loss for fiscal 2003.

Cumulative translation adjustments

Cumulative translation adjustments show a negative change of 106 million euros compared to December 31, 2003 mainly due to the effect of the weakness of the U.S. dollar against the euro.

Retained earnings and Other reserves

Retained earnings and Other reserves include, in addition to the undistributed earnings of the consolidated companies, also monetary revaluation reserves and other reserves in suspension of taxes.

Reconciliation to Stockholders' equity and Net loss of the Parent company Fiat S.p.A.

(in millions of euros)	*Stockholders' equity at 12/31/2004*	*Net Income (Loss) 2004*	*Stockholders' equity at 12/31/2003*	*Net Income (Loss) 2003*
Statutory financial statements of Fiat S.p.A.	4,466	(949)	5,415	(2,359)
Elimination of the carrying values of consolidated investments and the related dividend income recorded in the statutory financial statements of Fiat S.p.A.	(5,122)	(676)	(7,143)	(254)
Elimination of writedowns against consolidated investments recorded by Fiat S.p.A.	–	1,639	–	2,371
Equity and results of operations of consolidated companies	5,831	(1,913)	8,598	(1,634)
Consolidation adjustments:				
Elimination of intra-Group dividends	–	(386)	–	(92)
Elimination of intra-Group profit and losses from sales of investments	–	698	–	25
Elimination of intra-Group profit and losses in inventories, investments, property, plant and equipment and other adjustments	(76)	1	(77)	43
Consolidated financial statements	5,099	(1,586)	6,793	(1,900)

Minority interest

The minority interest in stockholders' equity of 658 million euros (701 million euros at December 31, 2003) refers mainly to the following companies consolidated on a line-by-line basis:

	At 12/31/2004 (% held by minority stockholders)	At 12/31/2003 (% held by minority stockholders)
Italian companies:		
Ferrari S.p.A.	**44.0**	44.0
Teksid S.p.A.	**19.5**	19.5
Foreign companies:		
Fiat Auto Holdings B.V.	**10.0**	10.0
CNH Global N.V.	**15.5**	14.9

The minority interest percentage ownership in Fiat Auto Holdings B.V. includes the effects of the recapitalization of 5 billion euros resolved by the Stockholders' Meeting of Fiat Auto Holdings B.V. held April 23, 2003 and subscribed to by Fiat Partecipazioni S.p.A. (the direct parent company of Fiat Auto Holdings B.V.) for 3 billion euros, whereas General Motors had not subscribed to its share of the capital increase, as described in Note 14.

It should be pointed out that in accordance with the accounting policies described previously, the losses pertaining to General Motors, the minority stockholder in Fiat Auto Holding B.V. (Automobile Sector), were allocated to General Motors up to the value of its share of capital stock, and the excess, or deficit, that arose starting from the third quarter of 2002, was charged to the Group (202 million euros in 2004, 204 million euros in 2003 and 296 million euros in 2002).

10 Reserves for risks and charges

(in millions of euros)	*At 12/31/2004*		*At 12/31/2003*		*Change*	
Reserve for pensions and similar obligations		**1,432**		1,503		(71)
Income tax reserves:						
Current income tax reserve	**77**		98		(21)	
Deferred income tax reserve	**197**		211		(14)	
Total Income tax reserves		**274**		309		(35)
Other reserves:						
Warranty reserve	**901**		791		110	
Restructuring reserves	**408**		471		(63)	
Various liabilities and risk reserves	**2,276**		2,216		60	
Total Other reserves		**3,585**		3,478		107
Insurance policy liabilities and accruals		**91**		89		2
Total Reserves for risks and charges		**5,382**		5,379		3

Reserve for pensions and similar obligations

The reserve includes provisions for pensions and similar obligations determined on an actuarial basis, where applicable, and payable to employees and former employees according to contractual agreements or by law, where applicable.

Income tax reserves

The Deferred income tax reserve at December 31, 2004 includes deferred tax liabilities, net of deferred tax assets, which have been offset where possible by the individual companies. The Deferred income tax reserve, net of Deferred tax assets recorded under Receivables (Note 5), is composed as follows:

(in millions of euros)	*At 12/31/2004*	*At 12/31/2003*	*Change*
Deferred income tax reserve	197	211	(14)
Deferred tax assets	(2,161)	(1,879)	(282)
Total	(1,964)	(1,668)	(296)

The net change of 296 million euros compared to December 31, 2003 is mainly due to the recording of deferred tax assets (written down in previous years as the conditions for recording them were not met), the recoverability of which became highly probable in view of the change in the prospects of future earnings. In particular, due to the settlement paid to Fiat by General Motors in February 2005, deferred tax assets of 277 million euros relating to the benefit of tax loss carryforwards and temporary differences relating to Fiat S.p.A. became reasonably certain of recovery.

The Deferred income tax reserve, net of Deferred tax assets recorded under Other receivables from others, can be analyzed as follows:

(in millions of euros)	*At 12/31/2004*		*At 12/31/2003*	
Deferred tax liabilities for:				
Accelerated depreciation	402		492	
Deferred tax on gains	171		493	
Capital investment grants	17		18	
Other	694		684	
Total Deferred tax liabilities		1,284		1,687
Deferred tax assets for:				
Taxed reserves for risks and charges	(1,076)		(1,021)	
Inventories	(126)		(126)	
Taxed allowances for doubtful accounts	(137)		(86)	
Pension funds	(338)		(289)	
Adjustments to financial assets	(1,717)		(2,056)	
Other	(812)		(680)	
Total Deferred tax assets		(4,206)		(4,258)
Theoretical tax benefit connected to tax loss carryforwards		(4,591)		(4,313)
Adjustments for assets whose recoverability is not reasonably certain		5,549		5,216
Total Deferred income tax reserve, net of Deferred tax assets		(1,964)		(1,668)

As disclosed in the accounting policies, in recording Deferred tax assets, each company in the Group critically evaluated whether the conditions existed for the future recoverability of such assets on the basis of updated strategic plans, accompanied by the related tax plans. For this reason, the total theoretical future tax benefits deriving from positive temporary differences (4,206 million euros at December 31, 2004 and 4,258 million euros at December 31, 2003) and tax loss carryforwards (4,591 million euros at December 31, 2004 and 4,313 million euros at December 31, 2003) have prudently been reduced for a total of 5,549 million euros at December 31, 2004 and 5,216 million euros at December 31, 2003.

In particular, the Deferred income tax reserve net of Deferred tax assets includes 1,208 million euros (1,259 million euros at December 31, 2003) of tax benefits connected to tax loss carryforwards. However, a further tax benefit connected to tax loss carryforwards of 3,383 million euros (3,054 million euros at December 31, 2003) has not been recorded in the financial statements.

Deferred taxes have not been provided on the undistributed earnings of subsidiaries since no transactions are expected to be entered into that would warrant their taxation.

Deferred taxes of 59 million euros (72 million euros at December 31, 2003) have not been provided on temporary differences relating to reserves and provisions in suspension of taxes, since they are not expected to be used in a manner which would warrant their taxation.

Other reserves

Restructuring reserves amount to 408 million euros at December 31, 2004 (471 million euros at December 31, 2003) and are related to the corporate restructuring programs of the following Sectors (in millions of euros): Automobile 216 (160 at December 31, 2003), Agricultural and Construction Equipment 36 (83 at December 31, 2003), Commercial Vehicles 56 (75 at December 31, 2003), Metallurgical Products 8 (24 at December 31, 2003), Components 59 (64 at December 31, 2003), Production Systems 17 (54 at December 31, 2003), Services 6 (8 at December 31, 2003), Other Sectors 10 (3 at December 31, 2003).

The Various liabilities and risk reserves amount to 2,276 million euros at December 31, 2004 (2,216 million euros at December 31, 2003) and represent the amounts set aside by individual companies of the Group principally in connection with contractual and commercial risks and disputes. The increase of 60 million euros compared to December 31, 2003 is the result of a combination of ordinary provisions of 751 million euros, extraordinary provisions of 259 million euros, decreases for the effect of foreign exchange differences of 15 million euros, decreases for utilizations of 1,370 million euros and decreases for reversals and other for 435 million euros.

11 Reserve for employee severance indemnities

(in millions of euros)	*At 12/31/2003*	*Provisions*	*Use and Other changes*	*At 12/31/2004*
Reserve for employee severance indemnities	1,313	187	(214)	**1,286**

The total reserve for employee severance indemnities amounts to 1,286 million euros at December 31, 2004 (1,313 million euros at December 31, 2003) and includes the severance indemnities accrued at year-end in favor of the employees of the companies in accordance with legal requirements.

12 Payables

Payables may be analyzed by due date as follows:

(in millions of euros)				At 12/31/2004				At 12/31/2003
	Due within one year	Due beyond one year	Of which due beyond 5 years	Total	Due within one year	Due beyond one year	Of which due beyond 5 years	Total
Bonds	1,868	6,944	3,928	8,812	1,034	8,576	3,804	9,610
Convertible bonds	–	13	–	13	1,765	–	–	1,765
Financial payables from stockholders	–	–	–	–	–	–	–	–
Borrowings from banks	6,949	1,815	74	8,764	2,697	6,687	115	9,384
Other financial payables	704	161	32	865	809	155	34	964
Advances (*)	2,556	7,361	–	9,917	2,877	6,272	–	9,149
Trade payables	10,949	43	–	10,992	11,733	36	–	11,769
Notes payable	207	–	–	207	224	1	–	225
Payables to unconsolidated subsidiaries	49	–	–	49	68	–	–	68
Payables to associated companies	997	–	–	997	842	–	–	842
Taxes payable	714	29	10	743	833	28	2	861
Social security payable	308	2	–	310	283	4	–	287
Other payables	1,202	37	11	1,239	1,288	28	–	1,316
Total Payables	26,503	16,405	4,055	42,908	24,453	21,787	3,955	46,240

(*) of which Advance payments on contract work in progress totals 9,645 million euros at December 31, 2004 (8,876 million euros at December 31, 2003).

Payables may be analyzed by type as follows:

(in millions of euros)				At 12/31/2004				At 12/31/2003
	Trade	Financial	Other	Total	Trade	Financial	Other	Total
Bonds	–	8,812	–	8,812	–	9,610	–	9,610
Convertible bonds	–	13	–	13	–	1,765	–	1,765
Financial payables from stockholders	–	–	–	–	–	–	–	–
Borrowings from banks	–	8,764	–	8,764	–	9,384	–	9,384
Other financial payables	–	865	–	865	–	964	–	964
Advances	–	–	9,917	9,917	–	–	9,149	9,149
Trade payables	10,992	–	–	10,992	11,769	–	–	11,769
Notes payable	7	200	–	207	9	216	–	225
Payables to unconsolidated subsidiaries	17	31	1	49	21	47	–	68
Payables to associated companies	939	58	–	997	789	48	5	842
Taxes payable	–	–	743	743	–	–	861	861
Social security payable	–	–	310	310	–	–	287	287
Other payables	–	–	1,239	1,239	–	–	1,316	1,316
Total Payables	11,955	18,743	12,210	42,908	12,588	22,034	11,618	46,240

Payables decreased by 3,332 million euros compared to December 31, 2003 due to the following:

- Trade payables total 11,955 million euros, with a decrease of 633 million euros compared to 12,588 million euros at the end of 2003. The reduction is principally attributable to Fiat Auto, which, during the last quarter of 2003, as a result of the launch of new car models, had increased production levels that during 2004 returned to normal levels.
- Financial payables decreased by 3,291 million euros mainly due to the repayment of bonds, including the bond for about 1 billion euros issued by Fiat Finance and Trade, repaid at the end of March 2004, and the bond convertible into General Motors common stock for 2.2 billion U.S. dollars, equivalent to approximately 1.8 billion euros.
- Other payables increased by 592 million euros primarily due to the effect of the advances received from customers (mainly connected with work to complete the T.A.V. project - see Note 4).

Financial payables total 18,743 million euros at December 31, 2004 (22,034 million euros at December 31, 2003). Financial payables due within one year amount to 9,810 million euros at December 31, 2004 (6,616 million euros at December 31,2003) and their carrying values approximate fair value as a consequence of the short-term maturity. These payables include the loan of approximately 1,150 million euros guaranteed by the EDF put option and the Mandatory Convertible Facility of 3 billion euros, described later.

The portion of medium and long-term Financial payables due beyond one year amounts to 8,933 million euros at December 31, 2004 (15,418 million euros at December 31, 2003). The scheduled maturities are:

(in millions of euros)	*2006*	*2007*	*2008*	*2009*	*Thereafter*	*Total*
Medium and long-term financial payables due beyond one year	3,311	692	369	527	4,034	**8,933**

The fair value of medium and long-term Financial payables due beyond one year would be 125 million euros higher than the carrying value at December 31, 2004 (at December 31, 2003, fair value would have been 397 million euros lower than the carrying value). The fair values of such financial payables take into account the current market cost of funding with similar maturities, and, for bonds, their market prices.

The interest rates and the nominal currencies of medium and long-term financial payables, including the current portion of 7,253 million euros at December 31, 2004 (2,757 million euros at December 31, 2003) are as follows:

(in millions of euros)	*Less than 5%*	*From 5% to 7.5%*	*From 7.5% to 10%*	*From 10% to 12.5%*	*Greater than 12.5%*	*Total*
Euro and euro-zone currencies	6,079	6,720	61	2	–	**12,862**
U.S. dollar	159	807	785	–	–	**1,751**
Japanese yen	295	–	–	–	–	**295**
Brazilian real	22	7	783	19	118	**949**
British pound	–	171	–	–	–	**171**
Canadian dollar	134	–	–	–	–	**134**
Other	3	19	2	–	–	**24**
Total 2004 medium and long-term debt	**6,692**	**7,724**	**1,631**	**21**	**118**	**16,186**
Total 2003 medium and long-term debt	8,918	8,083	968	6	200	18,175

Financial payables with nominal rates in excess of 12.5% relate principally to companies operating in Brazil.

Medium and long-term financial payables include the loan of approximately 1,150 million euros secured from Citigroup and a small group of banks that is guaranteed by the EDF put option (refer to the EDF Put described in Note 3) held by the Fiat Group on its remaining investment (24.6%) in Italenergia Bis and the shares in the same Italenergia Bis pledged by Fiat. The loan is due in September 2005.

Financial payables secured by mortgages and other liens on property, plant and equipment amount to 1,272 million euros at December 31, 2004 (1,234 million euros at December 31, 2003).

At December 31, 2004, the Group has an unused "committed" line of credit available mainly denominated in U.S. dollars for an equivalent amount of more than 1,700 million euros (approximately 2,000 million euros at December 31, 2003). The decrease can principally be ascribed to the effects of the translation of the credit lines in their original currencies to euros.

Bonds

Bonds, including convertible bonds, amount to 8,825 million euros (11,375 million euros at December 31, 2003) and can be analyzed by year of maturity as follows:

(in millions of euros)	*2005*	*2006*	*2007*	*2008*	*2009*	*Thereafter*	*Total*
EMTN	1,421	2,350	181	227	168	2,600	**6,947**
Convertible bonds	–	–	13	–	–	–	**13**
Other bonds	447	–	93	–	367	958	**1,865**
Total Bonds	1,868	2,350	287	227	535	3,558	**8,825**

The bonds issued by the Fiat Group are governed by different terms and conditions according to the following types of bonds:

- *Euro Medium Term Note (EMTN Program)*: these notes have been issued under a program that is utilized for approximately 7 billion euros and guaranteed by Fiat S.p.A. Issuers taking part in the program are Fiat Finance & Trade Ltd. S.A. (for an amount outstanding of 6,802 million euros), Fiat Finance North America Inc. (for an amount outstanding of 65 million euros) and Fiat Finance Canada Ltd. (for an amount outstanding of 80 million euros).
- *Convertible bonds*: this represents the residual debt, after repayment, in July 2004, of the 5-year bond originally convertible into General Motors Corp. common stock ("Exchangeable"), at a conversion price of 69.54 U.S. dollars per share with 3.25% interest and maturing on January 9, 2007. With reference to this bond, during the first quarter of 2004 Fiat repurchased, for cancellation, 540 million U.S. dollars in bonds out of total of 2,229 million U.S. dollars. In June 2004, by virtue of the contractually envisaged right of each bondholder to request early repayment of all or part of its bonds, repayment for a total of 1,672 million dollars (equivalent to approximately 1.4 billion euros) in bonds was requested by the deadline provided by the contract. A residual debt of 17 million U.S. dollars (equivalent to 13 million euros) remains at this date. With reference to the risk, implicit in the bond, of an increase in the General Motors share price above 69.54 U.S. dollars, a Total Return Equity Swap agreement was put into place, terminated in 2004 and replaced by the purchase of a call option on General Motors stock, as described in Note 14.
- *Other bonds*: these refer to the following issues:
  - Bonds issued by Fiat Finance & Trade Ltd. S.A. with coupon interest at 1.5% and maturing June 27, 2005 for an amount of 40 billion Japanese yen, equivalent to 287 million euros;
  - Bonds issued by Case New Holland Inc. ("CNH Inc.") in 2004 (with coupon interest at 9.25% and maturing August 1, 2011 for an amount of 1,050 million U.S. dollars, equivalent to 771 million euros) and in 2005 (with coupon interest at 6.00% and maturing June 1, 2009 for an amount of 500 U.S. dollars, equivalent to 367 million euros); the bond indenture contains a series of financial covenants that are common to the high yield American bond market;
  - Bonds issued by CNH America LLC and CNH Capital America for a total amount outstanding of 599 million U.S. dollars, equivalent to 440 million euros.

The prospectuses, the offering circulars or their abstracts relating to the aforementioned principal bond issues are available on the Group's website at www.fiatgroup.com under "Shareholders and Investors – Financial Publications".

The majority of the bonds issued by the Group contain commitments ("covenants") by the issuer and in some cases by Fiat, as the guarantor, that, in international practice, are common for bond issues of this type when the issuers are in the same industrial segment in which the Group operates, such as, in particular: (i) the so-called negative pledge clause which requires that the benefit of any real present or future guarantees given as collateral on the assets of the issuer and/or Fiat, on other bonds and other credit instruments should be extended to these bonds, to the same degree, (ii) the so-called pari passu clause, on the basis of which obligations cannot be undertaken which are senior to the bonds issued, (iii) the obligation of providing periodical disclosure, (iv) for some of the bond issues, the so-called cross-default clauses whereby the bonds become immediately due and payable when certain defaults arise in respect of other financial instruments issued by the Group and (v) other clauses generally present in issues of this type.

The bonds issued by Case New Holland Inc. ("CNH Inc.") with coupon interest at 9.25% and maturing on August 1, 2011 (for an amount of 1,050 million U.S. dollars, equivalent to 771 million euros) and with coupon interest at 6.00% and maturing on June 1, 2009 (for an amount of 500 million U.S. dollars, equivalent to 367 million euros), contain, moreover, financial covenants common to the high yield American bond market which place restrictions, among other things, on the possibility of the issuer and certain companies of the CNH group to secure new debt, pay dividends or buyback treasury stock, realize certain investments, conclude transactions with associated companies, give collateral on its assets, conclude sale and leaseback transactions, sell certain fixed assets or merge with other companies and financial covenants which impose a maximum limit on further indebtedness by the CNH group companies which can not exceed a specific ratio of cash flows to dividend payments and financial expenses. Such covenants are subject to various exceptions and limitations and, in particular, some of these would no longer be binding should the bonds be assigned an investment grade rating by Standard & Poor's Rating Services and/or Moody's Investors Service.

The major bond issues outstanding at December 31, 2004 are the following:

	Currency	*Face value of outstanding bonds (in millions)*	*Coupon*	*Maturity*	*Outstanding amount (in millions of euros)*
Euro Medium Term Notes:					
Fiat Fin. North America	EUR	100	5.13%	Feb. 21, 2005	65
Fiat Finance & Trade	EUR	155	Indexed	July 5, 2005	155
Fiat Finance & Trade	EUR	130	Indexed	July 5, 2005	130
Fiat Finance & Trade	EUR	500	6.13%	Aug. 1, 2005	500
Fiat Finance & Trade	EUR	300	6.13%	Aug. 1, 2005	300
Fiat Finance & Trade	GBP	120	7.00%	Oct. 19, 2005	170
Fiat Finance & Trade (1)	EUR	1,700	5.75%	May 25, 2006	1,700
Fiat Finance Canada	EUR	100	5.80%	July 21, 2006	80
Fiat Finance & Trade (1)	EUR	500	5.50%	Dec. 13, 2006	500
Fiat Finance & Trade (1)	EUR	1,000	6.25%	Feb. 24, 2010	1,000
Fiat Finance & Trade (1)	EUR	1,300	6.75%	May 25, 2011	1,300
Fiat Finance & Trade (1)	EUR	617	(2)	(2)	617
Others (3)					430
Total Euro Medium Term Notes					**6,947**
Convertible bonds:					
Fiat Fin. Luxembourg (4)	USD	17	3.25%	Jan. 9, 2007	13
Total Convertible bonds					**13**
Other bonds:					
Fiat Finance & Trade	JPY	40,000	1.50%	June 27, 2005	287
CNH America LLC	USD	218	7.25%	Aug. 1, 2005	160
CNH Capital America LLC	USD	127	6.75%	Oct. 21, 2007	93
Case New Holland Inc.	USD	1,050	9.25%	Aug. 1, 2011	771
Case New Holland Inc.	USD	500	6.00%	June 01, 2009	367
CNH America LLC	USD	254	7.25%	Jan. 15, 2016	187
Total Other bonds					**1,865**
Total Bonds					**8,825**

(1) Bonds listed on the Mercato Obbligazionario Telematico of the Italian stock exchange (EuroMot). Furthermore, the majority of the bonds issued by the Fiat Group are also listed on the Luxembourg stock exchange.

(2) "Fiat Step-Up Amortizing 2001-2011" bonds repayable at face value in five equal annual installments each for 20% of the total issued (617 million euros) due beginning from the sixth year (November 7, 2007) by reducing the face value of each bond outstanding by one-fifth. The last installment will be repaid on November 7, 2011. The bonds pay coupon interest equal to: 4.40% in the first year (Nov. 7, 2002), 4.60% in the second year (Nov. 7, 2003), 4.80% in the third year (Nov. 7, 2004), 5.00% in the fourth year (Nov. 7, 2005), 5.20% in the fifth year (Nov. 7, 2006), 5.40% in the sixth year (Nov. 7, 2007), 5.90% in the seventh year (Nov. 7, 2008), 6.40% in the eighth year (Nov. 7, 2009), 6.90% in the ninth year (Nov. 7, 2010), 7.40% in the tenth year (Nov. 7, 2011).

(3) Bonds with amounts outstanding equal to or less than the equivalent of 50 million euros.

(4) Bonds convertible into General Motors Corp. common stock.

The Fiat Group intends to repay the issued bonds in cash at maturity by utilizing available liquid resources. To this end, available liquidity at the end of 2004 totals approx. 5.3 billion euros. The Fiat Group also has available unused committed credit lines for more than 1.7 billion euros.

Moreover, the companies in the Fiat Group may from time to time buy back bonds on the market that were issued by the Group also for purposes of their cancellation. Such buybacks, if made, will depend upon market conditions, the financial situation of the Group and other factors which could affect such decisions.

Mandatory Convertible facility

Medium and long-term financial payables also include the 3 billion euros Mandatory Convertible facility stipulated in execution of the Framework Agreement, dated May 27, 2002, with Capitalia, Banca Intesa, SanPaolo IMI and Unicredito Italiano (Money Lending Banks) for the purpose of providing the Fiat Group with the financial support it needs to implement its industrial plans. The facility was secured on September 24, 2002 from a syndicate of banks, including the Money Lending Banks, in which BNL, Monte dei Paschi di Siena, ABN Amro, BNP Paribas, Banco di Sicilia and Banca Toscana (hereinafter "the Banks") also participated. The main features of the Mandatory Convertible facility are listed in the following paragraphs.

The Mandatory Convertible facility expires on September 20, 2005 and is repayable with a new issue of Fiat S.p.A. ordinary shares, which the Banks have agreed to underwrite and offer pre-emptively to all Fiat stockholders. The issue price per share will be the average of 14.4409 euros (the adjusted value compared to the original value of 15.50 euros in accordance with the rules established by the AIAF – Italian Association of Financial Analysts – following the Fiat S.p.A. capital increase of July 2003) and the average stock market price in the last three or six months, depending on the case, preceding the repayment date. The same formula will also be applied in the event of an earlier repayment date.

The capital stock increase should be approved at the expiration of the three-year term of the facility, for an amount equal to the outstanding balance of the facility. Fiat may elect to repay the facility in cash at an earlier date, even partially, every six months, provided that, even after repayment, its rating is at least equal to investment grade level.

Conditions giving rise to an earlier expiration date of the facility include the occurrence of an event that creates a serious crisis for the company, such as the request for a court-appointed administrator or other proceedings of composition with creditors, a bankruptcy filing, or one of the causes of business dissolution set forth in the previous Article 2448 now Article 2484 of the Italian Civil Code. In addition, the Banks in the facility arrangement have the right to demand early repayment of the entire amount of the facility and proceed with the conversion of the debt into capital in the following cases:

- Fiat Group companies have not fulfilled their duty to repay liquid and current financial obligations of an aggregate amount of more than 1 billion euros;
- the independent auditors have issued a negative opinion on the consolidated financial statements, unless new auditors, who must have accepted the assignment within 30 days, issue a favorable opinion no later than 60 days thereafter;
- Fiat becomes the target of a takeover bid in accordance with Articles 106 and 107 of the Consolidated Law on Financial Intermediation.

Lastly, the Banks also have the right but not the obligation to demand early repayment of a portion of the amount of the facility, up to a maximum of 2 billion euros, after 24 months have elapsed from the signing of the agreement (and, therefore, beginning from July 26, 2004), in the event that the Group's debt is not rated "investment grade" by at least one of the leading international rating agencies and, after 18 months have elapsed from the signing of the agreement (January 26, 2004), in the event that the level of net and/or gross financial indebtedness (respectively in the definitions of "Net financial position" and "Total financial liabilities" used by the Group and detailed in the Report on Operations) is more than 20% higher than the corresponding level established by the Financial Objectives stipulated in the facility agreement.

The aforementioned Financial Objectives refer, in particular, to the reduction of net indebtedness in the Net Financial Position to less than 3 billion euros by the date the Board of Directors approves the 2002 annual financial statements and the maintenance of that level at March 31, June 30, September 30 and December 31 of each year until the expiration of the facility. Pursuant to the agreement, the proceeds are considered which are generated by the transactions related to the sale of the investment in Italenergia Bis S.p.A., including those connected with the Citigroup facility of approximately 1,150 million euros, described previously, and the financial effects arising from binding contracts for the sale of assets (investments, companies, plant and equipment, etc.), comprising those not yet executed. The agreement also states that Gross Financial Indebtedness must be reduced by 12 billion euros, compared to March 31, 2002, by the date the Board of Directors approves the 2002 annual financial statements and must be maintained at less than 23.6 billion euros at March 31, June 30, September 30 and December 31 of each year until the expiration of the facility.

At December 31, 2004, gross indebtedness totals 19.2 billion euros and continues to be within the targets agreed upon with the Lending Banks under the Mandatory Convertible Facility Agreement (23.6 billion euros), while the proforma net financial position (calculated, as envisaged in the facility agreement, by subtracting from the net financial position the Citigroup loan of approximately 1,150 million euros but not the receipt of 1,550 million euros as a result of the agreements reached with General Motors on February 13, 2005) exceeds the limit of 3.6 billion euros contractually agreed for this parameter. The Lending Banks therefore have the right, in accordance with the contractual terms and conditions, to proceed with the conversion of the facility into capital for an amount up to 2 billion euros.

At December 31, 2004, the ratings assigned to the Group by the major rating agencies are the following:

	Short-term	*Medium-term*
Moody's Investors Service (*)	Not Prime	Ba3
Standard & Poor's Rating Services (*)	B	BB-
Fitch Ratings	B	BB-

(*) For purposes of the Mandatory Convertible facility, the most important rating agencies are Standard & Poor's and Moody's.

The ratings of the Group represented in the table refer to the "non-investment grade" category. The Banks did not exercise their consequent right to demand early repayment of the facility and to proceed with the conversion of the debt into capital for an amount up to 2 billion euros.

13 Accrued expenses and deferred income

(in millions of euros)		*At 12/31/2004*		*At 12/31/2003*
Commercial accrued expenses:				
Interest and commissions	**63**		71	
Other	**445**		504	
Total Commercial accrued expenses		**508**		575
Commercial deferred income:				
Interest	**77**		62	
Other	**593**		692	
Total Commercial deferred income		**670**		754
Financial accrued expenses		**523**		593
Financial deferred income		**209**		363
Total Accrued expenses and deferred income		1,910		2,285

Financial accrued expenses include interest expense on financial payables for the portion relating to the current year.

Financial deferred income includes deferred interest income on the portfolio of the financial services companies.

14 Memorandum accounts

Guarantees granted

(in millions of euros)		*At 12/31/2004*		*At 12/31/2003*
Guarantees granted				
Unsecured guarantees				
Suretyships:				
on behalf of associated companies	**–**		10	
on behalf of others	**2,719**		3,050	
Total Suretyships		**2,719**		3,060
Guarantees of notes:				
on behalf of others	**217**		259	
Total Guarantees of notes		**217**		259
Other unsecured guarantees:				
on behalf of unconsolidated subsidiaries	**30**		–	
on behalf of associated companies	**269**		295	
on behalf of others	**2,235**		2,780	
Total Other unsecured guarantees		**2,534**		3,075
Total Unsecured guarantees		**5,470**		6,394
Secured guarantees				
on behalf of others	**50**		36	
Total Secured guarantees		**50**		36
Total Guarantees granted		5,520		6,430

At December 31, 2004, Guarantees granted by the Group total 5,520 million euros (6,430 million euros at December 31, 2003), detailed as follows:

- suretyships total 2,719 million euros (3,060 million euros at December 31, 2003). The reduction of 341 million euros is principally due to the deconsolidation of Fiat Engineering and lower guarantees granted on behalf of Sava S.p.A. for the bonds it has issued and are now falling due;
- other unsecured guarantees of 2,534 million euros (3,075 million euros at December 31, 2003) include commitments for receivables and bills discounted with recourse in the amount of 1,696 million euros (2,203 million euros at December 31, 2003). The receivables and bills discounted with recourse refer to trade receivables and other receivables for 1,613 million euros (2,144 million euros at December 31, 2003) and financial receivables for 83 million euros (59 million euros at December 31, 2003). The volume of receivables discounted with recourse in 2004 was 13,178 million euros (15,341 million euros in 2003).

Although not included in the memorandum accounts, receivables and bills discounted by the Group without recourse having due dates beyond December 31, 2004 amount to 9,809 million euros (in 2003, 9,852 million euros with due dates beyond December 31, 2003). Receivables and bills discounted without recourse refer to trade receivables and other receivables for 4,689 million euros (4,638 million euros at December 31, 2003) and financial receivables for 5,210 million euros (5,214 million euros at December 31, 2003). The discounting of financial receivables principally refers to securitization transactions involving accounts receivables from the final (retail) customers of the financial services companies. The accounting treatment for securitization transactions is disclosed in the Accounting Principles. The volume of receivables and bills discounted without recourse in 2004 was 27,540 million euros (33,298 million euros in 2003).

In summary, the discounted receivables and bills at December 31, 2004 are as follows:

	At 12/31/2004			*At 12/31/2003*		
(in millions of euros)	*Trade receivables and Other receivables*	*Financial receivables*	*Total*	*Trade receivables and Other receivables*	*Financial receivables*	*Total*
With recourse	**1,613**	**83**	**1,696**	2,144	59	2,203
Without recourse	**4,689**	**5,120**	**9,809**	4,638	5,214	9,852

The Parent Company and certain of its subsidiaries are involved in various legal actions and disputes. However, the settlement of such actions and disputes should not give rise to significant losses or liabilities which have not already been set aside in specific risk reserves.

Commitments

(in millions of euros)	*At 12/31/2004*	*At 12/31/2003*
Commitments and rights related to derivative financial instruments	**21,319**	20,798
Commitments to purchase property, plant and equipment	**408**	329
Other commitments	**12,813**	10,350
Total Commitments	**34,540**	31,477

Commitments amount to 34,540 million euros at December 31, 2004 (31,477 million euros at December 31, 2003) and include commitments and rights for derivative financial instruments of 21,319 million euros at December 31, 2004 (20,798 million euros at December 31, 2003). Derivative financial instruments are shown at their notional value (the amount of reference used to calculate the economic effects of the contract) which does not necessarily represent the amount exchanged between the parties.

In particular, the following transactions exist at December 31, 2004:

- contracts to hedge foreign exchange risks of 5,350 million euros (4,830 million euros at December 31, 2003);
- contracts to hedge interest rate exposure of 13,880 million euros (14,142 million euros at December 31, 2003);

- contracts for combined hedging of foreign exchange and interest rate risks of 783 million euros (848 million euros at December 31, 2003);
- equity swaps for 66 million euros (978 million euros at December 31, 2003, inclusive of the equity swap on General Motors stock for 916 million euros);
- call options purchased on General Motors common stock for 1,240 million euros.

These transactions are not subject to risks that may derive from the non-fulfillment by the counterparties insofar as the contracts are entered into with several primary national and international financial institutions. Approximately 52% of the contracts outstanding at December 31, 2004 will expire during 2005 and the remainder in the period 2006-2022, of which 14% will expire after 2009. The consolidated statement of operations includes the effects both of the contracts that expired in 2004 and the provisions for the contracts outstanding at year-enf, as stated in the Accounting Policies.

Hedging activities using derivative financial instruments have not undergone significant changes during the year, either in types of instruments or amounts outstanding.

The Group's financial policy attaches particular importance to the management and control of financial risks that can significantly impact profits. The Group has adopted a series of guidelines regarding the management of exchange rate and interest rate exposure. The policy allows derivative financial instruments to be used only for managing exchange and interest rate risks connected to balance sheet flows and assets and liabilities, and not for speculative purposes.

As in previous years, in 2004, foreign exchange risk management followed the aforementioned policy and maintained the character of selective risk management. The reduction in exchange exposure, substantially originating from the positive balance between exports and imports, was based on the expected trend in exchange rates and the need to hedge the exchange levels of reference without completely foregoing the benefits deriving from a favorable trend in the rates. Again this year, the management of exchange risks was based principally on a combination of currency options.

In 2004, the management of interest rate exposure also followed the aforementioned guidelines which state that derivative financial instruments should be used to reach a fixed exposure level and minimize financing costs, and to ensure a correct matching of financing and investments by the financial services companies.

The derivative financial instruments principally relate to foreign exchange forward contracts, currency swaps and currency options or, as regards interest rate risks, interest rate swaps, forward rate agreements and options on interest rates, as well as interest rate and currency swaps for the combined management of currency and interest rate risks.

A comparison of the carrying values and the fair values of derivative financial instruments by contract type is set forth below:

	At 12/31/2004			At 12/31/2003		
(in millions of euros)	*Carrying value*	*Fair value*	*Difference*	*Carrying value*	*Fair value*	*Difference*
Foreign exchange risk management instruments	**20**	**97**	**77**	(3)	59	62
Interest rate risk management instruments	**132**	**441**	**309**	138	319	181
Foreign exchange and interest rate risk management instruments	**187**	**192**	**5**	174	176	2
Equity swaps and equity options	(4)	(4)	–	(1)	439	440
Total	335	726	391	308	993	685

The fair value of these derivative financial instruments was estimated based on year-end market prices for instruments with similar characteristics and maturities.

The increase in the fair value of the transactions for the management of interest rate risk is essentially related to the reduction in euro interest rates for medium term maturities.

The difference between the "Carrying value" and "Fair Value" is mainly due to the accounting principles adopted for the valuation of the financial instruments designated as hedges. As disclosed in the Accounting Policies, it is not possible to completely adopt IAS 39 under current Italian law since all derivative financial instruments would have to be recorded at fair value in the financial statements, including those designated as hedges. The latter, instead, have been valued symmetrically with the underlying hedged item. Therefore, where the hedged item has not been adjusted to fair value in the financial statements, the hedging financial instruments have also not been adjusted. Similarly, where the hedged item has not yet been recorded in the financial statements (hedging of future flows), the valuation of the hedging instrument at fair value is deferred.

At December 31, 2004, the integral adoption of IAS 39, with reference to the aforementioned derivative financial instruments, would have had an effect on the balance sheet, on the one hand, for the adjustment of derivative financial instruments to arrive at fair value with a positive effect of 391 million euros (a positive effect of 685 million euros at December 31, 2003), and, on the other hand, for the adjustment of the hedged balance sheet items (mainly payables) with a net negative effect (due to the trend in interest rates) of 329 million euros (262 million euros at December 31, 2003) and, for the part relating to the hedging of future flows, a higher accumulated value of reserves in stockholders' equity of 41 million euros (a lower accumulated value of 22 million euros at December 31, 2003), net of the amount set aside for deferred income taxes. The integral adoption of IAS 39, always with reference to the aforementioned derivative financial instruments, would have led to negative effects on the net result for the year of approximately 286 million euros, net of tax charges (positive effects of 272 million euros at December 31, 2003). This economic impact would basically have been the result of the provision, at December 31, 2003, of the positive fair value of the Equity Swap on General Motors shares.

With particular regard to the previously mentioned equity swap arrangements, the amount at December 31, 2004 of 66 million euros represents the notional amount of the equity swap stipulated to hedge the risk of an increase in the Fiat share price above the exercise price of 10,000,000 stock options granted to Mr. Marchionne. In particular, the Board of Directors resolved to grant Mr. Marchionne, as a portion of his variable compensation as Chief Executive Officer, options for the purchase of 10,670,000 Fiat ordinary shares at the price of 6.583 euros per share, exercisable from June 1, 2008 to January 1, 2011. In each of the first three years, he accrues the right to purchase, from June 1, 2008, a maximum of 2,370,000 shares per year and on June 1, 2008 he accrues the right to purchase, effective that date, the residual portion amounting to 3,560,000 shares. The right to exercise the options related to this last portion of shares is subject to certain predetermined profitability targets that should be reached during the reference period. The risk of a significant increase in the Fiat share price above the exercise price of these options has been covered, with reference to 670,000 shares, by treasury stock in portfolio (see Note 6), whereas with reference to the remaining 10,000,000 shares, the aforementioned "Total Return Equity Swap" agreement was put into place with a reference price of 6.583 euro per share and expiring on July 29, 2005. In accordance with accounting principles, the aforementioned Equity Swap, despite being entered into for hedging purposes, cannot be treated in hedge accounting and accordingly is defined as a trading derivative financial instrument. It follows that, in accordance with the principle of prudence, if during the period of the contract the Fiat shares perform positively, the positive fair value of the instrument is not recorded in the statement of operations; if, instead, the performance is negative, the negative fair value of the instrument is recorded immediately as a cost under financial expenses. At December 31, 2004, the Equity Swap has a negative fair value of 7 million euros that has therefore been recorded in the financial statements.

At December 31, 2003, the Equity Swaps caption included:

- For 62 million euros, the notional amount of the equity swap stipulated to hedge the risk of an increase in the Fiat share price above the exercise price of 10,000,000 stock options granted to Mr. Morchio. Near the contract expiration date (August 2004), the equity swap was replaced by the aforementioned contract in respect of the stock options granted to Mr. Marchionne. The replacement gave rise to income of 5 million euros. Moreover, during 2004, the aforementioned stock options expired upon the resignation of Mr. Morchio.
- For 916 million euros, the notional amount of the equity swap stipulated in 2002 at the same time as the sale of the General Motors shares and which was put into place to hedge the risk, implicit in the Exchangeable bonds described previously, of an increase in the General Motors share price above the conversion price (Note 12). During the first half of 2004, this equity swap was terminated in advance and replaced, in order to hedge the risk implicit in the Exchangeable bonds, by the purchase of call options on General Motors common stock. The transaction gave rise to net financial income of approx. 300 million euros. Following the repayment of almost all the bonds (see Note 12), these options, although purchased for hedging purposes, are classified as trading transactions and valued at the lower of cost and market (3 million euros at December 31, 2004).

Other commitments amounted to 12,813 million euros at December 31, 2004 (10,350 million euros at December 31, 2003) and include commitments for the execution of works in the amount of 10,261 million euros (8,011 million euros at December 31, 2003) under the contracts between Fiat S.p.A., as General Contractor, and Treno Alta Velocità T.A.V. S.p.A. for the design and construction of a high-speed railway lines between Bologna - Florence and Turin - Milan. The increase of 2,250 million euros compared to December 31, 2003 relates principally to the agreements reached during 2004 regarding the Florence-Bologna section for 187 million euros; the subsection Turin-Novara for 83 million euros; agreements for the section Novara-Milan for 1,976 million euros and monetary adjustments for 4 million euros. Fiat S.p.A. in turn assigned the design and construction of these works to the CAV.E.T. and CAV.TO.MI consortiums. In order to guarantee the contractual advances and the proper execution of the works, Fiat S.p.A. granted bank suretyships to T.A.V. S.p.A. totaling 1,972 million euros. Similarly, as called for by the contract, the CAV.E.T. and CAV.TO.MI consortiums granted bank suretyships to Fiat S.p.A. for 617 million euros and 1,279 million euros, respectively. Consequently, the guarantees granted are substantially covered by the guarantees received.

Other commitments and important contractual rights

Relations with General Motors

As described in the Report on Operations – Significant events occurring since the end of the fiscal year and business outlook, on February 13, 2005 Fiat and General Motors signed a "Termination Agreement" to dissolve the Master Agreement and the joint ventures between the two groups. The agreement calls for the payment by General Motors to Fiat of 1.55 billion euros (of which 1 billion euros was already paid on February 14, 2005) to dissolve the Master Agreement, including the cancellation of the put option and the unwinding of the joint ventures. This sum will allow Fiat to recover the value of Fiat's investments in the Fiat-GM Powertrain and GM-Fiat Purchasing joint ventures recorded in the financial statements, the value of 50 percent of the Bielsko Biala (Poland) plant, which it will continue to manage, and the value of the JTD engine technology, which will be co-owned with General Motors. The sum will also entail recognition by Fiat of more than 1 billion euros of compensation to dissolve the alliance and cancel the Put on Fiat Auto shares.

Ferrari

A summary is presented below of the rights arising from the purchase in 2002 of 34% of the capital stock of Ferrari S.p.A. for 775 million euros by Mediobanca S.p.A., within the framework of a consortium set up for the acquisition and placement of the Ferrari shares. Fiat realized a gain of 671 million euros on this sale, net of selling expenses. The sale contract sets out the following principal elements:

- Mediobanca assumed the responsibility of sole Global Coordinator in charge of coordinating and leading the consortium.
- Mediobanca cannot sell its Ferrari shares to another group in the automobile industry as long as the Fiat Group maintains a 51% controlling interest in Ferrari. Barring certain specific assumptions, the Fiat Group can not reduce its investment in Ferrari below 51% until the end, depending on the case, of the third or fourth year subsequent to signing the contract.
- Fiat holds a call option that allows it to repurchase the Ferrari shares at any time before June 30, 2006 (the original date of June 30, 2005 was extended by one year during the course of 2003, by virtue of the payment of a premium of 16 million euros), except during the five months subsequent to the presentation of an IPO application to the competent authorities. The option exercise price is equal to the original price at which the shares were sold plus interest during the period based on the BOT yield plus 4%.
- Mediobanca, moreover, does not hold any put option to resell the purchased Ferrari shares to Fiat, even in the event that the IPO does not occur or is not completed.
- Fiat may share, in declining percentages, in any gain realized by Mediobanca and the other members of the consortium in the event of an IPO.

Teksid

Teksid S.p.A. is the object of a Put and Call contract with the partner Norsk Hydro concerning the subsidiary Meridian Technologies Inc. (held 51% by the Teksid Group and 49% by the Norsk Hydro Group). In particular, should there be a strategic deadlock in the management of the company (namely in all those cases in which a unanimous vote in favor is not reached by the directors on the board as regards certain strategic decisions disciplined by the contract between the stockholders), the following rights would arise:

- Put Option of Norsk Hydro with Teksid on the 49% holding: the sale price would be commensurate with the initial investment made in 1998, revalued *pro rata temporis*, net of dividends paid.

- Call Option of Teksid with Norsk Hydro on the 49% holding (exercisable whenever Norsk Hydro renounces its right to exercise the Put Option described above): the sale price would be the higher value between the initial investment made by Norsk Hydro in 1998, calculated according to the criteria expressed previously, and 140% of the Fair Market Value (in this regard, an increase of 2% per year is established in the event the option is exercised from the start of 2008 until 2013, thus up to 150% of the relative value).

It should be pointed out that so far the conditions that would give rise to the strategic deadlock are considered to be quite remote.

Fiat S.p.A. is subject to a put contract with Renault (in reference to the original investment of 33.5% in Teksid, now 19.52%).

In particular, Renault would acquire the right to exercise a sale option on the treasury stock to Fiat, in the following cases:

- in the event of nonfulfilment in the application of the protocol of the agreement and admission to receivership or any other redressment procedure;
- in the event Renault's investment in Teksid falls below 15% or Teksid decides to invest in a structural manner outside the foundry sector;
- should Fiat be the object of the acquisition of control by another car manufacturer.

The exercise price of the option is established as follows:

- for 6.5% of the capital stock of Teksid, the initial investment price increased *pro rata temporis*;
- for the remaining amount of capital stock of Teksid, the share of the accounting net equity at the exercise date.

End-of-life vehicles

In September 2000, the European Union issued Directive 2000/53/CE relative to end-of-life vehicles. This Directive, among other things, provides that, in the future, vehicle manufacturers will have to bear all, or a significant part of, the costs arising from the collection, treatment and recovery of end-of-life vehicles. The above Directive is currently being introduced into the national legislation of the individual member states and will be applicable for all vehicles placed on the market starting from July 2002; beginning January 2007 all vehicles on the market will be covered, even those placed before July 2002. The Directive was introduced in Italy in June 2003 and in the major markets (Germany, the Netherlands, Belgium, France, Spain, Slovenia, Portugal, Austria and Norway). Fiat Auto is pursuing a strategy aimed at zero service cost for the manufacturer by promoting networks for the disposal of the vehicles or taking part in networks set up by other competitors, which, in the majority of cases, is made possible by the creation of a process that is economically self-sustained by the recovery value of the spare parts. Consequently, no liabilities are recognized for the Group.

Group assets held by third parties

Group assets held by third parties amount to 3,218 million euros at December 31, 2004 (4,496 million euros at December 31, 2003), a decrease of 1,278 million euros from December 31, 2003. They include securities deposited with banks and other financial institutions totaling 156 million euros (1,042 million euros at December 31, 2003). The reduction of 886 million euros of the amount of securities deposited with banks is mainly due to their redemption at maturity by the issuers. This item also includes tangible fixed assets, products and goods of some Automotive Sectors held by outside suppliers for processing totaling 3,062 million euros (3,454 million euros at December 31, 2003).

15 Value of production

Revenues from sales and services and Change in contract work in progress

Revenues from sales and services and Change in contract work in progress amount to 46,703 million euros in 2004 compared to 47,271 million euros in 2003. They include revenues from sales and services of 46,488 million euros (48,346 million euros in 2003) and the change in contract work in progress of 215 million euros (-1,075 million euros in 2003).

For comments on these items, refer to the Report on operations.

The Fiat Group is divided into business sectors and operates in various geographical areas. The distribution by business sector of Revenues from sales and services and Change in contract work in progress (net of intra-Group transactions) is as follows:

(in millions of euros)	*2004*	*2003*	*2002*
Revenues from sales and services and Change in contract work in progress by operating sector			
Automobiles	**20,356**	19,839	21,908
Ferrari and Maserati	**1,502**	1,250	1,194
Agricultural and Construction Equipment	**9,791**	9,410	10,502
Commercial Vehicles	**8,960**	8,206	8,816
Components	**2,586**	2,087	2,085
Metallurgical Products	**798**	735	1,411
Production Systems	**1,285**	1,756	1,763
Services	**802**	1,019	1,005
Publishing and Communications	**398**	372	346
Aviation (*)	**–**	625	1,532
Insurance (**)	**–**	1,654	4,834
Other companies	**225**	318	253
Total Revenues from sales and services and Change in contract work in progress	**46,703**	47,271	55,649

(*) The Aviation Sector's revenues are included up to the date of sale (July 1, 2003).

(**) The Insurance Sector's revenues are included up to the date of sale (May 2, 2003).

Net revenues by area of destination may be analyzed as follows:

(in millions of euros)	*2004*	*2003*	*2002*
Revenues from sales and services and Change in contract work in progress by destination			
Italy	**15,618**	16,381	20,120
Europe (excluding Italy)	**18,180**	18,884	21,072
North America	**5,857**	5,920	7,411
Mercosur	**3,196**	2,595	3,268
Other areas	**3,852**	3,491	3,778
Total Revenues from sales and services and Change in contract work in progress	**46,703**	47,271	55,649

Other income and revenues

(in millions of euros)	*2004*	*2003*	*2002*
Revenue grants	**54**	52	47
Capital gains	**87**	187	290
Prior period income	**345**	423	518
Investment grants	**61**	78	114
Other income	**969**	949	1,183
Total Other income and revenues	**1,516**	1,689	2,152

16 Costs of production

Costs of production total 48,804 million euros (50,858 million euros in 2003) with a decrease of 4% compared to 2003. On a comparable consolidation basis, there would be an increase of 1.1%. The main variations can be explained as follows:

Raw materials, supplies and merchandise

Raw materials, supplies and merchandise amount to 28,951 million euros, an increase of 2% compared to 2003 (2.3% on a comparable consolidation basis). Raw materials, supplies and merchandise as a percentage of revenues, on a comparable consolidation basis, would be 62% (63% in 2003).

Services

Services amount to 7,984 million euros, a decrease of 6.1% compared to 2003 (an increase of 0.4% on a comparable consolidation basis). This amount is equal to 17.1% of revenues (18% in 2003). On a comparable consolidation basis, the percentage of services expenses to revenues would be 17.1% (18.4% in 2003). Services include advertising costs, external information technology and telecommunication service costs, external maintenance costs and transportation costs.

Personnel

Personnel costs consist of the following:

(in millions of euros)	*2004*	*2003*	*2002*
Salaries and wages	**4,462**	4,707	5,457
Social security contributions	**1,168**	1,249	1,365
Employee severance indemnities	**187**	244	256
Employee pensions and similar obligations	**178**	185	100
Other costs	**374**	303	376
Total Personnel costs	**6,369**	6,688	7,554

Personnel costs amount to 6,369 million euros in 2004, a decrease of 4.8% compared to 2003, mostly due to the effects of the change in the scope of consolidation. On a comparable consolidation basis, the decrease would be 2.4%. Personnel costs are equal to 13.6% of revenues (14.1% in 2003). Personnel costs as a percentage of revenues, on a comparable consolidation basis, would be 13.6% (14.5% in 2003).

An analysis of the average number of employees by category is provided as follows:

			2004			*2003*			*2002*
	Companies consolidated on a line-by-line basis	*Companies consolidated by the proportional method*	*Total*	*Companies consolidated on a line-by-line basis*	*Companies consolidated by the proportional method*	*Total*	*Companies consolidated on a line-by-line basis*	*Companies consolidated by the proportional method*	*Total*
Average number of employees									
Managers	**2,634**	–	**2,634**	2,948	–	2,948	3,483	2	3,485
White-collar	**53,271**	–	**53,271**	60,407	–	60,407	67,487	114	67,601
Blue-collar	**105,589**	–	**105,589**	110,887	–	110,887	118,999	320	119,319
Total	**161,494**	–	**161,494**	174,242	–	174,242	189,969	436	190,405

The average number of employees in 2004 totals 161,494, a decrease of 12,748 employees compared to 2003. This decrease is partly due to employees who left the Group, also in connection with employee reduction plans, and partly to the change in the scope of consolidation principally in relation to the sale of FiatAvio S.p.A., the Toro Assicurazioni Group and the retail financing activities of the Automobile Sector.

In 2004 and 2003, there are no companies accounted for using the proportional method.

Provisions for risks

Provisions for risks of 1,394 million euros in 2004 (1,163 million euros in 2003) relate to the vehicle warranty reserve for 636 million euros in 2004 (490 million euros in 2003), mainly in the Automotive Sectors, and to other reserves connected with industrial risks for 758 million euros (673 million euros in 2003).

Other operating costs

(in millions of euros)	*2004*	*2003*	*2002*
Losses on sale of fixed assets	**83**	47	86
Prior period expenses	**208**	226	297
Indirect and other taxes	**128**	147	229
Sundry expenses	**656**	608	692
Total Other operating costs	**1,075**	1,028	1,304

Insurance claims and other insurance costs

Insurance claims and other insurance costs amount to 20 million euros in 2004 (1,367 million euros in 2003). The decrease from 2003 is due to the sale of the Toro Assicurazioni Group in May 2, 2003.

17 Financial income and expenses

Investment income

(in millions of euros)	*2004*	*2003*	*2002*
Dividends	**9**	12	103
Tax credit on dividends	**–**	5	22
Gains on sale of investments held in current assets	**–**	5	31
Total Investment income	**9**	22	156

Investment income includes income from associated companies of 1 million euros (1 million euros in 2003) and from other companies of 8 million euros (21 million euros in 2003), with a reduction of 13 million euros compared to 2003 due to the change in the scope of consolidation.

Dividends were mainly received from minority investments valued at cost.

Other financial income, interest and other financial expenses, foreign exchange gains and losses

The following analysis of "Other financial income", "Interest and other financial expenses" and "Foreign exchange gains and losses" presents the amounts shown in the related captions on the statement of operations and also the amounts of income and expenses of the Group's financial companies presented in the captions on the statement of operations under "Revenues from sales and services" and "Interest and other expenses of financial services companies", respectively. The last line in the table shows "Other financial income" and "Interest and other financial expenses" as presented on the statement of operations, excluding the financial activities.

Other financial income

(in millions of euros)	2004	2003	2002
Other financial income from:			
receivables held as fixed assets from others	–	3	2
securities held as fixed assets other than equity investments	1	–	156
securities held as current assets other than equity investments	39	119	147
Other income from:			
unconsolidated subsidiaries	4	8	25
associated companies	29	34	38
others:			
bank and other interest	190	266	264
customer interest and lease income	922	1,166	2,010
discounts and other income	65	81	124
income from derivative financial instruments	996	1,132	1,603
Total from others	2,173	2,645	4,001
Total Other income	2,206	2,687	4,064
Total Other financial income	2,246	2,809	4,369
of which:			
Other financial income, excluding financial services companies	1,271	1,457	2,219

Interest and other financial expenses

(in millions of euros)	2004	2003	2002
Interest and other financial expenses from:			
unconsolidated subsidiaries	–	3	2
associated companies	5	6	2
others:			
bond interest	587	681	769
bank interest	316	558	656
interest on trade and other payables	27	18	71
interest on notes payable	7	49	106
interest on other financial payables	167	185	273
discounts and other expenses	544	534	635
expenses from derivative financial instruments	666	1,115	1,492
losses on sale of securities	1	8	44
Total Interest and other financial expenses from others	2,315	3,148	4,046
Total Interest and other financial expenses	2,320	3,157	4,050
of which:			
Interest and other financial expenses, excluding financial services companies	1,944	2,489	2,935

Foreign exchange gains and losses

(in millions of euros)	2004	2003	2002
Foreign exchange gains and losses:			
exchange differences balance	25	47	(111)
Total foreign exchange gains and losses	25	47	(111)
of which:			
Foreign exchange gains and losses excluding financial services companies	25	47	(111)

Other financial income of 2,246 million euros in 2004 (2,809 million euros in 2003), when shown net of Interest and other financial expenses of 2,320 million euros (3,157 million euros in 2003) and the net balance of foreign exchange gains of 25 million euros (47 million euros in 2003) results in a net negative balance of 49 million euros (a net negative balance of 301 million euros in 2003). However, the result for fiscal 2003 had benefited from financial income, net of the relative financial expenses, on the businesses sold (mainly the retail activities of Fiat Auto and the Toro Assicurazioni Group) for approximately 170 million euros. On a comparable consolidation basis, the improvement is about 420 million euros and is the consequence of both nonrecurring transactions (mainly the net amount of income of approximately 300 million euros from the termination of the Equity Swap on General Motors stock) and lower average indebtedness during the year and generally more favorable market interest rates.

Foreign exchange gains, net, of 25 million euros (foreign exchange gains, net, of 47 million euros in 2003), represent the balance between foreign exchange gains of 2,443 million euros in 2004 (2,519 million euros in 2003) and foreign exchange losses of 2,418 million euros in 2003 (2,472 million euros in 2003).

Discounts and other expenses include receivables discounting and securitization expenses of 195 million euros in 2004 (280 million euros in 2003).

18 Adjustments to financial assets

(in millions of euros)		*2004*		*2003*		*2002*
Revaluations:						
Equity investments	**125**		91		68	
Financial fixed assets other than equity investments	**–**		–		–	
Securities held in current assets other than equity investments	**–**		14		7	
Total Revaluations		**125**		105		75
Writedowns:						
Equity investments	**126**		263		809	
Financial fixed assets other than equity investments	**23**		1		84	
Securities held in current assets other than equity investments	**2**		8		45	
Financial receivables	**71**		5		18	
Total Writedowns		**222**		277		956
Total Adjustments to financial assets		(97)		(172)		(881)

Revaluations and writedowns of equity investments also include the share of the earnings and losses of companies accounted for using the equity method.

Revaluations of equity investments of 125 million euros in 2004 include the results of following companies (in millions of euros): BUC – Banca Unione Credito 9 (11 in 2003), various companies of CNH Global N.V. 28 (24 in 2003), companies of Automobiles Sector 56 (20 in 2003), other companies 32 (36 in 2003).

Writedowns of equity investments of 126 million euros in 2004 (263 million euros in 2003) include the share of the losses of the companies valued using the equity method and the permanent impairments in value of the companies valued at cost, for the following (in millions of euros): various companies of CNH Global N.V. 4 (9 in 2003), companies in the Automobile Sector 51(112 in 2003), companies of the Commercial Vehicles Sector 28 (3 in 2003), companies of the Service Sector 26 (7 in 2003), other companies 17 (4 in 2003). In 2003, the amount included writedowns in following companies (in millions of euros): Italenergia Bis S.p.A. 24, Atlanet S.p.A. 56, and the first four months of Toro Assicurazioni Group 48.

Writedowns of financial receivables of 71 million euros (5 million euros in 2003) include provisions to the allowance for doubtful financial accounts receivable to adjust certain items to realizable value after settlement for the partial collection of a receivable which became known during the early months of 2005.

19 Extraordinary income and expenses

(in millions of euros)		*2004*		*2003*		*2002*
Extraordinary income						
Gains on disposals of investments and other fixed assets		162		1,826		1,081
Other income:						
Prior period income	19		32		8	
Other income	135		159		146	
Total Other income		154		191		154
Total Extraordinary income		316		2,017		1,235
Extraordinary expenses						
Losses on disposal of investments and other fixed assets		(5)		(50)		(1,239)
Taxes relating to prior years		(39)		(26)		(79)
Other expenses:						
Extraordinary provisions to reserves	(432)		(585)		(980)	
Other extraordinary expenses	(685)		(969)		(1,400)	
Prior period expenses	(18)		(40)		(40)	
Total Other expenses		(1,135)		(1,594)		(2,420)
Total Extraordinary expenses		(1,179)		(1,670)		(3,738)
Total Extraordinary income and expenses		(863)		347		(2,503)

Gains on disposals of investments and other fixed assets amount to 162 million euros in 2004 (1,826 million euros in 2003). They include the gains on the following (in millions of euros): sale of Midas Group 32 (28 million euros net of the expenses and provisions connected with the transaction, classified in extraordinary provisions to reserves), sale of Fiat Engineering S.p.A. 60 (58 million euros net of the collateral costs classified as extraordinary expenses), sale of Edison shares 32 million euros, Edison Warrant 30 million euros, other minor investments 8 million euros.

Gains on disposals of investments and other fixed assets amounted to 1,826 million euros in 2003 and included the gains on the following (in millions of euros): sale of Toro Assicurazioni Group 427 (390 million euros net of the expenses and provisions connected with the transaction, classified as other extraordinary expenses), sale of the Automobile Sector's Retail financing activities in Brazil 103, sale of the 55.95% investment in IPI S.p.A. 15, sale of the 50.1% investment in IN ACTION S.r.l. 8, sale of FiatAvio S.p.A. 1,266 (1,258 net of the expenses connected with the transaction), sales of other minor investments 7.

Other extraordinary income of 135 million euros (159 million euros in 2003) refers to nonrecurring income of the individual companies of the Group mainly for the release of extraordinary reserves that proved in excess of requirements.

Losses on disposals of investments and other fixed assets amount to 5 million euros in 2004 (50 million euros in 2003).

Taxes relating to prior years amounted to 39 million euros in 2004 (26 million euros in 2003).

Other extraordinary expenses amounting to 1,135 million euros in 2004 (1,594 million euros in 2003), include principally expenses and provisions for risks in relation to corporate restructuring transactions of 508 million euros, other extraordinary writedowns of assets on the basis of changes in market prospects and the consequent new business plans of 35 million euros. They also include additional extraordinary expenses and provisions to reserves for future risks and charges for a total of 592 million euros, the most significant of which refer to expenses for the rationalization and restructuring of relationships with suppliers of the Group (246 million euros). Other extraordinary expenses also include 18 million euros of prior period expenses.

Other extraordinary expenses can be detailed by Sector as follows (amounts in millions of euros): Automobiles 742 (711 in 2003), Agricultural Equipment 68 (142 in 2003), Commercial Vehicles 70 (170 in 2003), Metallurgical Products 25 (67 in 2003), Components 68 (86 in 2003), Production Systems 17 (140 in 2003), Services 16 (31 in 2003), Other Sectors and Companies 129 (247 in 2003).

Other extraordinary expenses amounting to 1,594 million euros in 2003, included principally expenses and provisions for risks in relation to corporate restructuring transactions of 658 million euros, other extraordinary writedowns of assets on the basis of changes in market prospects and the consequent new business plans of 215 million euros. They also included additional extraordinary expenses and provisions for future risks and charges totaling 721 million euros, of which the most significant were: provisions for the remaining commitments connected with the IPSE initiative (47 million euros), expenses and provisions recorded in reference to relations existing with the Ixfin Group (53 million euros), incidental costs and other provisions connected with the sale of the Toro

Assicurazioni Group (37 million euros), incidental costs and other provisions connected with other sales which took place in 2003 and in prior years (102 million euros), damages caused by flooding at the Termoli factory (71 million euros) and, lastly, commissions paid to Mediobanca for the extension of the commitments undertaken by Mediobanca itself under the "Ferrari" contract described in Note 14 (16 million euros). Other extraordinary expenses also included prior years' expenses of 40 million euros.

20 Income taxes

Income taxes recorded in the consolidated statement of operations in 2004, 2003 and 2002 are as follows:

(in millions of euros)	*2004*	*2003*	*2002*
Current taxes:			
IRAP	128	125	141
Other taxes	187	31	192
Total Current taxes	315	156	333
Deferred taxes	(344)	494	(887)
Total Income taxes	(29)	650	(554)

Income taxes paid by the Group in 2004 and 2003 amounted to 292 million euros and 132 million euros, respectively.

The reconciliation between the tax charge recorded in the consolidated financial statements and the theoretical tax charge, calculated on the basis of the theoretical tax rates in effect in Italy, is the following:

(in millions of euros)	*2004*	*2003*	*2002*
Theoretical income taxes	(520)	(441)	(1,734)
Utilization of tax loss carryforwards	(128)	(57)	(47)
Tax effect of permanent differences	6	136	(325)
Tax effect of difference between foreign tax rates and theoretical Italian tax rates	5	(6)	13
Deferred tax assets not provided	459	881	1,361
Other differences	21	12	37
Income taxes recorded in financial statements excluding IRAP (current and deferred income taxes)	(157)	525	(695)
IRAP	128	125	141
Income taxes recorded in financial statements (current and deferred income taxes)	(29)	650	(554)

In order to render the reconciliation between income taxes recorded in the financial statements and theoretical income taxes more meaningful, the IRAP tax is not taken into consideration. Since the IRAP tax has a taxable basis that is different from income before taxes, it generates distortions between one year and another. Accordingly, the theoretical income taxes were determined by applying only the tax rate in effect in Italy (IRES equal to 33% in 2004) to the income before taxes.

In 2004 and 2003, as a result of the loss reported by the Group, the effective tax rate is not significant.

With reference to the above reconciliation, the permanent differences include the tax effect on non-taxable income of 226 million euros in 2004 (148 million euros in 2003) and on nondeductible costs of 232 million euros in 2004 (341 million euros in 2003).

In 2004, Other differences include unrecovered withholdings for 11 million euros (20 million euros in 2003).

21 Other information

Assets by geographical area

(in millions of euros)	*Total Assets* 2004	2003	2002
Europe	**43,996**	49,690	75,254
North America	**8,661**	9,200	12,013
Mercosur	**3,207**	2,890	3,451
Other areas	**1,379**	931	1,803
Total Assets	**57,243**	62,711	92,521

The reduction in total assets of 5,468 million euros is mainly due to changes in the scope of consolidation principally in conjunction with the sale of the activities of Fiat Engineering S.p.A. and lower financial receivables due both to the reduction in loan activities and the change in the scope of consolidation as a result of the sale of the financial activities of the Automobile Sector in the United Kingdom (see Note 6).

Capital expenditures by geographical area

(in millions of euros)	*Total Capital Expenditures* 2004	2003	2002
Europe	**1,811**	1,723	2,225
North America	**170**	138	313
Mercosur	**104**	120	150
Other areas	**27**	30	83
Total Capital expenditures	**2,112**	2,011	2,771

Operating income by geographical area

The following analysis of operating income by geographical area excludes the operating income of the Group's insurance companies.

(in millions of euros)	*Total Operating Income* 2004	2003	2002
Europe	**(713)**	(832)	(1,136)
North America	**375**	139	(118)
Mercosur	**334**	135	260
Other areas	**14**	(5)	89
Total Industrial and Financial activities	**10**	(563)	(905)
Insurance companies	**12**	53	143
Total Operating income	**22**	(510)	(762)

Net Sales and Revenues, Operating income (loss), Depreciation and Amortization, Capital expenditures by segment

	Net sales revenues						
(in millions of euros)	*Third parties*	*Inter-segment (*)*	*Total*	*Operating Income (Loss)*	*Depreciation and Amortization*	*Capital expenditures*	*Total Assets*
2004							
Automobiles	**20,356**	**183**	**20,539**	**(840)**	**945**	**1,330**	**17,839**
Ferrari and Maserati	**1,502**	**10**	**1,512**	**6**	**121**	**139**	**1,099**
Agricultural and Construction Equipment	**9,791**	**5**	**9,796**	**407**	**393**	**210**	**12,134**
Commercial Vehicles	**8,960**	**332**	**9,292**	**357**	**308**	**148**	**9,505**
Components	**2,586**	**1,218**	**3,804**	**116**	**181**	**187**	**2,393**
Metallurgical Products	**798**	**113**	**911**	**35**	**48**	**44**	**728**
Production Systems	**1,285**	**431**	**1,716**	**32**	**43**	**14**	**3,560**
Services	**802**	**770**	**1,572**	**36**	**33**	**11**	**783**
Publishing and communications	**398**	**9**	**407**	**12**	**7**	**2**	**228**
Other companies and eliminations (****)	**225**	**(3,071)**	**(2,846)**	**(139)**	**89**	**27**	**8,974**
Group total	**46,703**	**–**	**46,703**	**22**	**2,168**	**2,112**	**57,243**
2003							
Automobiles	19,839	171	20,010	(979)	962	1,100	20,908
Ferrari and Maserati	1,250	11	1,261	32	85	193	965
Agricultural and Construction Equipment	9,410	8	9,418	229	450	217	12,928
Commercial Vehicles	8,206	234	8,440	81	304	210	9,108
Components	2,087	1,119	3,206	32	173	148	2,418
Metallurgical Products	735	109	844	12	49	56	739
Production Systems	1,756	537	2,293	2	56	18	4,125
Services	1,019	797	1,816	45	30	7	1,892
Publishing and communications	372	11	383	10	7	3	251
Aviation (**)	625	–	625	53	41	33	–
Insurance (***)	1,654	–	1,654	44	16	–	–
Other companies and eliminations (****)	318	(2,997)	(2,679)	(71)	96	26	9,377
Group total	47,271	–	47,271	(510)	2,269	2,011	62,711
2002							
Automobiles	21,908	239	22,147	(1,343)	959	1,116	30,026
Ferrari and Maserati	1,194	14	1,208	70	77	176	897
Agricultural and Construction Equipment	10,502	11	10,513	163	541	431	14,434
Commercial Vehicles	8,816	320	9,136	102	424	587	10,846
Components	2,085	1,203	3,288	(16)	190	148	2,752
Metallurgical Products	1,411	128	1,539	27	93	78	857
Production Systems	1,763	557	2,320	(101)	64	20	4,763
Services	1,005	960	1,965	67	42	14	3,306
Publishing and communications	346	14	360	3	8	3	227
Aviation (**)	1,532	2	1,534	210	69	130	3,206
Insurance (***)	4,834	82	4,916	147	47	14	19,041
Other companies and eliminations (****)	253	(3,530)	(3,277)	(91)	100	54	2,166
Group total	55,649	–	55,649	(762)	2,614	2,771	92,521

(*) Intersegment net sales and revenues include revenues between Group companies consolidated line-by-line and reporting to different Sectors. Intersegment sales are accounted for at transfer prices that are substantially in line with market conditions.

(**) The Aviation Sector's revenues are included up to the date of sale (July 1, 2003).

(***) The Insurance Sector's revenues are included up to the date of sale (May 2, 2003).

(****) The operating income (loss) of "Other Companies" amounts to -120 million of euros in 2004, -137 million euros in 2003 and -105 million euros in 2002.

Research and development expenses

Each year significant expenditures are borne by the Group for research and development programs that generally cover a period of several years and which are charged to income in the year incurred.

In 2004 and 2003 direct research and development expenses were 1,810 million euros and 1,747 million euros, respectively. For the most important projects, the Group has applied for financing to the Italian government and the European Community under related legislation.

At the end of 2004, there were multiyear research and innovation projects that are being examined or for which incentives are being paid, by the above authorities, which show estimated expenditures in the relative applications amounting to approximately 997 million euros (an amount which also comprises projects on which the balance of the incentives was received in the same year). The Group filed/received low-rate loans for 226 million euros and grants for 436 million euros in respect of these projects which could also give rise to receipts for incentives in future years. The amounts received during 2004, referring to the aforementioned expenditures, totaled 22 million euros in low-rate loans and 52 million euros in grants, for a cumulative total at December 31, 2004 of 42 million euros in low-rate loans and 157 million euros in grants.

The average interest rate on financing received for research and innovation at December 31, 2004 was 2.08% (2.27% for outstanding financing at December 31, 2003).

Maintenance costs

Maintenance costs charged to income in 2004 and 2003 amounted to 370 million euros and 435 million euros, respectively.

Advertising costs

Advertising costs charged to income in 2004 and 2003 amounted to 898 million euros and 921 million euros, respectively.

22 Statement of cash flows

The Statement of cash flows is included, and commented on, in the Report on Operations Financial Review of the Fiat Group and Fiat S.p.A.

A reconciliation between cash and the Group net financial position is also reported in the Report on Operations – Financial Review of the Fiat Group and Fiat S.p.A.

23 Translation of foreign financial statements

The principal exchange rates used in 2004 and 2003 to translate the foreign currency financial statements into euros were:

	Average 2004	*At 12/31/2004*	*Average 2003*	*At 12/31/2003*
U.S. dollar	**1.244**	**1.362**	1.131	1.263
British sterling	**0.679**	**0.705**	0.692	0.705
Swiss franc	**1.544**	**1.543**	1.521	1.558
Polish zloty	**4.526**	**4.084**	4.398	4.717
Brazilian real	**3.635**	**3.615**	3.474	3.649
Argentine peso	**3.664**	**4.045**	3.335	3.713

24 Emoluments to directors and statutory auditors

			2004			2003
(in thousands of euros)	*Fiat S.p.A.*	*Subsidiaries*	*Total*	*Fiat S.p.A.*	*Subsidiaries*	*Total*
Directors	5,128	7,167	12,295	4,764	6,904	11,668
Statutory auditors	147	30	177	147	125	272
Total Emoluments	5,275	7,197	12,472	4,911	7,029	11,940

These refer to emoluments to which the Directors and Statutory Auditors of Fiat S.p.A. are entitled for carrying out these functions also in other companies included in the scope of consolidation.

The list of companies included in the consolidated financial statements
(Article 38 and 39 of Legislative Decree 127/91) is attached

Turin, March 24, 2005

The Board of Directors

By:

Luca Cordero di Montezemolo

Chairman