Fiat Stockholders Meeting

Speech by Fiat SpA CEO

Sergio Marchionne

Fiat Historical Center
June 23, 2005

Good morning ladies and gentlemen.

As the Chairman has already told you, I am going to illustrate the results achieved by the Group in 2004 and in the first quarter of this year. I will conclude my presentation with a brief summary of the objectives that we are working towards.

Notwithstanding a whole series of extraordinary events during the year, from the death of Umberto Agnelli to the complete replacement of its top management, the Fiat Group made major progress towards recovery in 2004.

In fact, we achieved all our goals, first and foremost the objective of reaching breakeven in terms of Group operating income, with an improvement of over 700 million euros with respect to 2003.

We also reduced the operating cash outflow of the Company, which, net of receivables sold, shrank from 2.8 billion to 700 million euros.

Our businesses have steadily improved their performances: in fact, we reached breakeven after eight consecutive quarters of improvement in operating performance.

Net loss narrowed by 400 million euros to 1.5 billion euros, notwithstanding 1.6 billion euros of lower extraordinary gains.

We had to bear large extraordinary charges, in particular at Fiat Auto.

As you know, we successfully resolved the General Motors issue in February of this year. Fiat won recognition of the value of its put option by collecting 1.55 billion euros, recovered complete control of Fiat Auto, and regained its strategic flexibility.

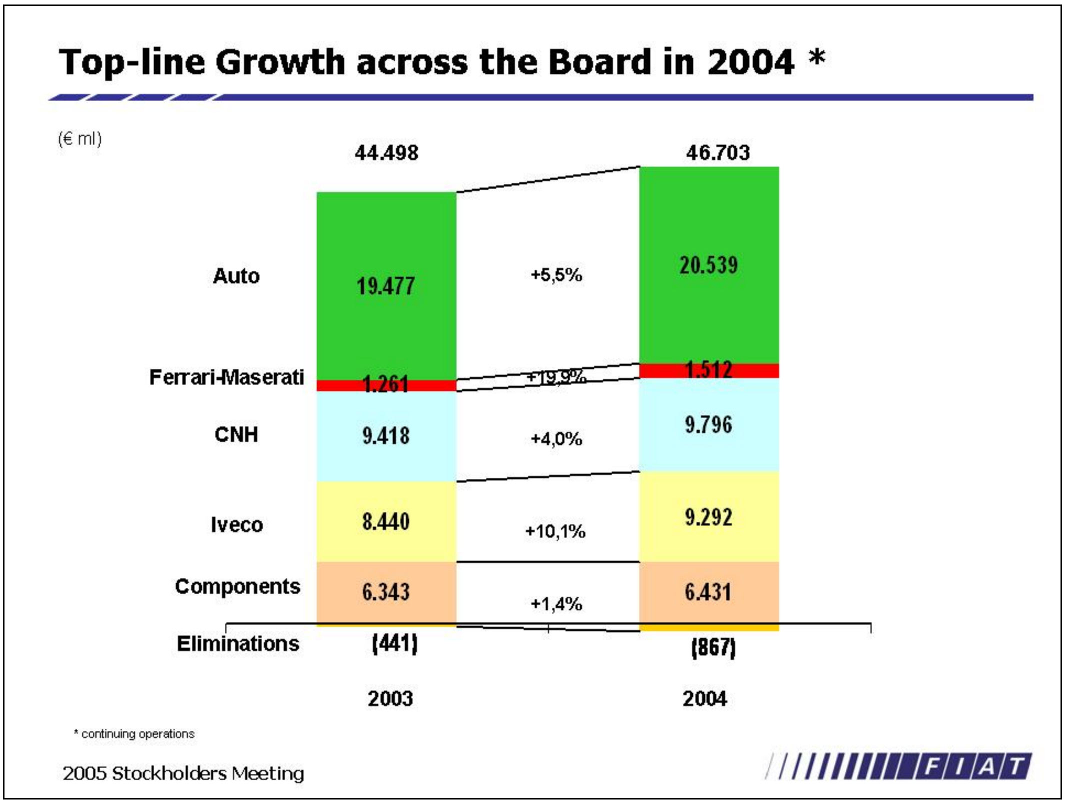
Last but not least, the reorganization of Fiat Auto was completed. In fact, we have given the Company a leaner and more efficient structure and new executive managers, while simultaneously realizing an essential cultural change.

Fiat SpA made its own contribution by starting a streamlining of its organization, which had a significant impact in the first months of 2005, to encourage accountability, fast decision-making processes, and more effective interaction with the Sectors.

After reimbursing 2.7 billion euros in bonds, the Group had a solid year-end cash position of 5.3 billion euros, and its financial flexibility further improved after the GM settlement.

Generally speaking we can say that 2004 was the last year of net loss for the Group.

***



Now, turning to the details, we see that Group revenues were up by 5.5% in 2004 compared to the previous year.

All Sectors contributed to this improvement.

Fiat Auto increased its volumes thanks in particular to the newly introduced models, strong sales in Brazil and the success of Light Commercial Vehicles.

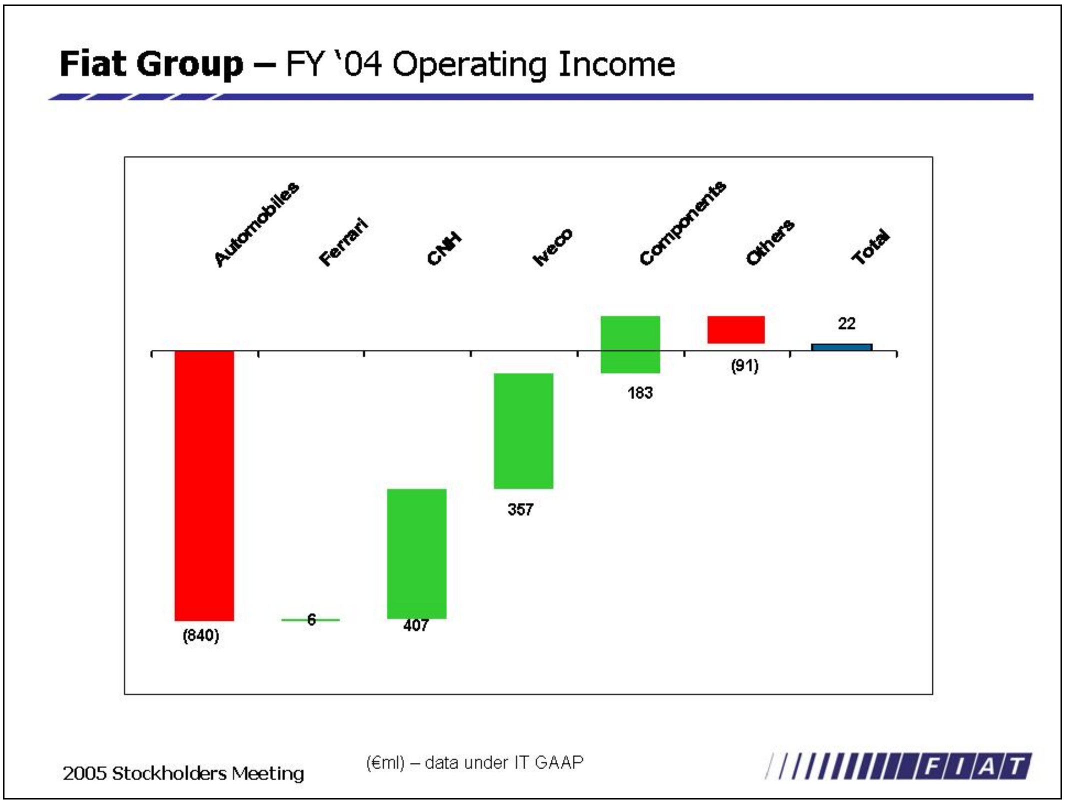
Ferrari-Maserati also helped improve revenues in the automobile business, with a 20% sales increase in 2004.

CNH improved its US dollars revenues by 14.4%. This increase was largely attributable to strong sales on the American market thanks to its recently revamped product line.

Iveco revenues increased by 10% in 2004. The Company was able to exploit increased demand in Western Europe while maintaining its market share virtually unchanged.

The Components businesses reported higher revenues as well, with a growth of 1.4%.

***



Now let's take a look at Group operating income, which was a positive 22 million euros in 2004.

Fiat Auto reduced its operating loss by 254 million euros thanks to improved volumes and product mix. The result of Fiat Auto was also positively impacted by higher volumes and margins achieved in Brazil and reduced costs. The latter are partly offset by higher research and development expenses dedicated to the revamping of products.

At the other Sectors, special mention has to be made of the strong improvement at CNH and Iveco.

In fact, the operating income of CNH rose from 229 to 407 million euros thanks to the manufacturing efficiencies and the synergies that were realized.

Iveco more than quadrupled its operating result, which rose from 81 million euros in 2003 to 357 million euros in 2004. The result was made possible by the growth in sales volumes and higher prices, which were realized through repositioning of its product line.

Ferrari-Maserati reported a positive operating income of 6 million euros, which was however lower than the one achieved in 2003, due to the negative dollar-euro exchange difference and higher research and development costs.

The Components businesses also contributed to reaching the operating breakeven: Magneti Marelli with +84 million euros compared to 2003, Comau with +30 million euros, and Teksid with +23 million euros.

***

Fiat Group – From Operating to Net Result

(€ ml)

	2004	2003	Δ
Operating Result	**22**	**(510)**	**+532**
Investment Income, Net	8	(156)	+164
Financial Charges, Net	(744)	(979)	+235
of which non-recurring items & scope	***192***	***83***	*+109*
Extraordinary Expenses	(1,015)	(1,400)	+385
Extraordinary Gains / (Losses)	152	1,747	-1,595
Pre-tax Result	**(1,577)**	**(1,298)**	**-279**
Taxes	29	(650)	+679
Net Consolidated Result	**(1,548)**	**(1,948)**	**+400**

2005 Stockholders Meeting

FIAT

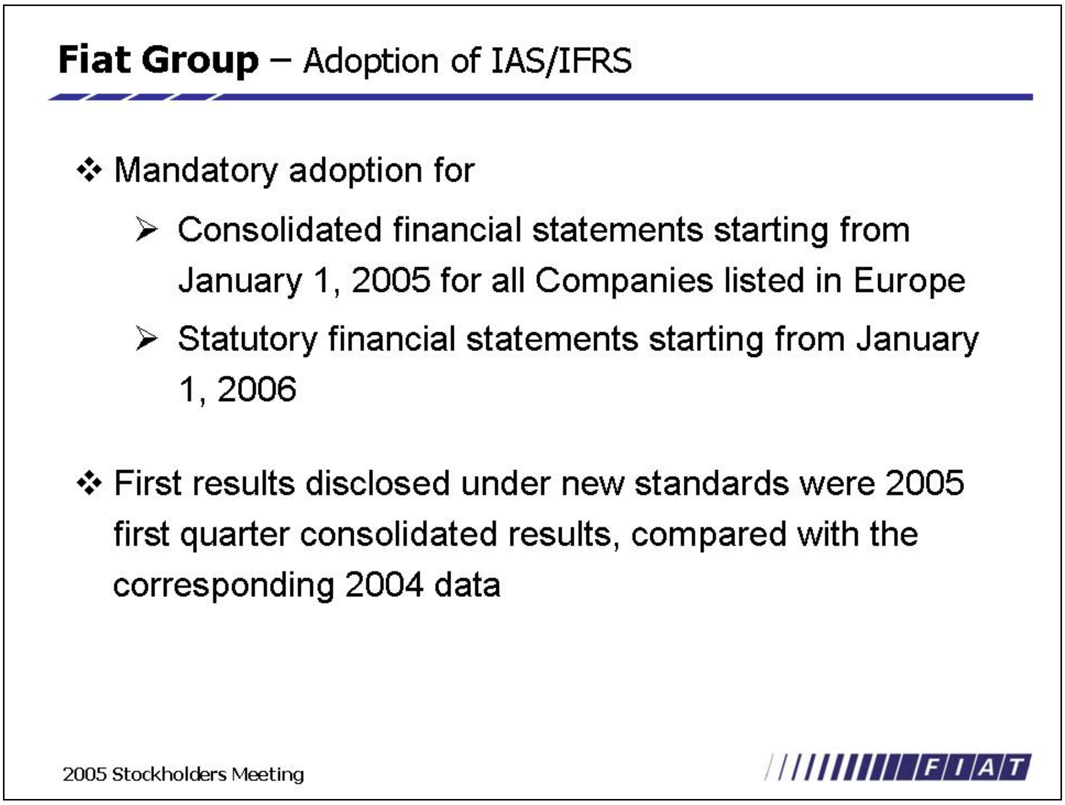
Net result improved by about 400 million euros with respect to 2003, which had been characterized by extraordinary gains generated by major divestitures, such as in particular the sale of Toro Assicurazioni and FiatAvio.

The improvement is due mainly to the positive contribution made by Group's equity investments, lower financial charges, a lower impact of extraordinary expenses and a reduced tax load.

***

Now let's take a look at the results for the first quarter of 2005.

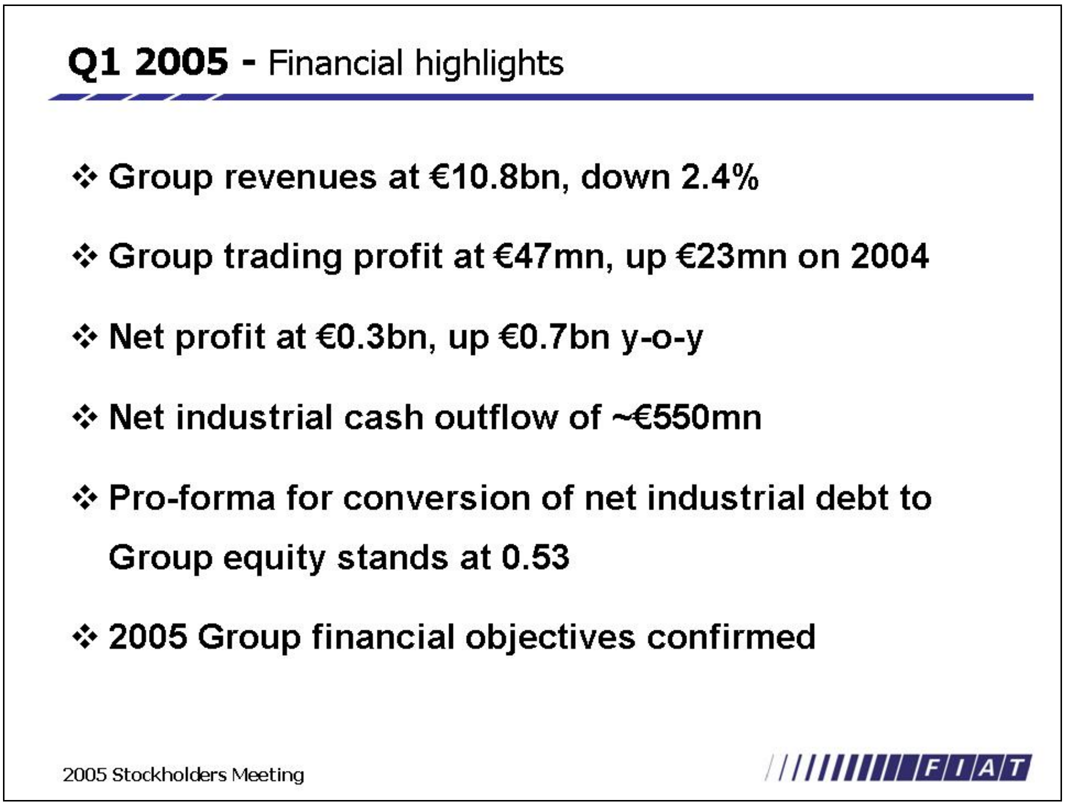
But first let me say a few words about the new IAS that were adopted starting in January of this year and are aimed at developing global accounting standards that guarantee comparable financial information.



The principal changes resulting from application of IAS to company accounts have been illustrated both in the Appendix to the First Quarter Report for 2005, which has already been made available to you, and on the Group's website.

***

Let's now take a look at Group results in the first quarter of 2005. Note that these results were heavily impacted by the sharp fall-off in demand on the automotive markets.



Group revenues totaled 10.8 billion euros, slightly down from the first quarter of 2004. Revenues of non-automotive Sectors grew by 3.2%. Fiat Auto's revenues were down 9.3% due to a sharply declining demand and the strategic decision to optimize sales channels.

Instead, Group trading profit improved. This parameter almost doubled, thanks to the strong performance of all Sectors and Fiat Auto which was able to reduce its losses from 146 to 129 million euros.

Net profit was 293 million euros, up by 685 million euros thanks to the gain resulting from the GM settlement, which accounted for 540 million euros in the first quarter. The remainder of the gain for about 300 million euros net of tax will be recorded in the second quarter.

At the end of March, net industrial cash outflow was a negative 550 million euros. This was due essentially to the increase in working capital, which we expect to reabsorb during the year, and to Fiat Auto's lower volumes.

In addition, the lending banks have confirmed their willingness to convert the mandatory convertible facility. When this takes place, alongside with the final sale of the stake held in Italenergia Bis, industrial debt will amount to just over half of Group equity.

So, looking at the big picture, we can say that in the first three months of the year, the Company successfully reacted to the severe downturn on the automobile markets, while continuing to improve.

Thus, we can confirm all the Group's financial objectives for 2005.

***

Our strengthening on the financial front enabled us to concentrate our efforts on the industrial part.

During the first few months of this year, we made a series of strategic operating decisions that strengthen the Group's position in important areas and enable it to approach the market from a more solid position.

I am referring to the birth of Fiat Powertrain Technologies, which will integrate all the Group's innovation capabilities and expertise in engines and transmissions. This industrial unit will be a leader in the automotive world, operating in 12 countries and producing over 2,200,000 engines and about 2 million transmissions annually.

In February we started the establishment of a Maserati Alfa Romeo sports car unit, by transferring ownership of Maserati to Fiat SpA. The purpose is to establish close technical and commercial collaboration between Maserati and Alfa Romeo in order to extend the reach of the Alfa Romeo brand into the high-end sports segment.

The alliance between Iveco and Barclays resulted in the formation of Iveco Finance Holdings, a new company that further strengthens Iveco's financial services to dealers and end customers. As part of the agreement, which was finalized on June 1, 2005, Fiat received reimbursement of infra-company financing in excess of 2 billion euros, thus strengthening our cash position.

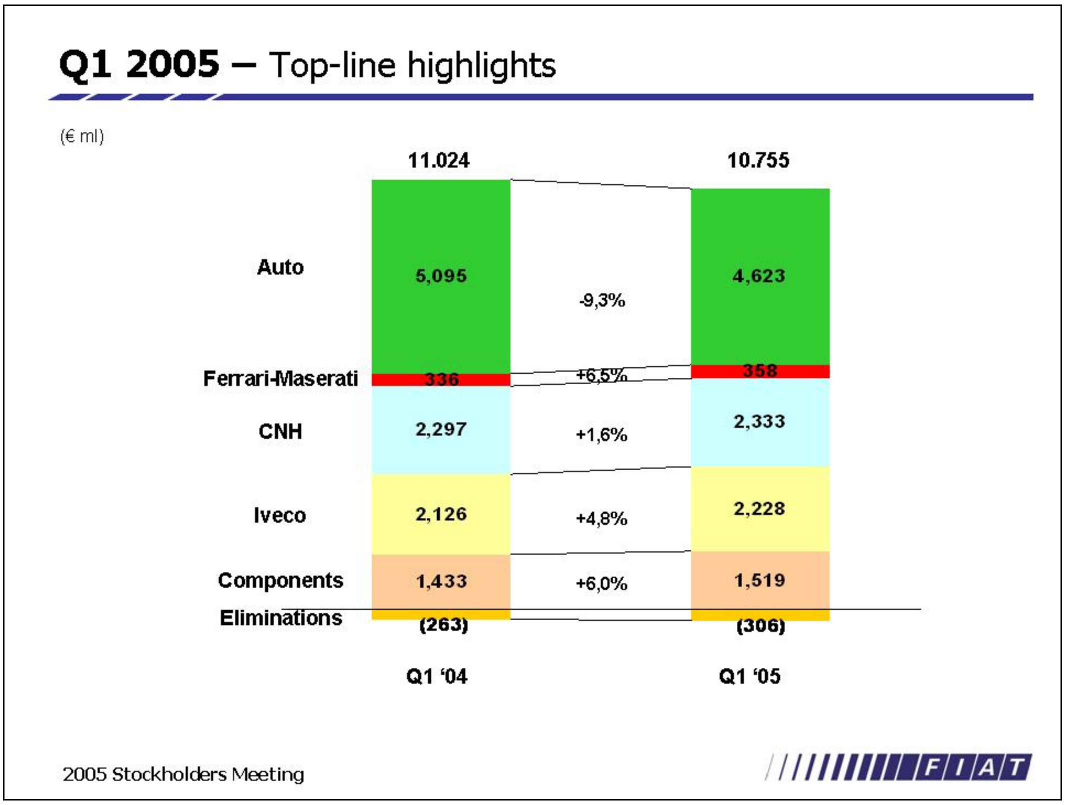
In March, Fiat, PSA Peugeot Citroen and Tofas signed an agreement to develop and manufacture a new light commercial vehicle in Turkey.

Fiat Auto is completing a significant re-alignment of direct and indirect costs. On the one hand, this involves right-sizing of workforce costs, which will be completed in the second quarter and from which we expect to realize annual savings of 180 million euros. On the other hand, it also involves reducing other governance costs.

On May 13 we received the final installment from General Motors, for 500 million euros.

***

Now let's take a look at how the principal results were achieved in the first quarter of 2005, starting with revenues.



The decline of approximately 2% that was reported in Group's revenues was essentially attributable to lower revenues at Fiat Auto. However, thanks to an optimization of the Sector's sales channels, while revenues were down 9%, volumes decreased by almost 12% because of a sharp decline of demand in Western Europe and particularly in Italy.

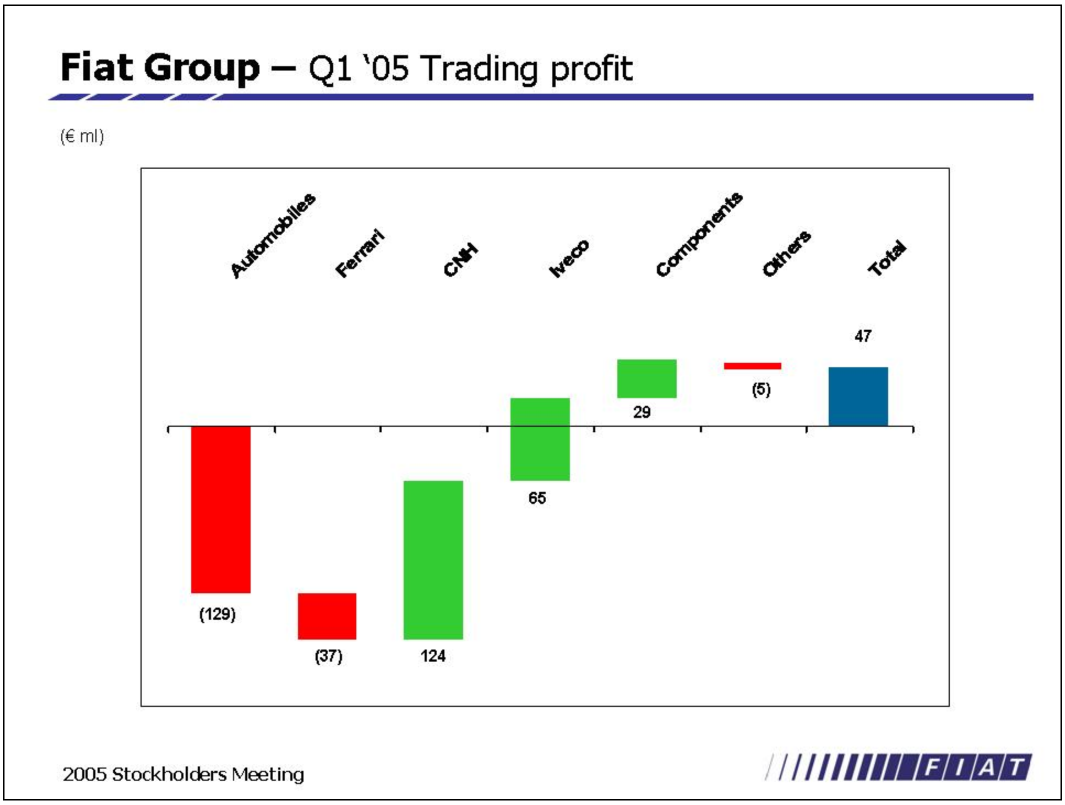
On the other hand, revenues rose by 6.5% at Ferrari-Maserati, thanks mainly to higher sales volumes at Maserati, which exploited the success of the Quattroporte model.

CNH also performed well in terms of revenues, which increased by 6% in US dollar terms, mainly thanks to higher sales of construction machinery.

Iveco increased its revenues by 3.9%, notwithstanding the penalizing effect of the geographic and product mix.

Finally, the components businesses positively reacted to the sluggish demand of the automotive market.

***



The higher trading profit recorded by the Group with respect to 2004 was mainly due to growth at CNH and Iveco and lower losses at the Automobile business.

In fact, the result of Fiat Auto was a negative 129 million euros, compared with a loss 146 million euros in the first quarter of 2004. Lower sales volumes were more than offset by cost cuts, success on the Brazilian market, and the excellent performance of light commercial vehicles.

Fiat Auto regained market leadership in Brazil, with a market share of 24.6% and a 15.8% increase in vehicle registrations, against an increase of little less than 5% in demand.

Fiat light commercial vehicles increased their share of the Italian market to 39.4%. In May their share rose even further, topping 45%.

The trading loss of Ferrari-Maserati narrowed by 2 million euros, notwithstanding the penalizing effect of foreign exchange rate differences and higher research and development costs.

A slight improvement in trading profit from 118 to 124 million euros was reported by CNH, although it was penalized by the increase in raw materials costs, which were set off in turn by better pricing.

The trading profit of Iveco was largely in line with that of the first quarter of 2004.

***

Q1 '05 – From trading profit to net result

(€ ml)

	Q1		
	2005	2004	Δ
Trading profit	47	24	+23
Unusual items, net	682	47	+635
Operating income	729	71	+658
Financial charges, net *	(199)	(375)	+176
Investment income, net	31	37	-6
Pre-tax result	561	(267)	+828
Taxes	(268)	(125)	-143
Net result	293	(392)	+685

2005 Stockholders Meeting

FIAT

Net result shows an improvement of 685 million euros and reflects the 540 million euro gain, net of tax, generated by the GM settlement.

The result also benefited from a 176 million euro decrease in net financial charges that stemmed mainly from the accounting adjustments imposed by adoption of IAS.

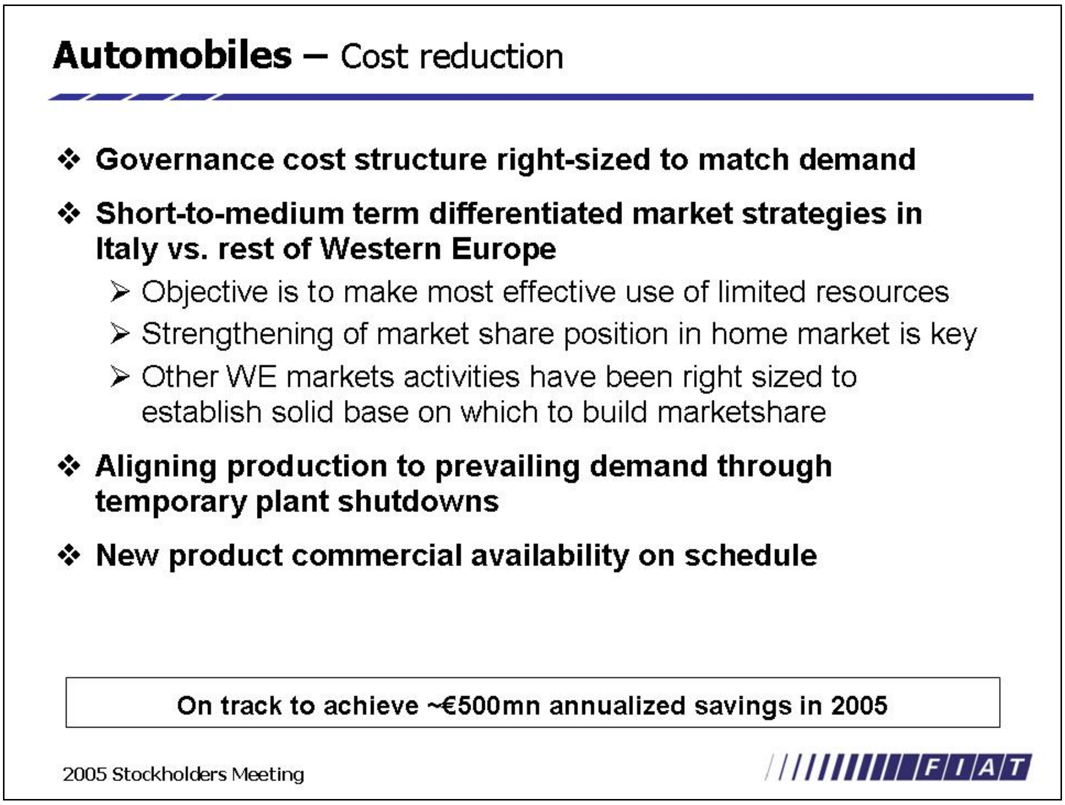
***

The figures that I have just illustrated clearly show how a part of Fiat has already made a complete turnaround and is rapidly becoming stronger. This is the case of CNH and Iveco which are committed to improving revenues and profitability. But this also holds true for the Components businesses, which continue to perform well notwithstanding the fact that all car makers are dealing with a declining market.

However, problems remain at Fiat Auto, which has already made great steps forward but must increase the pace of its recovery.

Relaunch of this Sector remains key to the entire Group.

We are working hard and relentlessly to achieve this objective.



One of the principal problems that we had to face at Fiat Auto is a cost structure that is not aligned with actual market demand. And this has forced us to take painful but essential steps.

An approximately 30% reduction in staff costs, which has largely been already implemented, will bring savings for 105 million euros in 2005 and 180 million euros on a yearly basis.

We have also revised the distribution of advertising expenses with a view to cut them by 150 million euros in 2005.

Finally, we expect to realize benefits of 200 million euros from streamlining of investments in research and development. In the case of research and development, streamlining obviously does not mean spending less, but spending better. By focusing only on product-driven programs and sharing costs with possible partners.

The quality of spending is also connected with the goal that we are pursuing to differentiate the marketing strategies adopted in Italy and Europe.

Available resources have to be used as effectively as possible.

- The key to achieving this result is to strengthen our position in the home market. We are therefore working to develop and improve the Italian dealer network in qualitative terms.

- Activities on other European markets have been right sized to establish a solid base on which to build future market shares.

The third point is more a necessity than an objective. In fact, we shall continue to align production to demand through temporary plant shutdowns.

The arrival of the new models will help us overcome this situation, while assuring greater use of our plants: the Fiat Croma, which already went on sale; the Alfa 159 and the future Punto which will be on sale next September and the Alfa Brera which will be presented to market next November.

Taken together, all the streamlining activities and the partial contributions that the new models will be able to make during the year allow us to confirm the objective of limiting Fiat Auto's loss to 320 million euros, for an improvement of approximately 500 million euros with respect to 2004.

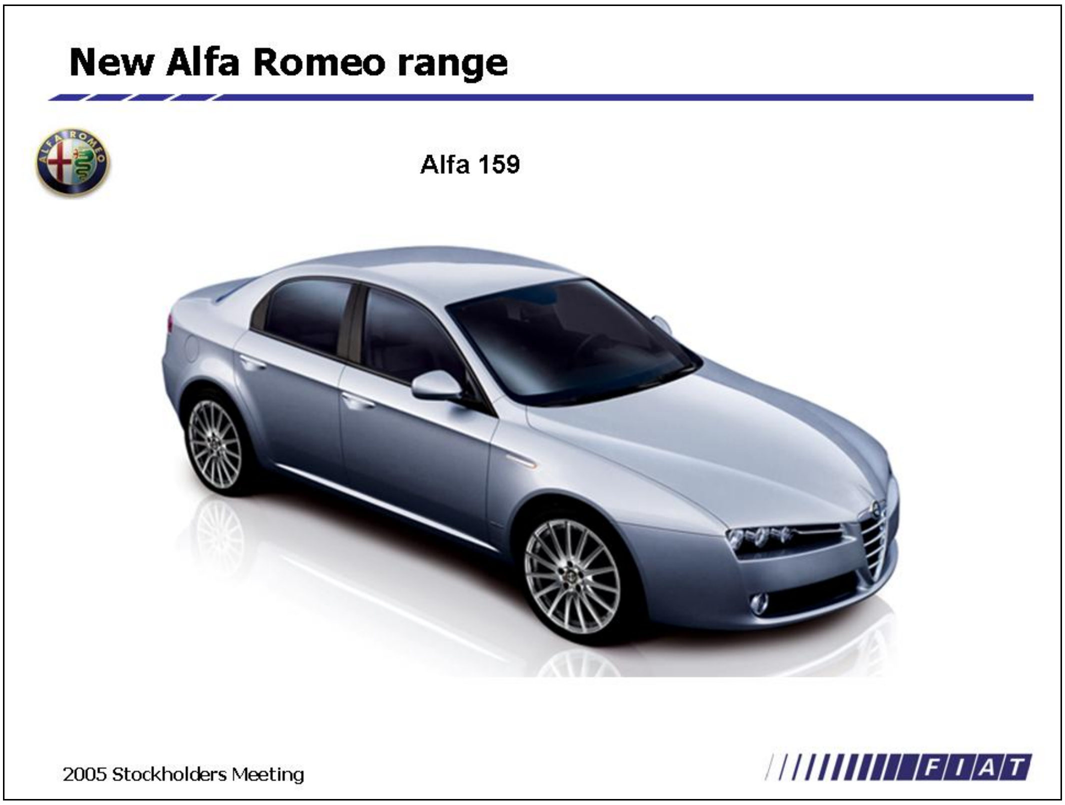
At this point, before concluding with the business outlook, I would like to share two examples with you on the impact that we expect the new models to have in terms of production and image.

The first example is represented by the Fiat Croma, which has already received a very warm welcome from international media and customers.

We have invested 550 million euros in this model, including research and development costs, and believe that we can sell about 20,000 units in 2005 and 50 to 60 thousand a year at full capacity.

But most importantly, we believe that the Croma represents a change in pace for the Fiat brand in terms of quality and product positioning. In fact, with the Croma Fiat confidently returns to a segment that it left untapped since the early 1990's and that is the third largest segment in Europe.

***



The second example is represented by the Alfa 159 which has been recently presented to the trade press and will go on sale in the second half of September.

New Alfa Romeo range

Alfa Brera

2005 Stockholders Meeting FIAT

Finally, there will be the launch of the Alfa Brera in November, which will represent another important contribution to strengthening of the brand.

***

2005 Outlook

- **Automobiles**
  - Difficult trading environment in H1
  - New product launches mainly concentrated in H2
  - Aggressive cost-cutting in non-essential areas
- **Agricultural & Construction equipment**
  - Revenues up 5% in dollar terms
  - Softening demand in Latin America
  - CE stronger than AG; US stronger than Europe
- **Trucks**
  - Revenues up 2/3%
  - Stable volume and improved pricing
  - Sound order backlog
- **Components**
  - Revenue growth at 5-6%

2005 Stockholders Meeting FIAT

Summarizing our outlook for 2005, we can say that Fiat Auto had to confront a first half dominated by truly difficult conditions especially in Italy. This means, therefore, that we cannot expect to be helped by demand. Nevertheless, the actions undertaken and the contribution of new models will enable Fiat Auto to record significant improvements in the second half of the year, despite a still harsh competitive situation.

The objective of CNH is to increase its revenues by 5% in US dollar terms, notwithstanding the slowdown on the Latin American market. And all of this will be set in a context where expected demand for construction equipment outpaces in percentage terms that for agricultural equipment and where the US market is more profitable than the European one.

We expect revenue growth of 2-3% in the Commercial Vehicles Sector. We also see that there has been a significant increase in orders with respect to 2004.

Finally, the prospects for Companies in the components area are good, and we expect their revenues to increase by 5-6%.

***

Looking further ahead to 2007 in terms of improvement, we can say that the Group confirms previously defined operating margin objectives.

Operating margin targets confirmed

(under IAS/IFRS, before unusual items)

Operating Margin	2004 Achievements	2005 Targets	2007 Targets
Automobiles	(4.2%)	(~1.5%) excl. restructuring of up to €320mn	2%-4%
CNH	4.7%	6%-6.5% excl. restructuring of ~€50mn	10%
Iveco	4.2%	>4% excl. restructuring of ~€30mn	7,5%
Components	2.6%	~3%	5%-7%

2005 Stockholders Meeting

FIAT

Fiat Auto is expected to cut its loss from 820 million euros in 2004 to 320 million euros in 2005, and our target is to reach an operating margin of 2-4% of revenues in 2007.

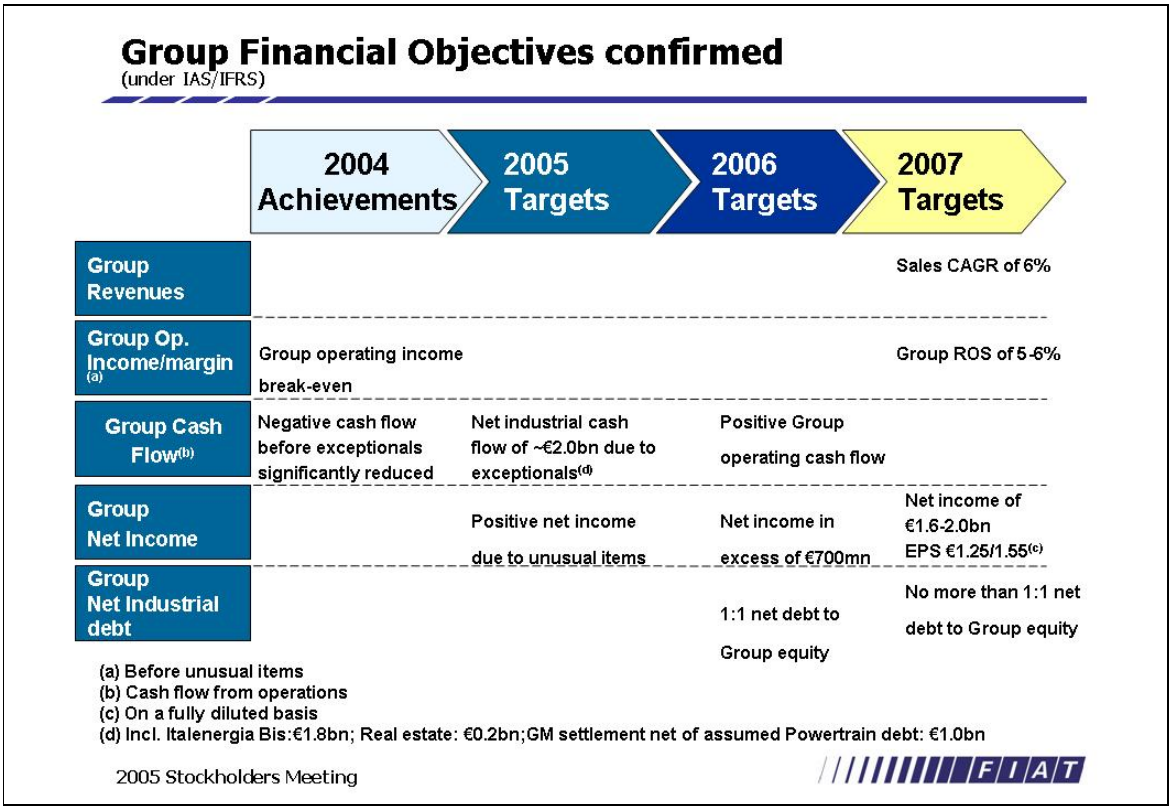
In 2005, CNH should report an operating margin of 6-6.5% of revenues, and this percentage is expected to reach 10% in 2007.

We expect Iveco to close the current year with an operating margin higher than 4%, and which should reach 7.5% within the next two years.

The Components businesses are expected to record a slight increase in operating margin in 2005. The increase should reach 5-7% of revenues by 2007.

***

We believe we can also confirm our financial targets, which you see illustrated according to the new accounting standards.

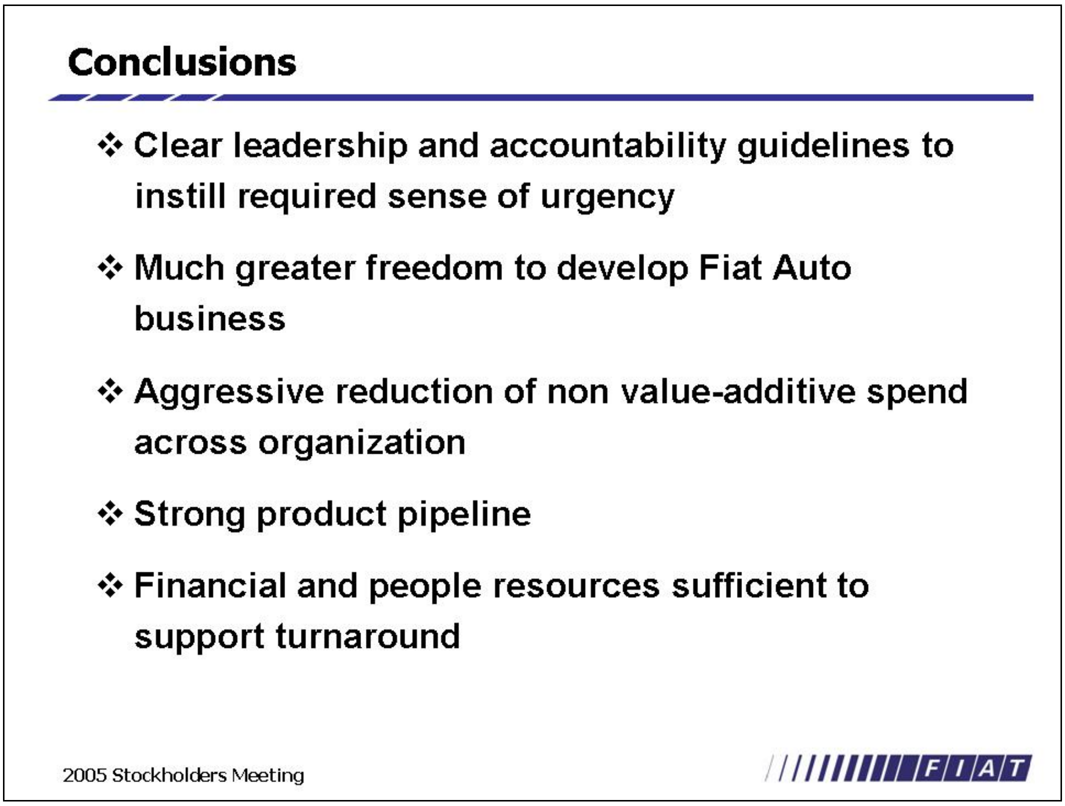


In fact, we believe that the Group will be able again to start generating a positive net income in 2005, due to unusual items. At the same time, realizing a net industrial cash flow of approximately 2 billion euros.

In 2006 for the first time, the Company will realize a net income in excess of 700 million euros, without considering unusual items. In 2006, the Group operating cash flow is expected to be positive, and the net industrial debt is expected not to exceed Group equity.

We believe we will be able to record a net income of 1.6-2 billion euros and a Group ROS of 5-6% in 2007.

***



However, there is something else that I want to emphasize here: our firm commitment to rebuilding a strong automotive Group capable of generating earnings.

This is what I consider to be a concrete and realistic objective, given what we have already done, what we continue to do, and what we will do in the near future.

Our leadership team is strong and clearly committed to instilling the necessary sense of urgency in people.

We have regained the strategic freedom to develop our automotive business with all the necessary flexibility.

We have clearly identified all those activities that do not add value to the Group, and are energetically working to cut costs.

We have a broad range of new products.

We have the financial resources necessary to make investments in the years to come.

Finally, we have the human resources necessary to support the turnaround.

I am convinced that this turnaround is close at hand!

Thank you for your attention.