FIAT

1968 - 63rd Board and Auditors Report to Stockholders

FIAT

JOINT STOCK COMPANY
HEAD OFFICE IN TURIN

Capital Stock L. 150,000,000,000 - Fully paid-up L. 115,000,000,000

1968 - 63rd Year

Ordinary General Meeting of Stockholders

April 29th, 1969

Reports of The Board of Directors and of the Auditors

BALANCE SHEET AND OPERATING STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 1968

Board of Directors

Giovanni AGNELLI
Chairman

Gaudenzio BONO
Vice Chairman and Managing Director

Giovanni NASI
Vice Chairman

Directors:
Umberto AGNELLI
Vittorio BONADÈ BOTTINO
Antonio Giovanni CAVINATO
Corrado CIUTI
Armando FIORELLI
Gaetano FURLOTTI
Giuseppe GABRIELLI
Alessandro GENERO
André MEYER
Enrico MINOLA
Felix SCHULTHESS
Domenico TACCONE

Secretary of the Board
Salvatore DE DOMINICIS

Committee of Auditors

Carlo BOZZOLA - *Chairman*
Lamberto JONA CELESIA
Carlo DAL VERME

Deputy Auditors:
Pietro MOROSINI
Giacomo ZUNINO

General Management

Niccolò GIOIA - *General Manager*
Francesco ROTA - *Associate General Manager*

Management Committee

Bruno BECCARIA, Vincenzo BUFFA, Riccardo CHIVINO, Quinto COSTA, Sanzio DAINOTTI, Franco DE REGIBUS, Giovanni DESTEFANIS, Franco DI MAJO, Giuliano DI STEFANO, Carlo FERRARI, Giorgio GARINO, Dante GIACOSA, Franco GIURA, Oscar MONTABONE, Sergio PALMUCCI, Aurelio PECCEI, Luigi RAVELLI.

Agenda

1. - Report of the Board of Directors and of the Auditors for the financial year closed on December 31, 1968;

2. - Balance Sheet as at December 31, 1968 and resolutions arising therefrom.

Notice of Meeting was duly published in the *Official Gazette of the Italian Republic* No. 88, of April 5, 1969 and in the following newspapers: *La Stampa*, *Gazzetta del Popolo*, Turin; *Corriere della Sera*, *Il Sole - 24 Ore*, Milan; *Il Secolo XIX*, Genoa; *Il Piccolo*, Trieste; *La Nazione*, Florence; *Il Telegrafo*, Leghorn; *Il Resto del Carlino*, Bologna; *Il Messaggero*, *Il Tempo*, *Il Globo*, *Il Popolo*, Rome; *Il Mattino* and *Il Roma*, Naples; *Gazzetta del Mezzogiorno*, Bari; *Giornale di Sicilia*, Palermo.

Report of the Board of Directors

To Fiat Stockholders

July 11, 1969, only a few weeks from now, will mark the seventieth anniversary of the founding of Fiat. To recall this event now is not intended as a celebration. Rather this reminder is meant to keep fresh in our minds, and to pay tribute to, the unflagging determination to carry out the constructive policies that have enabled Fiat to reach its present position, and to cope with ever new problems in a world that changes unceasingly at a constantly accelerated pace.

In closing last year's report, your Directors again pledged their efforts to provide full employment for all our men, and expressed the hope that results would be commensurate with the means and energy harnessed.

New production and economic targets have, in fact, been achieved, as already announced in the January 4, 1969 Newsletter, which is the source of the following summary of last year's results, although further updated to show somewhat better figures:

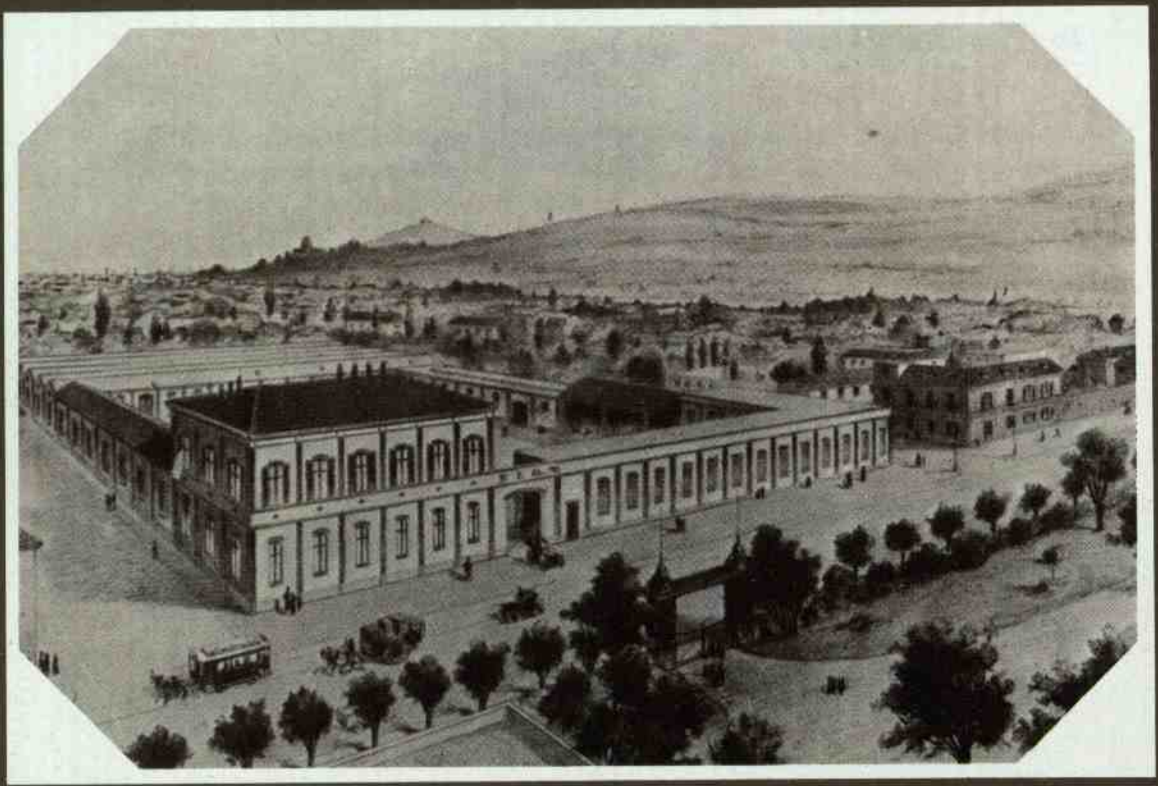
— *Total 1968 Sales*, including Om and Autobianchi: 1,335 billion lire, against 1,194 billion in 1967, an increase of 141 billion lire, or 11.8%;

— *Motor vehicles manufactured and sold* in 1968: (Fiat, Om and Autobianchi) 1,452,297 against 1,340,884 in 1967. Of these, 542,370 were exported. Autobianchi's share of this figure was about 58,000 vehicles, and that of Om over 20,000. The total does not include over 275,000 units built under Fiat licence in other countries;

— *Tractors manufactured and sold in 1968: 52,735 against 45,339* in 1967. Of these, 26,303 were exported;

— *Iron and steel:* in 1968, 1,950,000 equivalent tons of ingots were converted into finished products (the same as in 1967);

— *Fiat employees* (including Om and Autobianchi) at the end of 1968: 128,761 plant workers and 29,684 office employees, totalling 158,445 on the payroll, which is over 10,000 more than at the end of 1967.



Fiat is celebrating this year its seventieth anniversary.
The following images illustrate the fundamental stages in the company's growth:
The first plant buiit in 1899 in corso Dante.
The plants of Lingotto (1923), Mirafiori and Rivaita at which the bulk ofı the company's car production is carried out.

A high spot in these results has been exports, which shot up by 30.4% in terms of total billing and by 36.2% on the number of motor vehicles exported, accounting for 37.3% of total output against 29.7% in 1967.

This gratifying feat was achieved against heavy odds, with numerous difficulties stemming from the political and monetary situation in more and more countries, and despite greater pressure from ever keener competition, a subject which will be discussed later. At this point your Board would like to stress the unremitting, intensified effort that is still being directed at improving and strengthening all your Company's organisational structures. Your Directors know full well that this is the only way to assure the Company's growth on a world scene where genuine success can be achieved only by total dedication to efficiency in all undertakings, coupled with a readiness to keep abreast of the changing needs of society and the breath-taking pace of scientific and technological progress.

With the prospect of increasingly intensified economie integration and interdependence in the areas where your Company is operating, its natural objectives are mandatory: to reinforce Fiat's pre-eminent position on the home market, keeping abreast of the expected rise in the G.N.P. and purchasing power in Italy; and to penetrate foreign markets more deeply and broadly so as to gain a bigger share of the sales potential. This will enable the Company to obtain more production commitments, thus fostering the interests of its shareholders, employees and suppliers while at the same time providing an appropriate means of off-setting any declines that may occur in particular areas due to economic set-backs.

To set these goals is to require an increasingly stronger competitive ability. With this in view, your Board's policy has been implemented in 1968 in several directions:

— *adjustment of organisational structures to make them consistent with the broadening requirements and responsibilities of management.* In this context, the following management appointments, which your Directors are confident the Shareholders will approve, were announced at the end of January in the Press:

- Gaudenzio Bono, while remaining Managing Director, was appointed Vice Chairman, so that he may devote himself entirely to the increasingly important and complex problems that must be handled at this level;

- Niccolò Gioia was appointed General Manager;

- Francesco Rota was appointed joint General Manager, with special responsibility for Financial and Administrative matters.

A number of changes have been made, or are being introduced, to organise the company set-up on the basis of an improved job distribution and more extensive decentralisation of responsibility, for effective handling of the ever broader and more complex problems that arise. This report will merely mention the new International Business Group, handling the company's business abroad in all sectors - sales, production, investment, new enterprises - and the measures being taken to screen the best candidates for training for future management positions;

— *new methods for promoting higher efficiency levels in Services and plant productivity.* Everything feasible will be done to minimise personal fatigue, while at the same time preventing the steady upward trend of wages and attendant social security charges from weighing too heavily on the end product cost, thus jeopardising competitivity;

— *continuation of your company's traditional investment policy*, with the threefold purpose of boosting productivity, rejuvenating the product range and upgrading its quality, and ensuring that the growing market demand be met both by the factory output as well as by the marketing and aftersales organisations.

New investment planning is, of course, designed to spread over a number of years. Proper consideration has been given to production units in Southern Italy, with the dual purpose of helping to equalize income levels in the North and in the South, and to provide jobs where manpower is available that would otherwise be channelled to emigration.

In connection with investments, your Board would point out that the dip in the 1968 figure against the 1967 level (114.6 billion lire against 126.4) is actually only a matter of accounting, because at the end of the financial year an enormous quantity of plant and new machinery was being delivered or finished and in 1969 will be reflected on the Company's books under Fixed Assets;

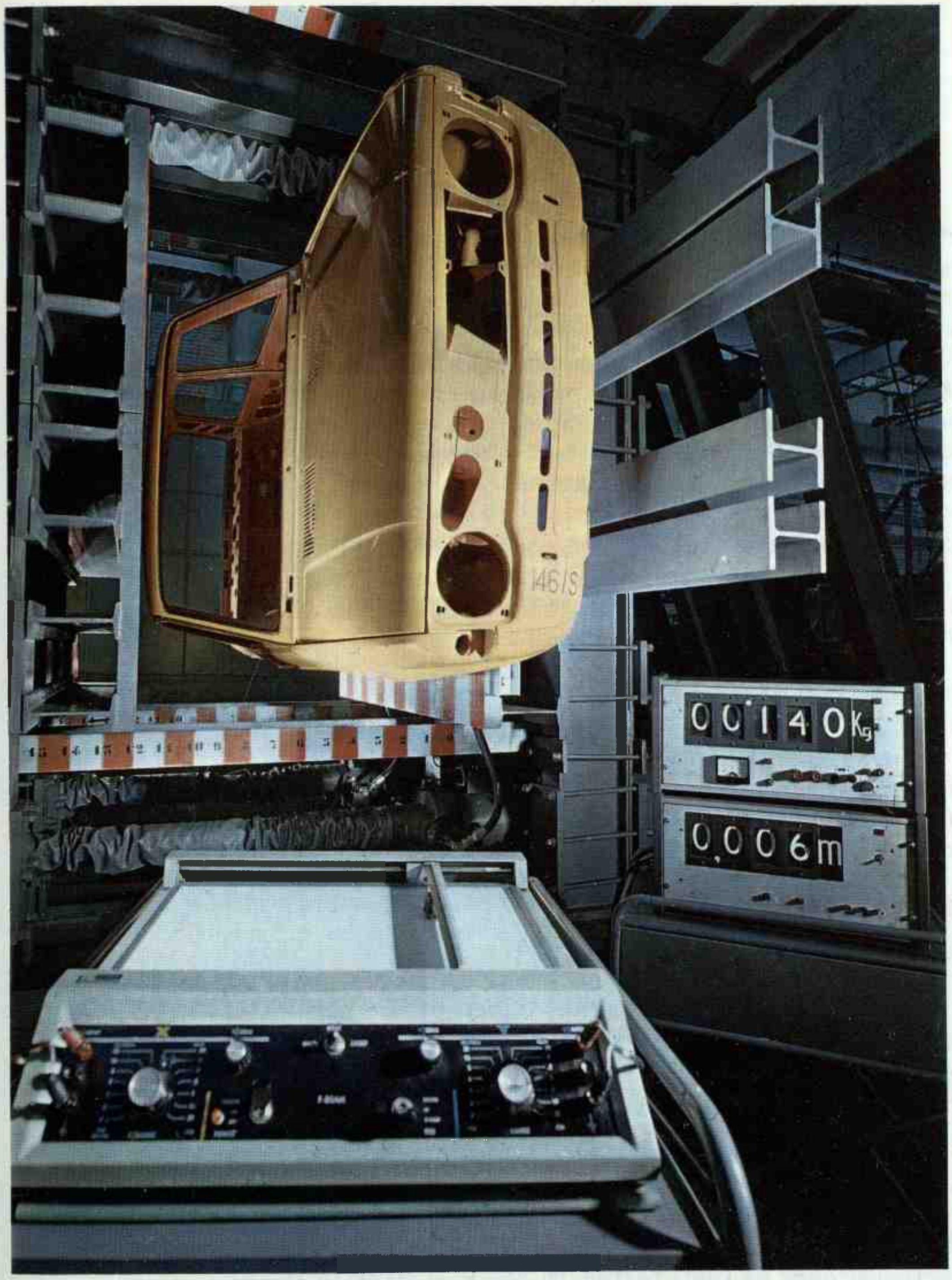
— *bigger Research and Development effort*, both in connection with traditional products, and as a' sine qua non' to all new products. Increasingly great attention and very considerable funds (in 1968 over 3% of billing) are being earmarked for R and D, which is being carried on both intramurally as well as in the framework of joint projects with other Companies and with scientific bodies. It was recently announced that a coordinated research project had been started up by the laboratories of Fiat, Eni, Esso and Mobil, and was open to other companies, for investigations on the control of motor vehicle exhaust pollutants;

— *continuous modernisation and broadening of our model ranges.* Fiat presented the *500 L*, *Special versions* of the 850, 124 and 125, the new versions of the *850 Sport coupé* and *spider*, a number of new models of commercial vehicles and tractors over a wide HP and capacity range. It is gratifying to report that the very latest models, *130* and *128*, have just lately made their bow with great success;

— *greater diversification of production.* Even though motor vehicles and tractors increased their share in Fiat's total billing in 1968 to 92%, your Directors are mindful of the need to promote

Electronic Research Department.
Automatic installation
designed and developed by Fiat
for the testing of systems
with integrated circuits.

The Central Research and Control
Laboratory.
Direct reading spectrometer
control board for the rapid
analysis of metals.
Complete results of analysis
are availabie within one minute's time.



Central Research
and Control Laboratory.
Safety tests.
Vertical stress on body shell
to simulate impact in overturning.

Car Testing Department:
air pollution test room.

major developments in other fields of operation as well, not only in sectors where your company is traditionally engaged, but also by carefully screening possible entirely new sectors;

— *steady improvement of sales and after-sales organisations*, which represent the life-line between the company and its customers. In Italy and abroad, besides our direct Subsidiaries, there are today more than eleven thousand units making up these organisations, including sales companies, repair shops and after-sales points, spare parts agents, etc. without counting companies manufacturing under Fiat licence.

International agreements call for separate comment. It is quite evident that automobile production is becoming more and more patterned on big consolidations of undertakings, following the example set by the American and Japanese manufacturers. This has been borne out by a steady series of mergers and industrial agreements already implemented or in process in Europe. Fiat, big as it is, could not remain petrified in its traditional role of exporter and promoter of new manufacturing ventures. Fiat could not forego the prospect of agreements with other successful companies, which were the avowed acquisition targets of its competitors. Such agreements would open up valuable avenues of cooperation, bringing with it the hallmark of the international corporation, not excluding the implication of production plant location.

The agreement with Citroën, a name that spells prestige, should be judged in this light. Whilst not encroaching on the partners' reciprocal individuality, it is designed to strengthen the position of each company by means of well coordinated cooperation in a number of sectors: research and development, procurement and sales organisation.

Far from conflicting with the problems and goals of national expansion, the real implication of this agreement is that Fiat will be able to make a greater contribution to the realization of intermediate and long term plans for Italy's overall economy.

Your Company has also spread its wings in ancillary fields; here will be mentioned only its participation in the new PARC company, designed to offer an organic solution to the problem of town parking space; and INTERMETRO, which will do a similar job in the underground railway sector.

You are all aware of the political and economie situations, at home and abroad, that have been the stage of your Company's operations during 1968. Your Directors will therefore confine themselves, as usual, to a brief synopsis.

International situation

In international politics, despite the opening of peace talks for Vietnam and the signature by a number of countries to the Nuclear Non-proliferation Treaty, no major advances toward a peaceful settlement have been made. The balance of military power between the super-powers, the United States and the USSR, is still a precarious substitute for genuine peace.

The events in Czechoslovakia, the persistent grave tension in the Middle East, the deeply rooted disquietude voiced virtually everywhere by the younger generation, other uprisings in many countries, particularly in the emerging countries, even the race question in the United States, have all sometimes strained international relations. They are symptomatic of a basic uneasiness which afflicts nations and spirits - in the West and in the East alike - and certainly does not pave the way to any hope of early, definitive compromise.

1968 was generally, and specifically in terms of the economic situation, a relatively good year at the international level. The serious political, economic and monetary problems that emerged during the year, most of which are still open questions, did not on the whole actually prevent the competitive economy countries, especially in the E.E.C., from continuing normal economic expansion and relatively firm prices.

In particular, the Common Market Customs Union was fully implemented when the last customs barriers fell on July 1st. For well known reasons, this positive event was not accompanied by other practical steps forward to a genuine economic community open to other countries, and possessing parallel joint organisational, political and economic structures consistent with the larger size of the market and the international situation and with the clearly desirable broadening of the community area. On the contrary, some existing community organs, like those in nuclear and space research, are struggling with critical situations that have completely paralysed their operations.

The apprehension generated by the currency vicissitudes in some major countries has not been dispelled, threatening to have serious repercussions on international trade once more this year. The last and most serious money crisis last November was overcome by a provisionally tenable solution, and it is fervently to be hoped that the measures taken by various European governments to curb inflationary trends and achieve equilibrium in the balance of payments will prove to be the proper medicine.

In the United States the new Nixon administration has decided that it must severely limit the rate of inflation. The tools it has chosen are the same in principle as those utilized by the previous administration, but there is a partial change in emphasis. For example, a renewal of the income surtax is being sought, but strenuous efforts are also being made to further reduce government expenditures materially.

If accomplished, this will result in a higher budgetary surplus than the prior administration had anticipated. The new administration is also seeking to control more stringently the amount of money and credit in circulation.

It is to be hoped that the measures taken by a number of countries to contain inflationary trends, together with international co-operation to bolster individual currencies, will bring forth concrete effects. Governments should not yield to the seductive prospect of protectionism or other measures motivated by economic nationalism. Such policies are likely to trigger a chain reaction that would have utterly harmful consequences on the world economy, especially on that of our own country, whose opportunities for prosperity and expansion are increasingly tied to the international economic situation.

Italian situation

Index figures for Italy's 1968 production and G.N.P. cannot be considered particularly impressive. This is due partly to the enormous number of man-hours lost by strikes, and partly to the sluggish pace of economic activities in the first part of the year, which only picked up somewhat later on. In summary, these indexes as provisionally published, were:

— *gross national product:* a real increase of 5.7% against the 1967 increase of 6.4%;

— *industrial production* (including the building industry): an increase of 8.1% equal to that of 1967; the increment, however, varied considerably from month to month and sector to sector;

— *agriculture:* a decrease of 4.2% against 6.8% in 1967 (although the latter was an exceptionally bumper year);

— *gross fixed assets:* increment of 3.1% against 11.6% in 1967.

On the whole, the economic situation was characterized by a progressive weakening of domestic demand for consumer goods, including durable goods such as motor cars, for which the number of new registrations remained at the 1967 level.

This was somewhat offset by an expansion, to some extent artificially stimulated, in building construction and in exports; however, these operations were often carried out at prices insufficient to provide companies with the necessary mark-up for capital expansion from profits.

The inevitable consequence was that both public and private investments jogged along at levels lower than needed to assure the competitive ability of our economic system, and above all to alleviate the still excessive unemployment and under-employment figures.

Ceaseless demands for wage increases which exceed the increase in the productivity of labour - which demands are made by those already having jobs - render more difficult the solution of the problem. That alone makes all assessments of the whole economy of the country on medium and long term basis extremely problematic, and undoubtedly weighs heavily on the wrong side of the scales of Italy's economic situation.

In the private enterprise sector the general atmosphere of uncertainty, the lack of means to revitalise the stock market and the profitable investments open to Italian capital abroad, are certainly not conducive to a genuine pick-up in investments.

In public investments, the actual volume of investment is still governed, so far as concerns timeliness and priority, by the restricted operating freedom granted to the technical departments of the Civil Service.

Against these negative features, some relatively positive landmarks on the Italian economie scene are the relative stability of wholesale prices (+ 0.4%) and retail prices (+ 1.4%) and the credit figure on the balance of payments. These, however, should be very conservatively considered. It is difficult to predict how the price system can escape the cash spate that will flood the market as the rebound of the Pension Scheme reform and the incessant escalation of labour costs, which will climb still further when the many collective labour agreements lapsing this year are renewed.

In the balance of payments picture, attention should be called to the growing export of capital. Under more untroubled and settled conditions, these funds would find good opportunities of investment at home, providing new jobs for Italy's working population.

Your Directors are convinced that this situation is proof of the extremely pressing need to rescue the Italian stock market from the strangle-hold of fixed-interest securities. The funds thereby borrowed are not always channelled to new investments, but are used more and more frequently to cover expenditure and consumption that cannot be provided for out of current revenue.

Nevertheless, the core of our country's problem is still the decision and methods with which the increasingly urgent questions must be tackled: Civil Service re-organisation; system of the Regions, to be framed in the economie Plan and governed by regulations to be laid down before next autumn's elections; education, public health, social security reform, Southern Italy, territory organisation, tax reform, and so on.

It would be difficult indeed to draw any conclusion or offer any forecast on a scene where light and shade cast such intricate patterns. We can only hope that the Government will heed the lesson to be learned from the 1963-1964 recession and the causes underlying it; and that, fully cognisant of the treacherous shoals over which their course is held, they will withstand the pressures put upon them from many sides, and prevent a second episode of this kind under far more critical political conditions. Let us hope the economic expansion that attended 1968, despite everything, may continue throughout 1969; if everyone concerned realises and carries his full responsibility, economie expansion could undoubtedly relieve the pressure of many, undeniable political and social problems with which our country has to contend.

The Sicil Fiat plant under construction at Termini Imerese, Sicily.

Fiat Plants - Production - Organisation

Plants

During 1968 further rapid progress was made in boosting the production potential of all our plants and keeping them 100% efficient.

The following items deserve special mention among the many projects started, and those completed during the operating year:

— Fiat is taking action, in conjunction with the Consortia at Bari, Brindisi and Lecce, for the erection of our new production plants, already announced;

— at Vado Ligure excavations and site preparation have been completed for erection of the new Plant to make automatic gearboxes for trucks and railcars;

— in September 1968 work was commenced on erection of the Sicil Fiat Works at Termini Imerese, which will be put into commission, if no unforeseen circumstances prevent it, early in 1970;

— work is proceeding at Trieste on erection of the new « Grandi Motori Trieste » (Fiat-IRI), which should be commissioned by the end of 1971.

With regard to Plants already in operation, items of interest are as follows:

— in the automotive sector (Mirafiori and Rivalta), further modernisation of facilities (new high-productivity machines and production lines, recycle water systems for technological use, inventory storage, shipping department, employees' parking space, etc.);

— at the Grugliasco ancillary products plant, new departments for making transfer machines and machine shop electronic devices;

— at SPA, Stura, programs covering truck frame and cab machining have been completed;

— at the Iron and Steel Division, many facilities have been modernised and their production potential expanded. Two scrubbers are being built for the electric steel mill smoke cleaning system;

— in the Foundry and Forge Division, the aluminium plant has now been completely relocated at Carmagnola; working conditions have been further improved with new smoke suction and dust filter systems;

— the Lubricants Division has now been completely relocated in the new plant at Villastellone;

— Autobianchi has virtually finished work at Desio according to the plan laid down for boosting production capacity to the predetermined level;

A perspective view of the industrial compiex which Fiat is to build in the Bari area of the Apulian Pole of Development.

Om Plant, Brescia: proving grounds.

— at the Om Brescia and Milan Works various units have been overhauled and the machine inventory aligned to current requirements.

The Testing and Research Departments have been further expanded; new equipment for developing air pollution control units, and for new devices for improving automobile safety have been installed.

In the sales and after-sales Division, work has been done, or is well ahead, in Italy, in order to enlarge and strengthen the potential of Branch Offices, Distribution Points, After-sales Points, Spare and Lubricants Depots, authorised Repair Shops and offices for new Dealers.

Special mention should be made of the work carried out at Bolzano, Catania-Ognina, Cosenza, Leghorn, Milan-Rozzano, Naples-Poggioreale, Perugia, Trieste, Varese, Villa S. Giovanni, and the expanded potential of the Tractor Service Center at Verona.

Abroad, sales and after-sales points have been completed or expanded on the major markets, particularly in Belgium, Denmark,

Installations for the mixing and dehydration of oils under vacuum at the new lubricants plant at Villastellone, Turin.

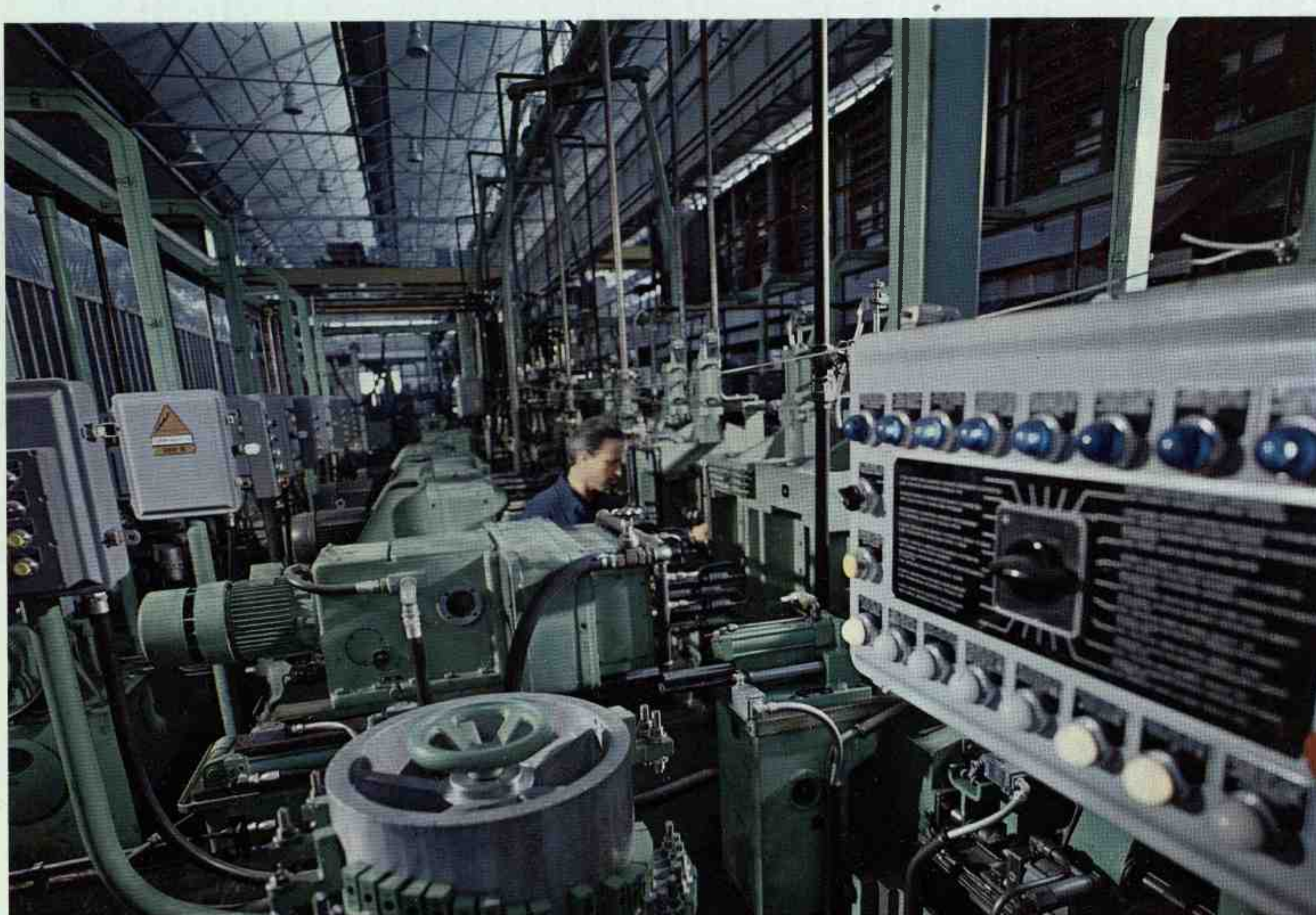
Autobianchi Plant: Primula coupé assembly lines.

France, Great Britain, Eire, Spain, Switzerland, Sweden, Libya, Ethiopia, South Africa, Brazil and Peru.

In South Africa, Chile and Peru the new assembly works have been finished; in Turkey, work has been commenced at Bursa to erect the new motorcar plant for the related company Tofas.

Work has also been started on extensions of the motorcar assembly works in Eire and Portugal.

Erection of the Volga motorcar production plant in the USSR is going ahead, although some backlog has built up on account of the unusually hard 1968-69 winter, and the understandable difficulties that the gigantic size of the venture implies. The Soviets are well ahead with their orders for plant, machinery and equipment to be supplied by Italian and other makers.



Ancillary products plant, Grugliasco, Turin province: the manufacture of transfer machines for the car plant now under construction near the Volga in the Soviet Union.

In the Welfare area, Fiat has handled the building plans and erection of 650 homes under the Fiat Housing Plan at Carmagnola, Settimo, Piossasco and Orbassano; and has increased the number of places available in the holiday homes for employees' children.

This year is the 25th anniversary of the Fiat pensioners' group, for which it is planned to provide a seaside nursing home.

Automotive

1968 was a year of expansion for the automotive industries in the competitive economy countries. Production as a whole rose to 25.5 million units, 18% above the 1967 level.

Japan headed the list with the biggest increase, having turned out over 4 million units in 1968 against little more than 3 million in 1967 (+ 30%). An interesting feature is her 69% surge in exports, with a total of 612,000 units, which is 25,000 more than Italy's exports.

The United States manufactured over 10.8 million units, with an increase of 20%.

In Europe, Federal Germany heads the list with her increase of 25% (3.1 million units against 2.5 in 1967). France expanded her output only quite moderately to just over 2 million units, while Great Britain expanded exports to attain 15% more output than last year (2,225,000 units against 1,937,000 units in 1967).

Italy, on the contrary, expanded production by 7.84%, distinctly below the world average of 18%, as well as that of the EEC (13%). In terms of figures, Italy's 1,542,669 units in 1967 rose to 1,663,648 units in 1968, a total made up of 1,544,932 automobiles and 118,716 commercial vehicles.

Fiat's share in this production was 1,452,297 units manufactured and sold, with the following breakdown:

— automobiles and business vehicles: 1,394,193 against 1,289,930 in 1967 (+ 8.1%);

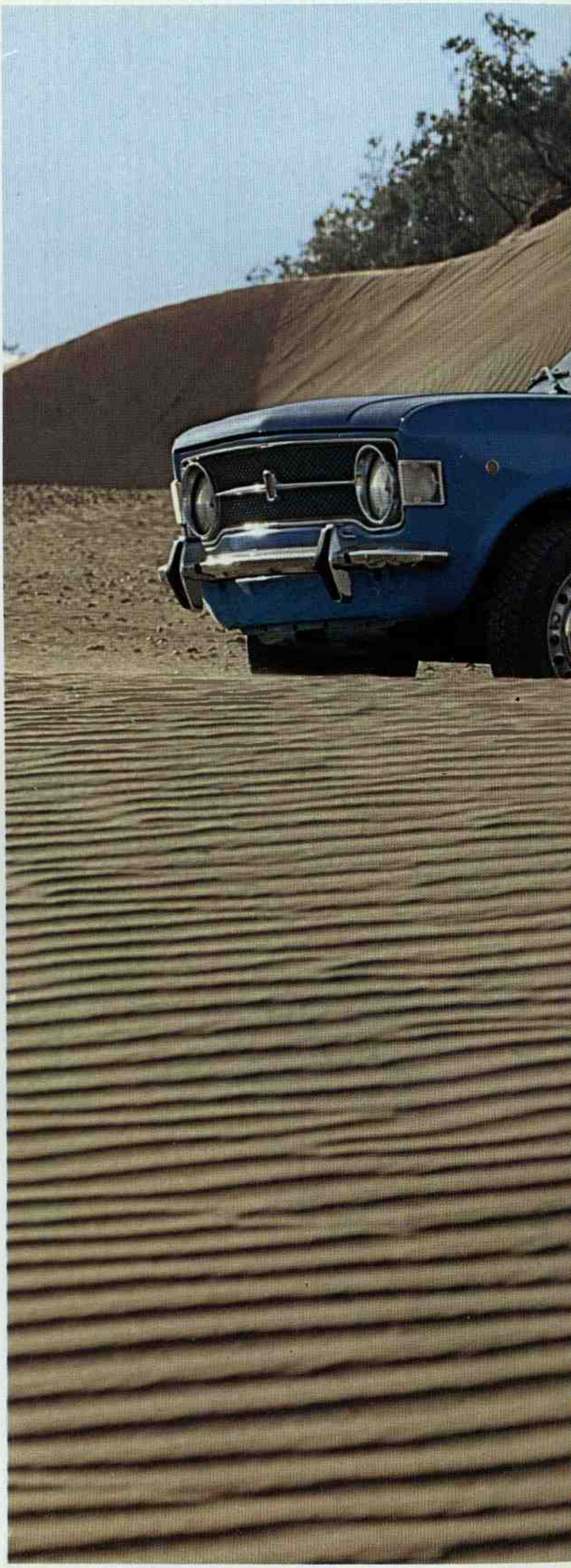
— commercial vehicles, 58,104 against 50,954 (+ 14%).

The overall increase in production for 1968 was therefore 8.3%.

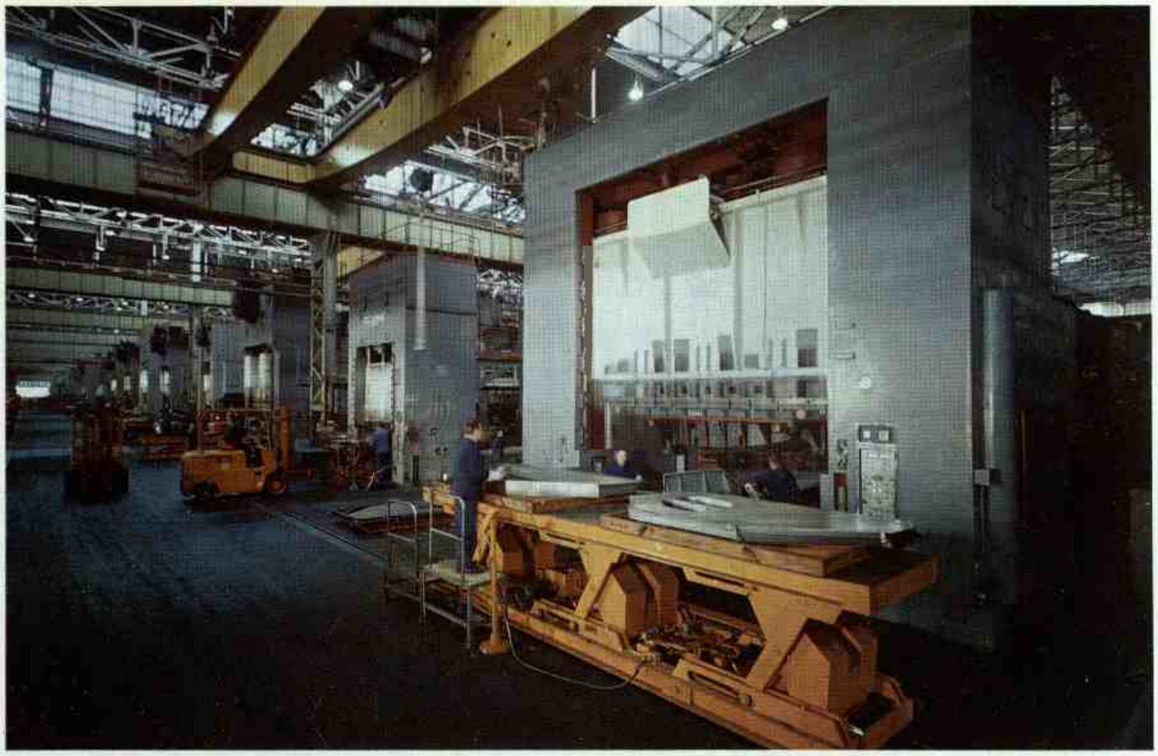
The market trend in Italy in the wake of the 1967 surge was in the main very sluggish.

During 1968 1,253,964 units were registered against 1,240,703 last year. Despite the pressure from foreign makers, who have gained by the fall of the residual customs barriers and who enjoy various currency and fiscal facilities that make their campaigning more aggressive, Fiat's hold on the market has been well defended. The number of orders booked was appreciably above the 1967 figure, whereas the number of Fiat, Om and Autobianchi units registered was 913,303, somewhat below the 1967 level. This dip is more than offset by an expansion in exports (+ 36.2%); at the same time, deliveries are now being made on the home market of the new models

Rivalta Plant:
Fiat 128 assembly line.



Two new Fiat models:
the 128 (in the two- and four-door versions) and the 130.



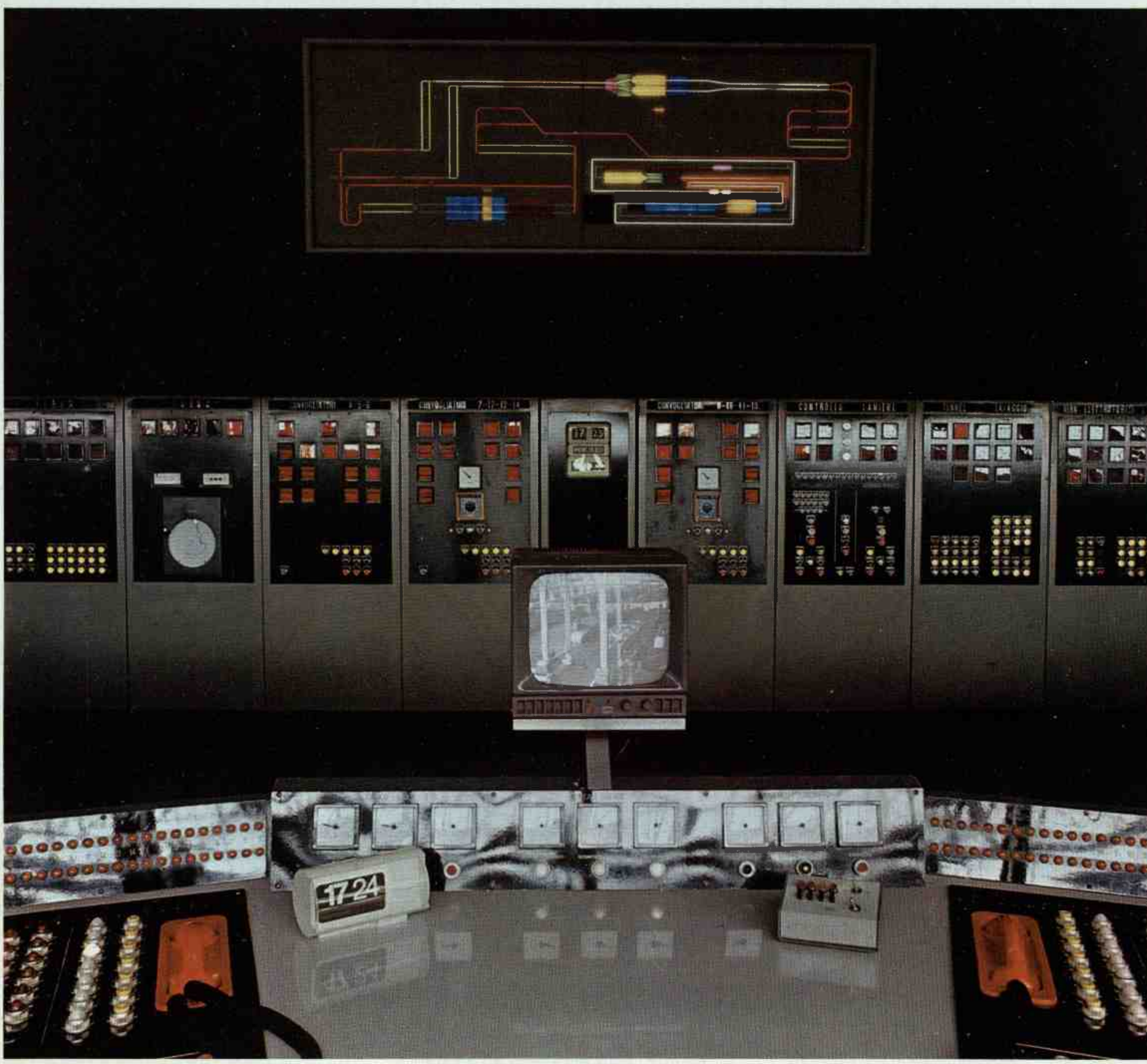
Mirafiori Plant: the new machining lines in the presses department.

Mirafiori Plant: Fiat 128 engines tested at the bench in the engineering department.

Commercial vehicles service centre, Catania, Sicily.

Naples Plant: Fiat 616 truck assembly line.

The Spa Plant: painting installations control room.



brought out in the autumn, and your Directors take pleasure in reporting the great success won by the latest models *130* und *128*.

There is a remarkable upward curve in freight vehicle sales, but buses have remained pegged to unsatisfactory levels.

On export markets, there was an expansion as already reported, despite the hurdles that had to be jumped in some of the major markets. They took the form of customs regulations, currency restrictions, tax and credit complications, new traffic safety rules and air pollution laws (all very different from one country to another).

All this had to be coped with against a back-drop of the keenest competition, with the different makers bringing out a steady stream of new models on all the markets, cutting prices drastically and promoting clamorous publicity campaigns.

Nonetheless, your Board is gratified to say that the growing popularity of our models and our after-sales service with the international public have produced results that we trust can be further improved during the new year. In particular, this is the result of the success achieved in Germany, France, Great Britain, the United States and many other countries, which has materialised in total exports of some 542,370 units against 398,259 units last year, an increase of 36.2%.

The new Fiat car assembly plant at Rosslyn, South Africa.

Assembly operations, which Fiat is conducting in 25 countries, are contributing an ever larger share of this total figure. Meantime some other major production and assembly ventures have been started up. The most important are the incorporation of Tofas in Turkey; the new Seat facilities in Barcelona; the raising of the production levels at Fiat Concord in the Argentine, now extended to trucks; the increasing share in the ZCZ programs in Jugoslavia; start on production of a Fiat car under licence at the FSO Works, Warsaw, and advanced negotiations under way in other countries.

The Holiday Road Service again deserves mention. This year 70 fully equipped service trucks covered over three million km., giving assistance to 47,651 motorists, 66% travelling in Fiat cars and 34% driving other makes.

Tractors

There was an increase in tractors and earth-moving equipment in terms of units sold (+ 16.3%, from 45,339 to 52,735) and, even more, in terms of billing, with a 27.8% rise over 1967.

Earth-moving equipment recorded a particularly marked upward trend. Their reputation with specialised firms is growing, and exports in general are expanding, having risen from 21,300 to 26,303 units; billing has been even better, with over 40% more this year. About 50% of the units built was exported.

During the current year the range of Fiat-Om tractors, already renewed and expanded in 1968, will be further extended with new versions and equipment to keep abreast of the growing requirements of industrial and agricultural users.

M. Schoonen from Holland, the winner on Fiat 550 tractor of the world ploughing contest held at Salisbury, Rhodesia.

Fiat earthmoving machinery engaged in land clearing work near Fribourg, West Germany.

Spare Parts

During 1968 this Division produced and shipped all over the world a quantity of 45,693 tons of Fiat-Om-Autobianchi spare parts against 39,866 tons in 1967, an increase of 14.6%.

The total Fiat-Om-Autobianchi 1968 billing for the automotive sector (cars, commercial vehicles, tractors, spare parts) was 1,225 billion lire, an increase of 140 billion lire or 12.9% over 1967 (1,085 billion lire).

Exports accounted for over 390 billion lire in the above total amount.

Non-Automotive Production

Rolling Stock (Fiat and OM). — In 1968 the State Railways placed orders for passenger coaches, railcars and propulsion units for railcars and shunting locomotives.

Other orders are being nursed along, including a very attractive one in connection with new Trans Europ-Express trains (T.E.E.).

Deliveries have continued of sleeping cars to the International Wagons-Lits Company, of Diesel-electric and Diesel-hydraulic engines to the State Railways, and of coaches to the Milan Subway.

Fast community services for overland travel are commanding increasing interest, a condition' sine qua non ' for rehabilitation and promotion of the railways. Abreast of this emerging trend our Engineering Division is working on the development of high-speed trains with specifications permitting their use on the existing railway system.

Negotiations are coming along nicely with a number of Railway administrations, but for the time being no fresh orders have materialised.

Materfer, Cordoba, has concluded the contract for 660 coaches for the Argentine Railways and started building these units.

OMECA, Reggio Calabria (Fiat-EFIM) is still working on the orders booked from the State Railways in the first half of the year (75 passenger coaches and 500 freight cars).

Grandi Motori (Diesel Engines - Gas Turbines). — Acceptance tests covering 325,000 HP of engine power and some 300,000 HP of gas turbine power were carried out in 1968.

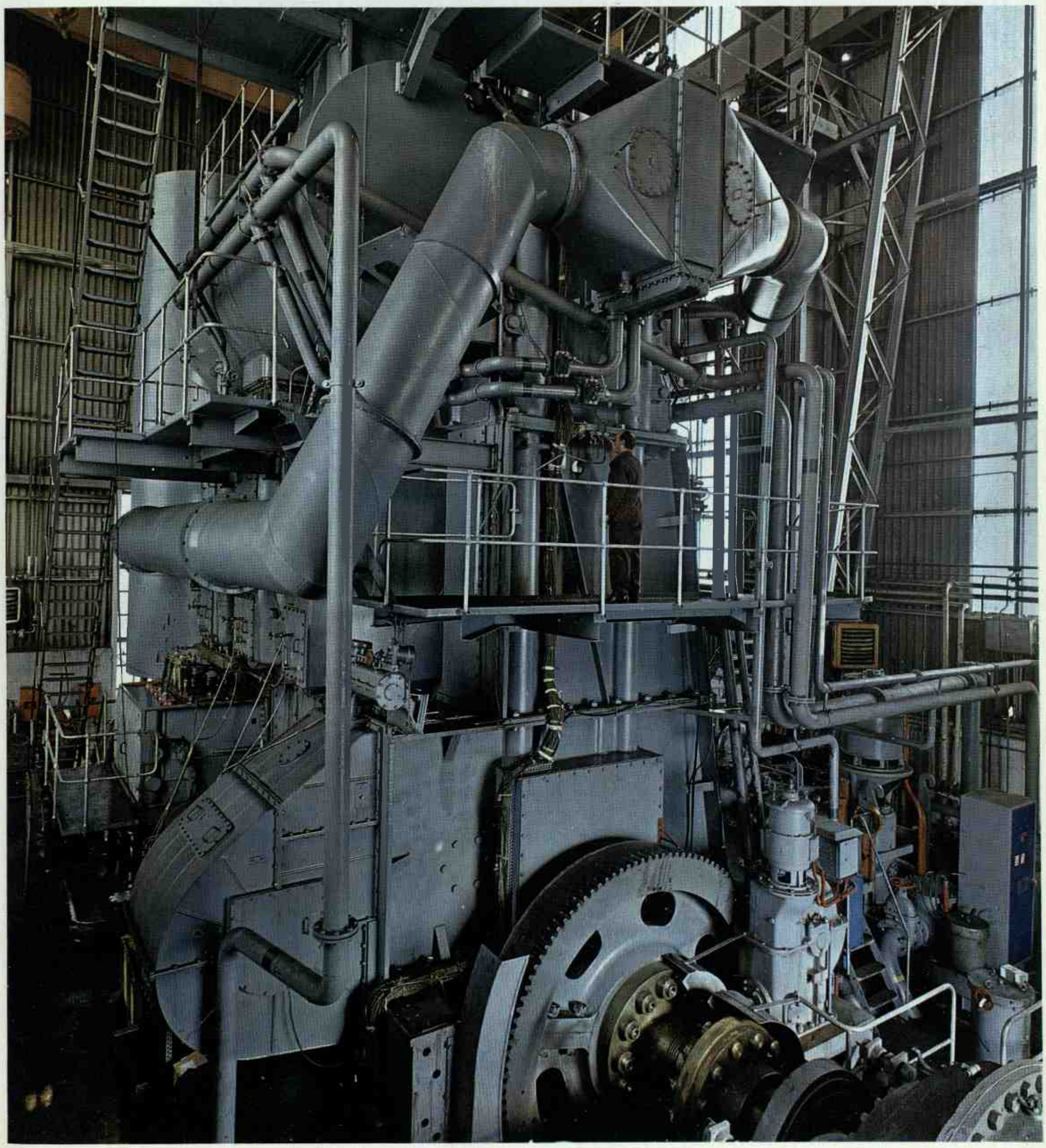
New orders were booked during the year for 382,000 HP of Diesel engines and 240,000 HP of gas turbines. 42% of this work is intended for export.

A new name has been added to the list of Grandi Motori licencees, that is to say Messrs Jadranbrod, Jugoslavia, at the head of the

Rail stock plant: interior of coach for the International Wagons-Lits Company.

The motor-ship « Vittorio Valletta » of the Italnavi shipping company. It has a gross displacement of 102,000 tons and is equipped with a Fiat 9010 S diesel marine engine capable of generating 23,000 axial horse power.

Grandi Motori plant: prototype of the two-cylinder 1060 type Fiat diesel engine.



Avio Electronic Center: installations for the test of radar antennae.

Caselle Aircraft Plant: F 104 S finishing line.

major shipyards in that country. In the first half-year, agreements were also announced providing for cooperation with Cantieri Navali del Tirreno and Riuniti di Genova, as well as with Mazagon Dock, Bombay.

In the *Diesel engine sector*, work has proceeded with entirely satisfactory results on tuning up the 1060 engine, which during trials reached an output of 4500 HP per cylinder. This Diesel engine has now been put into production to fill the first orders already booked and now being closed.

With regard to other classes of engines, various orders have been booked by Grandi Motori for the 900: four of these will he installed aboard four freighters to be built in West German shipyards and equipped with the « Fiat-Sepa 6701 » automation system. The first of these systems was installed aboard the m/s « Kotovskji » delivered to the Soviet merchant navy.

In the *gas turbine field* orders are on hand for various units for delivery to Italy as well as to Belgium, Thailand and Argentine.

On the site of the new Grandi Motori Trieste plant (Fiat-Iri) the Industrial Port Authority has started the excavations for laying foundations, and other work for fitting out the site. For our part we are finalising the project of the industrial buildings, and erection will shortly be commenced. Technical investigations will, of course, be continued. Orders have already been placed for some unusually large machines involving long delivery dates.

Aeronautics and Space. — In 1968 Fiat's aircraft production was again based mostly on plans laid down by the Defence Ministry.

For the two *G. 91 Y* prototypes, flight trials have been concluded on schedule and these aircraft are now on test flights by the Italian Air Force. At the same time production is going forward on the first series of aircraft of this model that the Defence Ministry has ordered from Fiat.

Work is proceeding on the two prototypes of the *Fiat G. 222* transport aircraft. Programs for the *F. 104 S* and *TF. 104 G* aircraft and their engines are now in full swing; the West German Government has decided to purchase 22 model *G. 91 T*, which will be built jointly by Fiat and West German companies. The Italian Defense Ministry has also announced a further order for this type of aircraft.

Work has continued as usual on the overhaul and repair of aircraft and engines for the Italian Air Force as well as on spare parts production for major foreign companies.

The Aviation Electronics Centre has continued its very satisfactory work. Space engineering has followed the lines already reported in the framework of the programs laid down which are, however, now being revised at the international level.

Iron and Steel. — 1968 was an intensively active year for the iron and steel sector the world over. The big producer countries all attained increases of from 5 to 12% against 1967; the EEC in particular turned out over 98 million tons of steel, an increase of 9.7%.

Italy made about 17,000,000 tons, one more than the previous year. This was not only sufficient to meet the heavier demand, but enabled the trade balance of Italy's iron and steel sector to break even.

Fiat's steel mills could not increase the number of tons produced since the facilities were already running virtually at 100% capacity; nonetheless, the value of the output was raised by focussing more on high grade products, including stainless steels.

At all events, the improvements carried out on various units in this section during 1968 will bear fruit in 1969, while other works are nearing completion.

The other sections of the Iron and Steel Division (Foundries and Forges, Avigliana, Metalli) have raised their output appreciably, and considerably improved their facilities.

Nuclear energy. — The situation in this area is basically affected by the critical situation at EURATOM, but Fiat is sparing no effort to book orders and make the best use of its excellent scientific and technical personnel at the Nuclear Energy Section and at related companies.

The engineering and technical staff is still engaged in the design of the project for the reactor power plant to propel the « Enrico Fermi » nuclear ship - (18,000 tons dwt., speed 20 knots), and a bid has been tendered in conjunction with other large companies for a nuclear power station for ENEL, the Italian electricity authority.

An agreement has been reached with Siemens A. G. to work out tenders, on a joint basis, for nuclear power stations to third countries.

SORIN (a joint Fiat-Montecatini Edison undertaking) has delivered the National Plutonium Laboratory to CNEN (the Atomic Energy Authority). This Lab was designed and built at the Casaccia Atomic Centre. SORIN also made an agreement with the same Authority for 1969 for the joint use and full-scale exploitation of the Avogadro reactor at Saluggia. SORIN is also active in medical engineering and medical electronics, in radioisotope production and research projects under contract with national and international bodies.

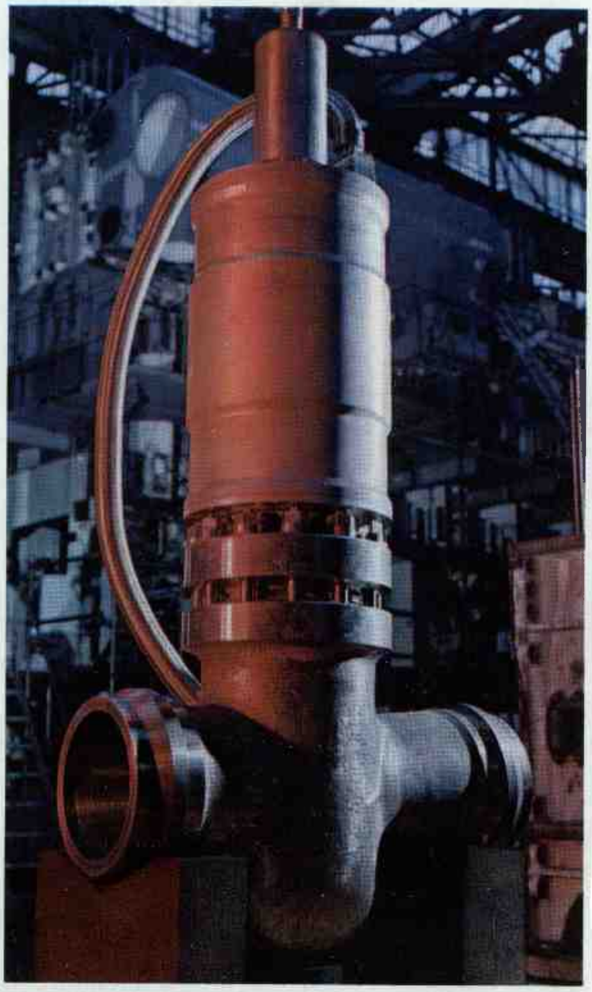
COREN (a joint Fiat-Breda-Westinghouse undertaking) has delivered the fuel elements for the ENEL nuclear power station at Trino Vercellese.

Other Products. — The OM works building fork-trucks raised production by 20% during the past year, touching a peak of over 4,000 units, of which 22% was exported. 80% of these trucks are powered by gasoline engines, the remainder by electric motors. The already wide range will be further extended with new, higher performance types.

Steel Works: continuous strip rolling mill.

CNEN's Plutonium Laboratory: equipping a new department.

Nuclear Energy Department: Zeroleakage electromagnetic-actuated valve for the uranium and heavy water power station of Atucha, Argentine. The valve was produced under a Fiat patent at the Grandi Motori plant.



Further notable increments were achieved in Fiat's output of machine tools and equipment for the companies in the group and for foreign licencees.

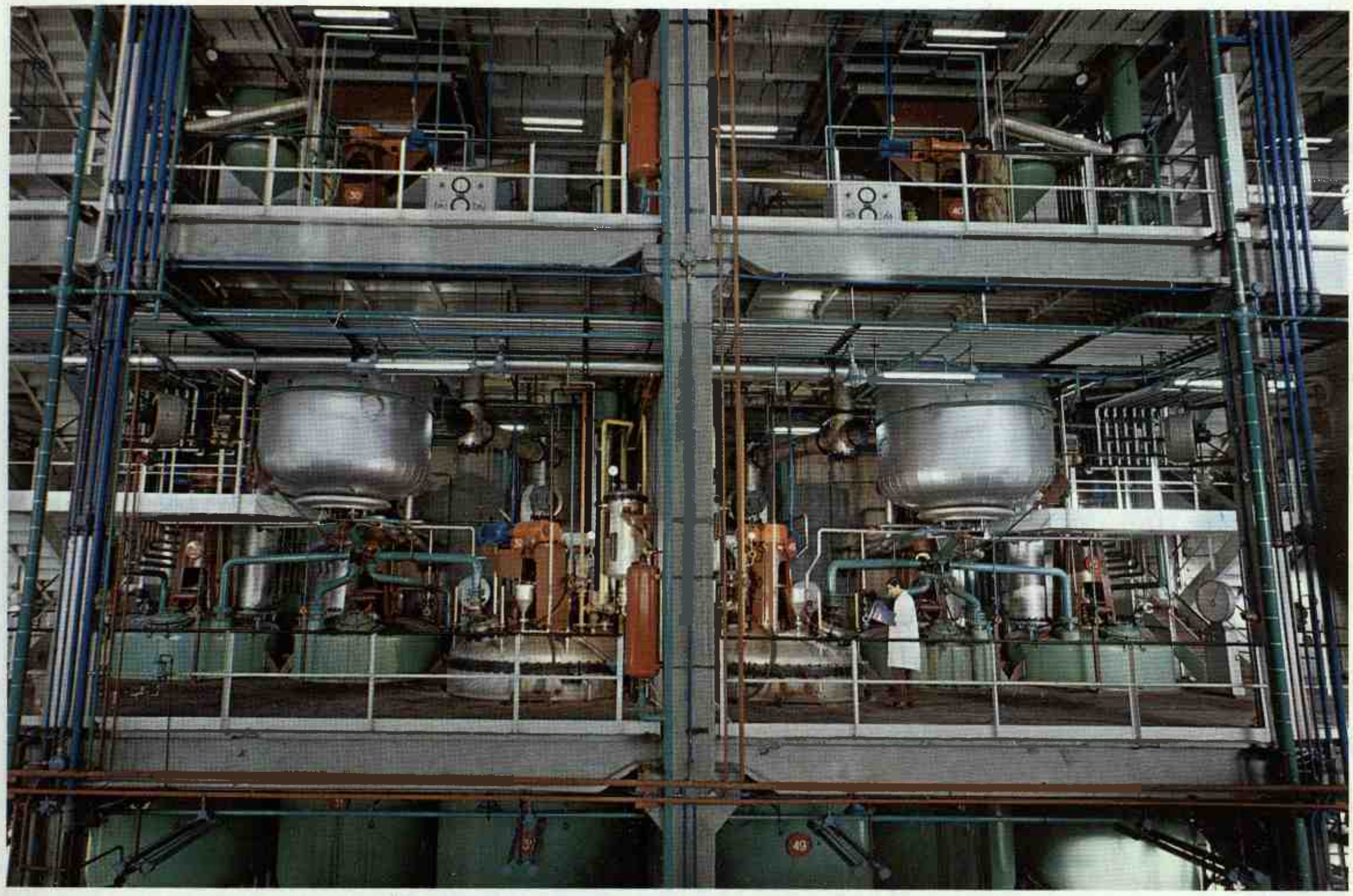
Lastly, results have been more than satisfactory in the container field and in that of industrial engines derived from automotive engines, where AIFO, the company specifically handling this sector, is expanding steadily.

Fiat-OM total non-automotive sales in 1968 totalled 110 billion lire: one billion more than in 1967.

Supplementary products and ancillary operations

In 1968 our Affiliates WEBER, STARS, IVI and other minor companies continued their appreciable expansion, meeting the demand for automobile accessories both at company level and by direct sales to the market.

IVI Plant:
installations for the fabrication
of synthetic resins.



Lubricants output was increased by 10% over 1967; the new plant at Villastellone was commissioned on schedule before the end of the year.

Nothing of note calls for comment in the Public Transport sector, still struggling with difficulties in connection with regular line service, but attended by good results in the tourist bus charter business.

An entirely satisfactory year is reported by SAVA, SCUI, IFA, and SFIMA, each of which has specialised in a specific field of sales financing.

Public Works

Fiat's Civil Engineering Division has continued working, alone or in conjunction with other companies or official Bodies, on the design and execution of projects in Italy and abroad. As usual, these ventures and joint undertakings handle motorways, ring-roads and by-passes, mountain tunnels, etc. Special mention should be made of the *Fossano-Turin* Autostrada: work has been started on a 37 kilometre section, while the remaining 13 will he tendered during the next few months, the target being to open the entire road to traffic in the spring of 1970.

Work is in progress on the *Turin-Milan* Autostrada to build a new series of shoulders which will bring the total length of lay-by space from 26% to 42% of the road edge. New experimental directional separators are being built, and impact tests will be conducted later with radiocontrolled cars before a special Ministerial Commission.

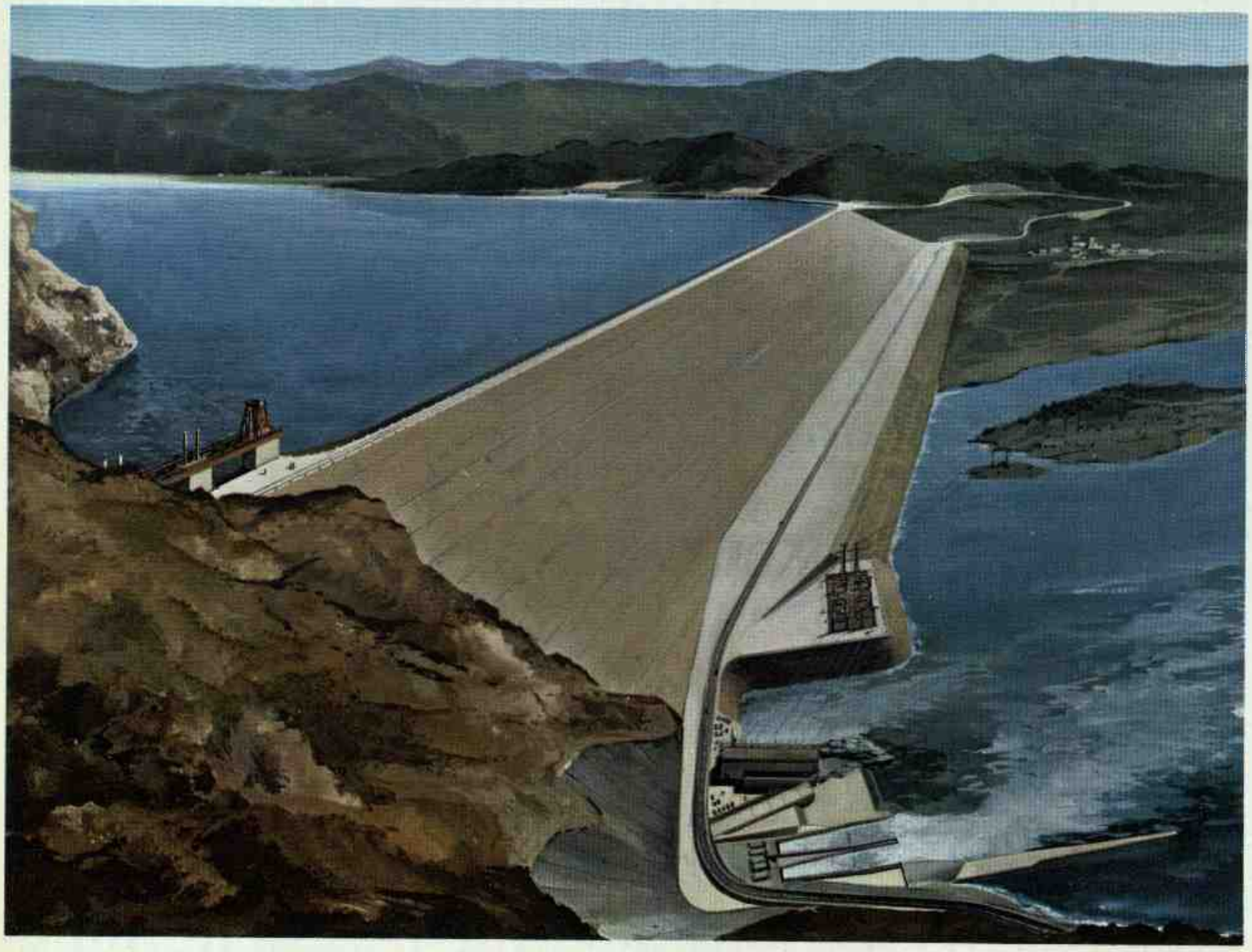
IMPRESIT and IMPRESIT Lavori Italia (I.L.I.) have pursued their cooperation with other big specialised firms, developing a very extensive plan of work including the completion or continuance of major jobs, setting up new building yards and submitting bids in international tenders in Italy and many other countries in all four quarters of the globe.

Some of the biggest among the new jobs are the building of the Tarbela hydroplant in Pakistan, the Keban dam in Turkey, the Mantaro tunnel in Peru, and a 100 million dollar tender for work on the Chocon dam in Argentine.

Personnel and Welfare

Your Directors would like once more to take this opportunity of paying a well deserved tribute to all our personnel - management, office and factory employees - for the team spirit and devotion to duty they have always shown in performing their individual jobs.

At the end of the year Fiat, including OM and Autobianchi, was giving employment to 158,445 people (128,761 in the factory plants



A perspective view of the Tarbela hydroelectric station now under construction in Pakistan.

Children at play at Fiat's alpine
and seaside holiday resorts.

and 29,684 in the offices). Of these, 109,778 were employed in the Turin plants and 22,890 in Turin offices.

The production plants were running on a 48-hour week from February to the end of June, after which, in accordance with T.U. agreement reached during May, the week was 45 hours from July 1st, and 44 hours from September 16.

Welfare was kept very much in mind throughout the year:

— *Fiat Housing Plan:* over 4,750 homes already handed over; another 500 in construction or planned in various small towns surrounding Turin;

— *Holiday Homes:* during 1968 a total of 10,600 children (against 9,600 in 1967) stayed at the seaside and mountain holiday Homes;

— *Sports and Recreation Centre:* work has started on a new Gymnasium and other facilities at the Giovanni Agnelli Sport Grounds.

A highlight was the agreement recently made with Inam (National Insurance) to consolidate the Fiat Mutual Aid Fund and take over medical care of our employees. Care has been taken to ensure that the best medical treatment our personnel has received heretofore shall continue to be provided under a special agreement worked out with the Unions.

Sports and Cultural Center.
The project of the new
sporting facilities
now under construction.

Fiat has broadened its vocational training programs to keep abreast of the growing number of our employees. Intramural courses are held for plant workers and also for graduates, while our younger people attend training courses for skilled operatives at the *Fiat Apprentices Training School.*

Fringe Benefits. — The Italian wage index rose again in 1968, and with it the cost-of-living bonus which gained a further two points; this meant an increment of over 2 billion lire in Fiat's labour costs in 1968.

The benefits granted under Law N. 1115 of November 5, 1968 to unemployed having lost their jobs on account of sectorial or local recessions were covered by a contribution of 0.45 % on wages, payable by the companies concerned to the National Insurance (INPS) dating from December 1, 1968. This spells an extra burden on Fiat amounting to 120 million lire for the month of December 1968 alone, and which will obviously weigh appreciably on figures for the current year.

In the framework of the economic measures adopted to promote new investment (Decree-Law N. 918 dated August 30, 1968, passed as Law N. 1089 dated October 25, 1968) the tax easement granted to companies operating in Southern Italy has relieved Fiat in 1968 of some minor fiscal commitments for Production Plant in Southern Italy. However, dating from April 1 labour costs have been increased in those areas, too, under the recent national agreement for the gradual closing of the gap in minimum wage levels from one area of the country to another.

Trade Unions. — After settlement of the Unions dispute on working hours and incentive bonus in May and June last, production resumed its normal pace in the second half of the year, despite demonstrations - now over - about the reform of the National Pensions Scheme and the closing of the wage gap existing from one area to another in Italy.

In December the new Factory Committees were elected at the Turin plants. 66% of the votes were cast for UIL, SIDA and CISL.

Your Directors wish to pay a sincere and reverent tribute to the memory of all those members of our management, office and plant personnel who have, only too soon, been taken from the Fiat family; and especially, with deep gratitude, to those who died at their posts.

Of those who passed away last year we would like, on this occasion, to recall our great champion, Carlo Salamano; Francesco Bertini, Administrative Manager of the Automotive Division; Vincenzo Scarpa, Alessandro Sabbione, Pietro Garrone, Mario Casale, Amedeo Pettinati, Giulio Jon Scotta, Pietro Allia, all retired managers; and two most capable engineers who, after working with Fiat for many years, held positions of great responsibility with other firms: Enzo Forneron, General Manager of RIV - SKF, and Antonio Fessia, Technical Manager at Lancia.

Financial results

The Net Profit for 1968, after depreciation in accordance with the law, was L. 34,475,846,716. Your Board is therefore in a position to propose payment of a dividend of lire 120 on both Ordinary and Preference shares.

Increase of Share Capital

As announced after the Board Meeting on March 28th last, it has been decided to implement in part the increase of share capital (decided at the General Meeting on April 28, 1960) by raising it from 115 to 130 billion lire, by the issue of 30 million preference shares to be offered to shareholders holding ordinary shares on the basis of three preference shares bearing interest as from January

1, 1969 for every 20 ordinary shares, against payment of 500 lire nominal value, plus 500 lire premium and 35 lire for dividend reconciliation, for every new preference share.

Conclusion

Your Directors have endeavoured to give you a comprehensive synopsis of your Company's operations, goals and problems.

We have already had occasion to inform the Industry Commission of the Italian Parliament last February that the automobile sector in Italy today is giving employment, directly or indirectly, to 2,300,000 people, which means 18% of the total number of employed in industry and services as a whole. The importance of the efforts and accomplishment of Fiat in this context can escape no one, and we would therefore like, in closing our report, to reiterate the assurance given at the outset when recalling our Company's seventieth anniversary: namely, that every man at Fiat is pledged to make the utmost effort, in a constructive and factual spirit, to attain the goals of peaceful expansion and widespread prosperity that our country has set itself and will undoubtedly, with all shoulders to the wheel, succeed in attaining.

Balance Sheet as of December 31st, 1968

= Explanatory notes to the Balance Sheet. The assets and liabilities of the former companies OM and Autobianchi, merged with Fiat on March 30, 1968, have been consolidated with those of Fiat after elimination of mutually offsetting items.

Assets

A I - Industrial Accounts

1) *Fixed Assets amount* to	L.	1,233,792,875,612
Add construction work in progress . .	»	3,003,030,095
Total Dec. 31, 1968	L.	1,236,795,905,707
2) *Repair of war damages*, net of Lire 61,036,376 received in 1968 for war damage and indemnity	»	9,155,221,599
Total Dec. 31, 1968	L.	1,245,951,127,306
Total Dec. 31, 1967	»	1,065,286,569,906
Increase for operating year 1968 . . .	L.	180,664,557,400

Detail variations are as follows:

L. 71,286,678,804	by merger of former companies OM and Autobianchi;
» 114,638,328,439	for new plant and machinery, modernization work, etc. paid for during 1968;
L. 185,925,007,243	
» 780,524,955	add difference between work in progress on new plant, machinery, modernization, etc. paid for: — at Dec. 31, 1968 L. 3,003,030,095 — at Dec. 31, 1967 » 2,222,505,140
L. 186,705,532,198	*C/fwd*

L. 186,705,532,198	*B/fwd*		
	Less disposal of the Editrice La Stampa S.p.A. company, as per deed executed August 1st 1968	L.	4,935,367,031
	Other fixed asset sales and disposal	»	1,044,571,391
» —5,979,938,422			
L. 180,725,593,776			
» — 61,036,376	Less war damage and indemnity received during 1968.		
L. 180,664,557,400	Net increase for Item A I		

3) *Current Assets.* Inventories of raw materials and goods on hand as of Dec. 31,

1968	L.	249,454,806,063
Inventories as of Dec. 31, 1967	»	201,438,211,679
Increase for 1968	L.	48,016,594,384

In addition to the larger requirements of higher output levels in 1968, this increase is particularly due to accretions from merged companies. Funds remain available for current inventory repletion as well as for new plant expansions.

A II - Commercial Accounts (Assets)

1) *Accounts receivable from customers* . .	L.	126,821,801,034
2) *Notes receivable*	»	46,096,262,111
Total accounts and notes receivable at December 1968	L.	172,918,063,145
Same items at Dec. 31, 1967 were, respectively:		
L. 100,438,086,581 for 1)		
» 42,639,879,776 for 2) Total	»	—143,077,966,357
Increase for 1968	L.	29,840,096,788

Instalment credits and notes are, as usual, covered by adequate insurance and provisions. Credits liquidated as of Dec. 31, 1968 amount to L. 49,876 million.

3) *Receivables from associated companies* .	L.	62,613,916,040

showing an increase of L. 8,688,112,743 due to their larger capital requirements.

4) *Cash guarantee deposits*	L.	418,595,248

No special comment.

5) *Other receivables, accruals and prepaid charges creditable to the 1968 operating year*	L.	18,459,422,761

showing a slight decrease of L. 772,848,764.

A III - Financial Accounts (Assets)

1) *Cash and securities* in hand	L.	7,904,042,703

showing a decrease of L. 947,693,878 from the figure at Dec. 31, 1967.

2) *Due from Banks*	L.	66,539,811,528

The increase of L. 14,480,438,098 is due to slipping of machinery and equipment deliveries to Fiat, with resulting slipping of bank payments therefor, during the year's later months; as well as to a good level of cash proceeds from our sales.

3) *Fixed-income securities* (inclusive of pledged securities)	L.	22,694,857,768

showing an increase of L. 7,818,467,640 over the figure at 31, Dec. 1967.

4) *Investments in other companies*	L.	100,410,948,652

The decrease of L. 15,529,432,707 is due to stock write-offs in the gross amount of L. 25,864 million, resulting from the merging of the Om and Autobianchi companies into Fiat, net of the variations specified in the folder on Fiat's corporate investments attached to this report.

In summary, Fiat interests in other companies as of Dec. 31, 1968 are as follows:

— Foreign companies, including Internationale Holding Fiat S. A. for L. 41 billion)	L.	42 billion
— Subsidiary automotive manufacturing companies	»	15 billion
— Transport companies (motor and trolley bus, airlines, shipping lines) highway and tunnel companies	»	25 billion
— Credit sales financing and banking operations	»	6 billion
— Civil engineering enterprises in Italy and abroad, trade organizations, miscellaneous development activities and sundry interests	»	12 billion
Total	L.	100 billion

Contra Accounts

Are shown under Assets and Liabilities in the amount of . . . . L. 153,835,549,602

The increase of L. 9,796,510,033 is due to higher guarantees extended for sales assistance.

Liabilities

P I - Capital Accounts

1) *Capital Stock* of L. 500 shares . . . L. 115,000,000,000

being 100 billion lire in 200,000,000 ordinary shares;

15 billion lire in 30,000,000 preference shares.

2) *Statutory Reserve* . . . . L. 30,000,000,000

3) *Extraordinary Reserve:*

— at Dec. 31, 1968	L.	20,143,937,758
— at Dee. 31, 1967	»	15,934,384,633
showing an increase of	L.	4,209,553,125

due to:

— funds from the merged companies OM and Autobianchi	L. 3,051,088,105
— transfer from Item P X. 4) (Other Accounts Payable) of the Fund for Investment in the South established in 1962 under the facilities of Law No. 634 of July 29, 1957	» 1,000,000,000
— Contribution from the Cassa per il Mezzogiorno for Fiat to establish service plants at Bari, Catania and Naples under Law No. 634 of July 29, 1957 for the development of the South (now DPR No. 1523 of June 30, 1967)	» 133,881,670
— Lapsed dividend coupons on Fiat shares	» 24,583,350
	L. 4,209,553,125

4) *Reserve from stock premium*, unchanged at . . . . L. 5,150,000,000

P II - Debenture Issues

Outstanding at Dec. 31, 1968 . . . . L. 49,105,275,000

The decrease of L. 4,484,100,000 is for bonds redeemed by drawings in 1968.

P III - Long-term Reconstruction Loans

— at Dec. 31, 1968	L.	7,534,190,895
— at Dec. 31, 1967	»	10,040,506,629
showing a decrease of	L.	2,506,315,734

resulting from:

— repayments during 1968 under current sinking plans L. 3,355,019,854

— I.M.I. financing to former company Om to establish service facilities at Bari, Catania, Naples and Rome . » —848,704,120

Net decrease . . L. 2,506,315,734

P IV - Fixed Assets Depreciation Fund

1*a*) *Ordinary depreciation* as of Dec. 31, 1968 L. 909,119,468,921
against the figure as of Dec. 31, 1967 » 760,383,105,253

showing an increase of . . . . L. 148,736,363,668

resulting from:

— Om and Autobianchi companies consolidated by merger (figures at Dec. 31, 1967) . L. 46,076,302,685

— ordinary depreciation under Revenue Department's rule No. 105 of Dec. 1, 1965 (real estate 3.5 %; machinery and equipment 10 %; automatic machinery and equipment 17.5 %; furnaces and ancillaries 12.5 %; electrolytic cells and other equipment using chemical reagents 17.5 %; furniture and fixtures 12 %; motor vehicles 20 per cent) . . . . L. 58,874,092,381

- accelerated depreciation under art.

	L. 58,874,092,381
98 of Direct Taxation Law No. 645 of Jan. 29, 1958 .	» 44,797,531,510
Total depreciation for 1968	L. 103,671,623,891
Total increase . .	L. 149,747,926,576
— Less depreciation on disinvestments, including disposal of assets concentrated in the company Editrice La Stampa S.p.A. . .	» —1,011,562,908
Net increase . . .	L. 148,736,363,668

1*b*) Accrual *from 1952 monetary adjustment* under Law No. 74 of Feb. 11, 1952 at

Dec. 31, 1968	L.	14,331,487,069
against amount at Dec. 31, 1967 . . .	»	13,886,736,402
showing an increase of	L.	444,750,667

arising out of entries from the merged company OM.

The following remain unchanged:

2) *Special fund for plant renewal*	L.	6,241,235,720
3) *Tax-cleared excess depreciation*	L.	953,114,435

P V - Reserve against Revaluation on Fixed Assets . . . . L. 485,985,000

P VI - Monetary Revaluation

The following remain unchanged:

1*a*) *Revaluation of fixed assets 1945 in accordance with Laws No. 436 dated 27-5-1946 and No. 49 dated 14-2-1948*
The following remain unchanged: . . L. 4,485,794,951

1*b*) *Revaluation by equalisation of fixed assets in accordance with Law No. 74 dated 11-2-1952* . . . . L. 31,908,878,928

2) *Revaluation of holdings in accordance with Laws No. 436 dated 27-5-1946, No. 49 dated 14-2-1948 and equalisation in accordance with Law No. 74 dated 11-2-1952* L. 13,418,355,975

3) *Revaluation of raw material and products, inventory in accordance with Laws No. 25 dated 11-1-1951 and No. 74 dated 11-2-1952* L. 18,300,000,000

P VII and P VIII } **Tax-cleared Reserves** . . . . L. 34,269,975,984

The increase of L. 3,659,799,548 arises out of:

— Tax-cleared funds of merged companies	L. 1,790,638,775
— Tax-cleared items by agreement with the Revenue Department	» 4,869,160,773
	L. 6,659,799,548
— Less contribution to the Giovanni Agnelli Foundation decided by the Company's Board of Directors on July 29, 1968 as a tribute to the late Professor Vittorio Valletta in the first anniversary of his death	» —3,000,000,000
	L. 3,659,799,548

P IX - Employment Termination Fund

amounting to	L. 174,476,730,618
at Dec. 31, 1968 against	» 149,085,432,618
at Dec. 31, 1967, showing an increase of	L. 25,391,298,000

thus originated:

— Employment termination funds at Dec. 31, 1967 of the merged companies Om and Autobianchi . . .	L. 11,818,153,212
— Appropriations to the Fund made during 1968 . . .	» 13,573,144,788
	L. 25,391,298,000

P X - Commercial Accounts

1) *Accounts payable to suppliers* at Dec. 31, 1968	L.	292,571,234,901

This item covers all debt contingencies, controversial risks and pledges. It shows an increase of L. 66,833,563,849 over last year, resulting from larger procurements consistent with the production increase for the year, in addition to corresponding items from the merged companies OM and Autobianchi.

2) *Accounts payable to associated companies*	L.	7,151,939,487

showing a decrease of L. 1,034,824,520.

3) *Payable for guarantee cash deposits* . .	L.	265,629,577

No special comment.

4) *Other accounts payable, accruals, deferred liabilities and sundries chargeable to 1968 but not yet paid*	L.	140,494,542,321

showing an increase of L. 23,011,757,103. This item includes advance payments to Fiat on orders for capital goods and equipment both at home and abroad; deferred liabilities, taxes and all other amounts chargeable to 1968 and contingency provisions, as well as larger tax commitments on expanded payrolls.

P XI - Financial Accounts (payable)

1) *Due to banks*	L.	4,314,704,207

showing an increase of L. 591,675,918 over the figure at Dec. 31, 1967.

P XII - Profit and Loss Accounts

1) *Dividend Fluctuation and Profits carried forward from previous years*	L.	43,517,262,751

The increase of L. 5,420,903,226 over 1967 is made of:

— Profits carried over from 1967	L. 3,860,573,829
— Previous years profits of the companies Om and Autobianchi merged with Fiat on March 30, 1968	» 1,560,329,397
	L. 5,420,903,226

2) *1968 Operating Surplus* . . . . L. 34,475,846,716

permitting to propose a dividend of 120 lire per ordinary and preference share, on which an interim payment of L. 45 was made as from November 12, 1968 or L. 10,350,000,000.
The balance proposed for payment to Stockholders is L. 75, or a total of L. 17,250 million.

Contra Accounts

The amount of this item offsets an equal amount on the assets side.

Operating Statement (Profit and Loss Account) for the Year ended 31st December, 1968

= The items under this heading, on some of which explanations are given here below, include 1968 costs and income of the merged companies Om and Autobianchi.

Costs

Outside Purchases.

Cost of Labor.

The increases of 145,443 million and 55,165 million lire, respectively, are due to higher 1968 production as well as to the merger of Om and Autobianchi companies.

Production Costs and Operating Expenditures.

This item includes production costs and general overhead in the amount of 74,620 million lire; administrative expenses, 1,416 million lire; advertising 10,860 million lire; legal fees and title transfer charges, 233 million lire. Total: 96,901 million lire. The increase of 17,493 million lire over 1967 is mostly due to higher production costs and general overhead (energy, after-sales service and transport of products to customers), and advertising.

Direct Taxation.

Direct taxes for 1968 amounted to L. 35,561 million as against L. 29,370 million for 1967. The increase of L. 6,191 million is almost proportionate to sales expansion.

Fixed Assets depreciation.

Applying the highest depreciation rates allowed, total depreciation for 1968 was 103,672 million lire, or 13,668 million lire more than in 1967.

Income

External sales and sales to associated Companies.

The company's total sales for 1968 were L. 1,334,715 million, or L. 230,177 million over 1967 total sales of L. 1,104,538 million, thus made up:

— Sales to customers	L. 1,078,884 million
— Sales to associated companies, representing Fiat billings to the now merged companies OM and Autobianchi . . .	» 25,654 million
	L. 1,104,538 million

Internal production of Fixed Assets.

Equipment made in Fiat's own plants and entered as an increase of Fixed Assets amounted to 6,899 million lire for 1968.

Other income and recoveries.

This item includes sundry income (21,465 million lire) and operating recoveries (10,806 million lire) in the total amount of 32,271 million lire for 1968, against 29,526 million lire for 1967.

Turin, March 28, 1969.

THE BOARD OF DIRECTORS

Auditors' Report

Gentlemen:

Your Directors have amply explained to you the company's Balance Sheet as of December 31, 1968 thus summarized:

Consolidated Financial Statement

— Assets (including Contra Accounts) . . .	L. 2,101,201,140,816
— Liabilities (including Capital Stock, Reserve Funds and Contra Accounts)	» 2,066,725,294,100
Net Profit	L. 34,475,846,716

Profit and Loss Account

— Gross Income	L. 1,378,726,367,628
— Costs	» 1,344,250,520,912
Net Profit as above	L. 34,475,846,716

In the performance of our auditing duties we have been consistently satisfied that the corporate books and accounting records were kept in a regular manner and that the affairs of the company were administered wisely, managing dynamic growth with conservative prudence.

We agree with the charging to the operating year 1968 of ordinary and accelerated depreciation in the amounts of L. 58,874,092,381 and L. 44,797,531,510 respectively, or a total of L. 103,671,623,891 inclusive of pro-rated deferred charges and appropriate provisions.

For ordinary depreciation the rates established by Revenue Department's Rule No. 105 of December 1st 1965 have been applied, namely, 3.5 % on buildings; 10 % on general machinery and equipment; 17.5 % on automatic machinery and equipment; 12.5 % on furnaces and related equipment; 17.5 % on electrolytic cells and other chemical reaction equipment; 12 % on furniture and fixtures; 20 % on motor vehicles; all such rates being halved in respect of new investments made during the year.

The highest rates permissible under Art. 98 of Direct Taxation Law have been applied in determining accelerated depreciation.

We vouch that the Balance Sheet is perfectly in order, and we particularly concur with the assessment standards applied, which amply meet law requirements. We also agree with the report of the Board of Directors, including their decision to carry out partly, i. e., from 115 billion to 130 billion lire, the increase of capital that had been resolved by the Stockholders Meeting of April 28, 1960.

We therefore invite you to approve the Balance Sheet and the Profit and Loss Account as of December 31, 1968, along with the dividend proposed by the Board of Directors in the amount of L. 120 per ordinary and preference share, less the interim payment of L. 45 and applicable withholdings.

We join the Board of Directors in their regret for the company's members lost during the year, particularly those who died while serving Fiat. Our heartfelt sympathies go to their families.

Turin, March 29, 1969.

The Auditors

CARLO BOZZOLA
LAMBERTO JONA CELESIA
CARLO DAL VERME

Balance Sheet and Operating Statement

As of December 31, 1968

Attached: Balance Sheet and Operating Statement as of December 31, 1968 compared with those of December 31, 1967

Assets

A I. Industrial Accounts			
1. *Fixed Assets*			
Real estate	L.	275,339,821,289	
Plants - Machinery	»	884,502,438,405	
Furniture and Equipment	»	73,950,615,918	
	L.	1,233,792,875,612	
Work in progress	»	3,003,030,095	
	L.	1,236,795,905,707	
2. *Repair of war damage* (expenditures on buildings, plant and machinery qualifying for Government war damage compensation)	»	9,155,221,599	
	L.	1,245,951,127,306	
3. *Current Assets*			
Raw materials, goods and manufacturing supplies (including amounts spent for replacements qualifying for Government war damage compensation totalling about 6 billion lire)	»	249,454,806,063	
	L.		1,495,405,933,369
A II. Commercial Accounts			
1. Accounts receivable from customers and Gov't Depts.	L.	126,821,801,034	
2. Notes receivable	»	46,096,262,111	
3. Credits from associated companies	»	62,613,916,040	
4. Credits for cash guarantee deposits	»	418,595,248	
5. Other receivables, accruals and prepaid charges creditable to 1968	»	18,459,422,761	
	L.		254,409,997,194
A III. Financial Accounts			
1. Cash and securities on hand	L.	7,904,042,703	
2. Bank credits	»	66,539,811,528	
3. Fixed-income securities	»	22,694,857,768	
4. Investments	»	100,410,948,652	
	L.		197,549,660,651
Total	L.		1,947,365,591,214
Contra Accounts			
1. Directors' guarantee deposits	L.	3,600,000	
2. Endorsements and guarantees	»	153,831,844,489	
3. Company's shares	»	105,113	
	L.		153,835,549,602
Total	L.		2,101,201,140,816

On behalf of the Board of Directors:
GIOVANNI AGNELLI
Chairman

Liabilities

P	**I. Capital Accounts**			
	1. Capital stock			
	— 200 million ordinary shares	L.	100,000,000,000	
	— 30 million preference shares	»	15,000,000,000	
		L.		115,000,000,000
	2. Statutory reserve (legal)	»		30,000,000,000
	3. Extraordinary reserve	»		20,143,937,758
	4. Reserve from stock issue premium	»		5,150,000,000
P	**II. Debenture Issues**			
	1st instalment, due 1-6-1974, 6%	L.	1,959,050,000	
	2nd instalment, due 1-6-1974, 6%	»	1,959,050,000	
	1956 issue, due 1-7-1974, 6%	»	7,594,525,000	
	1957 issue, due 1-10-1975, 6%	»	13,794,675,000	
	1960 issue, due 1-3-1980, 5½%	»	23,797,975,000	
		L.		49,105,275,000
P	**III. Long Term Reconstruction Loans**	L.		7,534,190,895
P	**IV. Fixed Assets Depreciation Fund**			
	1*a*. Ordinary depreciation fund including increases due to revaluation up to 1945	L.	909,119,468,921	
	1*b*. Increase due to revaluation up to 1952 (Law No. 74 of 11-2-1952)	»	14,331,487,069	
	2. Special fund for renewal of plant and equipment (Law No. 94 of 1-4-1949)	»	6,241,235,720	
	3. Tax-cleared excess depreciation	»	953,114,435	
		L.		930,645,306,145
P	**V. Reserve Against Revaluation of Fixed Assets**			
	1. Real estate reserve	L.	130,885,000	
	2. Tax-cleared reserve on fixed Assets	»	355,100,000	
		L.		485,985,000
P	**VI. Monetary Revaluation**			
	1*a*. Fixed assets revaluation up to 1945 according to Laws No. 436 of 27-5-1946 and No. 49 of 14-2-1948	L.	4,485,794,951	
	1*b*. Compensating revaluation of fixed assets as per Law No. 74 of 11-2-1952	»	31,908,878,928	
	2. Revaluation of investments according to Laws No. 436 of 27-5-1946 and No. 49 of 14-2-1948 and compensation according to Law No. 74 of 11-2-1952	»	13,418,355,975	
	3. Revaluation of stocks of raw materials and goods as per Laws No. 25 of 11-1-1951 and No. 74 of 11-2-1952	»	18,300,000,000	
		L.		68,113,029,854
P	**VII. and VIII.** Tax-cleared reserves	L.		34,269,975,984
P	**IX. Employment Termination Fund**	L.		174,476,730,618
P	**X. Commercial Accounts**			
	1. Accounts payable to suppliers	L.	292,571,234,901	
	2. Accounts payable to associated companies	»	7,151,939,487	
	3. Guarantee cash deposits	»	265,629,577	
	4. Other accounts payable, accruals, deferred liabilities and sundries chargeable to the operating year	»	140,494,542,321	
		L.		440,483,346,286
P	**XI. Financial Accounts**			
	1. Due to banks	L.		4,314,704,207
P	**XII. Profit and Loss Accounts**			
	1. Dividend Fluctuation Fund and Profits carried forward from previous years	L.	43,517,262,751	
	2. Surplus from 1968 .... L. 34,475,846,716			
	Less interim dividend paid November 12, 1968 .... »—10,350,000,000	»	24,125,846,716	
		L.		67,643,109,467
	Total	L.		1.947,365,591,214
	Contra Accounts			
	1. Creditors guarantee deposits	L.	3,600,000	
	2. Endorsements and guarantees	»	153,831,844,489	
	3. Profits for year 1914 invested in Company's shares	»	105,113	
		L.		153,835,549,602
	Total	L.		2,101,201,140,816

Carlo Bozzola
Lamberto Jona Celesia
Carlo Dal Verme
Auditors

Operating Statement (Profit and Loss Account) for the 1968 Operating Year

Expenditures

Brought forward from 1967		L.	201,438,211,679
External Purchases		»	726,176,538,124
Cost of Labour		»	423,522,246,358
Production and Operating Expenses		»	96,901,402,878
Financial Charges:			
— Interest payable, Bank commissions and charges	L. 3,074,567,402		
— Interest and expenses on debenture issues	» 3,360,160,644		
		L.	6,434,728,046
Direct Taxes		»	35,560,575,999
Fixed Assets Depreciation:			
— ordinary	L. 58,874,092,381		
— accelerated	» 44,797,531,510		
		L.	103,671,623,891
		L.	1,593,705,326,975
Less:			
Carried forward		»	—249,454,806,063
		L.	1,344,250,520,912
Net profit		L.	34,475,846,716
Total		L.	1,378,726,367,628

Income

External Sales	L.	1,334,715,252,486
Internal production of fixed assets	»	6,899,095,540
Other income and recoveries	»	32,270,589,873
Rents and other real estate income	»	1,061,774,865
Dividends on industrial shares, interest on fixed - income securities, and sundries	»	3,779,654,864
Total	L.	1,378,726,367,628

This Balance Sheet and these Accounts are certified true and correct.

On behalf of the Board of Directors.
GIOVANNI AGNELLI
Chairman

CARLO BOZZOLA
LAMBERTO JONA CELESIA
CARLO DAL VERME
Auditors

Balance Sheet and Operating Statement as of December 31, 1968 and Comparison with December 31, 1967

Balance as of December 31, 1968

(thousands

Assets		Balance 31-12-1968	Balance 31-12-1967	Difference Increase	Decrease
A I. Industrial Accounts					
1. *Fixed Assets*					
Real estate	L.	275,339,821	241,045,317	38,838,357	4,543,853
Plants - Machinery	»	884,502,438	755,193,553	130,586,765	1,277,880
Furniture and Equipment	»	73,950,616	57,608,937	16,499,885	158,206
	L.	1,233,792,875	1,053,847,807	185,925,007	5,979,939
Work in progress	»	3,003,030	2,222,505	780,525	
	L.	1,236,795,905	1,056,070,312	186,705,532	5,979,939
2. *Repair of war damage* (expenditures on buildings, plant and machinery qualifying for Government war damage compensation)	»	9,155,222	9,216,258		61,036
	L.	1,245,951,127	1,065,286,570	186,705,532	6,040,975
3. *Current Assets* Raw materials, goods and manufacturing supplies (including amounts spent for replacements qualifying for Government war damage compensation totalling about 6 billion lire)	»	249,454,806	201,438,212	48,016,594	
	L.	1,495,405,933	1,266,724,782	234,722,126	6,040,975
A II. Commercial Accounts					
1. Accounts receivable from customers and Gov't Depts	L.	126,821,801	100,438,087	26,383,714	
2. Bills receivable	»	46,096,262	42,639,880	3,456,382	
3. Credits from associated companies	»	62,613,916	53,925,803	8,688,113	
4. Credits for cash guarantee deposits	»	418,595	227,516	191,079	
5. Other receivables, accruals and prepaid charges creditable to 1968	»	18,459,423	17,686,574	772,849	
	L.	254,409,997	214,917,860	39,492,137	
A III. Financial Accounts					
1. Cash and securities on hand	L.	7,904,043	8,851,737		947,694
2. Bank credits	»	66,539,812	52,059,373	14,480,439	
3. Fixed-income securities	»	22,694,858	14,876,390	7,818,468	
4. Investments	»	100,410,948	115,940,381		15,529,433
	L.	197,549,661	191,727,881	22,298,907	16,477,127
Total	L.	1,947,365,591	1,673,370,523	296,513,170	22,518,102
Contra Accounts				273,995,068	
1. Directors' guarantee deposits	L.	3,600	3,000	600	
2. Endorsements and guarantees	»	153,831,844	144,035,934	9,795,910	
3. Company's shares	»	105	105		
	L.	153,835,549	144,039,039	9,796,510	
Total	L.	2,101,201,140	1,817,409,562		

compared with that of December 31, 1967

of lire)

Liabilities		Balance 31-12-1968	Balance 31-12-1967	Difference Increase	Difference Decrease
P **I. Capital Accounts**					
1. Capital stock					
— 200 million ordinary shares	L.	100,000,000	100,000,000		
— 30 million preference shares	»	15,000,000	15,000,000		
	L.	115,000,000	115,000,000		
2. Statutory reserve (legal)	»	30,000,000	30,000,000		
3. Extraordinary reserve	»	20,143,938	15,934,385	4,209,553	
4. Reserve from stock issue premium	»	5,150,000	5,150,000		
	L.	170,293,938	166,084,385	4,209,553	
P **II. Debenture Issues**					
1st instalment, due 1-6-1974, 6%	L.	1,959,050	2,224,000		264,950
2nd instalment, due 1-6-1974, 6%	»	1,959,050	2,224,000		264,950
1956 issue, due 1-7-1974, 6%	»	7,594,525	8,621,675		1,027,150
1957 issue, due 1-10-1975, 6%	»	13,794,675	15,345,075		1,550,400
1960 issue, due 1-3-1980, 5½%	»	23,797,975	25,174,625		1,376,650
	L.	49,105,275	53,589,375		4,484,100
P **III. Long Term Reconstruction Loans**	L.	7,534,191	10,040,507		2,506,316
P **IV. Fixed Assets Depreciation Fund**					
1*a*. Ordinary depreciation fund including increases due to revaluation up to 1945	L.	909,119,469	760,383,105	149,747,927	1,011,563
1*b*. Increase due to revaluation up to 1952 (Law No. 74 of 11-2-1952)	»	14,331,487	13,886,737	444,750	
2. Special fund for renewal of plant and equipment (Law No. 94 of 1-4-1949)	»	6,241,235	6,241,235		
3. Tax-cleared excess depreciation	»	953,115	953,115		
	L.	930,645,306	781,464,192	150,192,677	1,011,563
P **V. Reserve Against Revaluation of Fixed Assets**					
1. Real estate reserve	L.	130,885	130,885		
2. Tax-cleared reserve on fixed Assets	»	355,100	355,100		
	L.	485,985	485,985		
P **VI. Monetary Revaluation**					
1*a*. Fixed assets revaluation up to 1945 according to Laws No. 436 of 27-5-1946 and No. 49 of 14-2-1948	L.	4,485,795	4,485,795		
1*b*. Compensating revaluation of fixed assets as per Law No. 74 of 11-2-1952	»	31,908,879	31,908,879		
2. Revaluation of investments according to Laws No. 436 of 27-5-1946 and No. 49 of 14-2-1948 and compensation according to Law No. 74 of 11-2-1952	»	13,418,356	13,418,356		
3. Revaluation of stocks of raw materials and goods as per Laws No. 25 of 11-1-1951 and No. 74 of 11-2-1952	»	18,300,000	18,300,000		
	L.	68,113,030	68,113,030		
P **VII.** and P **VIII.** **Tax-cleared reserves**	L.	34,269,976	30,610,176	3,659,800	
P **IX. Employment Termination Fund**	L.	174,476,731	149,085,433	25,391,298	
P **X. Commercial Accounts**					
1. Accounts payable to suppliers	L.	292,571,235	225,737,671	66,833,564	
2. Accounts payable to associated companies	»	7,151,939	8,186,764		1,034,825
3. Guarantee cash deposits	»	265,630	313,509		47,879
4. Other accounts payable, accruals, deferred liabilities and sundries chargeable to the operating year	»	140,494,542	117,482,785	23,011,757	
	L.	440,483,346	351,720,729	89,845,321	1,082,704
P **XI. Financial Accounts**					
1. Due to banks	L.	4,314,704	3,723,028	591,676	
P **XII. Profit and Loss Accounts**					
1. Dividend Fluctuation Fund and Profits carried forward from previous years	L.	43,517,262	38,096,359	5,420,903	
2. Surplus from 1968 ... L. 34,475,847 Less interim dividend paid November 12, 1968 ... » —10,350,000	»	24,125,847	20,357,324	3,768,523	
	L.	67,643,109	58,453,683	9,189,426	
Total	L.	1,947,365,591	1,673,370,523	283,079,751	9,084,683
Contra Accounts				273,995,068	
1. Creditors guarantee deposits	L.	3,600	3,000	600	
2. Endorsements and guarantees	»	153,831,844	144,035,934	9,795,910	
3. Profits for year 1914 invested in Company's shares	»	105	105		
	L.	153,835,549	144,039,039	9,796,510	
Total	L.	2,101,201,140	1,817,409,562		

Operating Statement (Profit and Loss Account) for the 1968 Operating Year and Comparison with 1967

(Thousands of Lire)

Expenditures		1968 Operations	1967 Operations
Brought forward from 1967	L.	201,438,212	165,619,478
Outside Purchases	L.	726,176,538	580,734,520
Cost of Labour	L.	423,522,246	368,356,775
Production and Operating Expenses	L.	96,901,403	79,408,207
Financial Charges:			
— Interest payable - Bank commissions and charges	L.	3,074,567	2,704,823
— Interest and expenses on debenture issues	»	3,360,161	3,639,838
	L.	6,434,728	6,344,661
Direct Taxes	L.	35,560,576	29,369,995
Fixed Assets Depreciation:			
— ordinary	L.	58,874,092	53,969,612
— accelerated	L.	44,797,532	36,034,192
	L.	103,671,624	90,003,804
	L.	1,593,705,327	1,319,837,440
Less:			
Carried forward	»	—249,454,806	—201,438,212
	L.	1,344,250,521	1,118,399,228
Net Profit	»	34,475,847	30,707,324
	L.	1,378,726,368	1,149,106,552

Income		1968 Operations	1967 Operations
External Sales	L.	1,334,715,252	1,078,883,940
Sales to Associated Companies	»		25,654,240
Internal production of fixed assets	»	6,899,096	8,507,049
Other income and recoveries	»	32,270,590	29,526,436
Rents and other real estate income	»	1,061,775	1,211,867
Dividends on industrial shares, interest on fixed-income securities, and sundries	»	3,779,655	5,323,020
	L.	1,378,726,368	1,149,106,552

Appropriation of Profits for 1968

Profits for the year 1968		L.	34,475,846,716
Appropriation to the Fund for Investments in Southern Italy, under art. 107 of the Law and D.P.R. No. 1523 of June 30, 1967		»	—1,000,000,000
Appropriation to «Dividend Fluctuation Fund and Profits carried forward from previous years»................................		»	— 5,461,846,716
		L.	28,014,000,000
To Stockholders:			
A dividend of 120 lire for the full year 1968:			
— on 30,000,000 preference shares	L. 3,600,000,000		
— on 200,000,000 ordinary shares	» 24,000,000,000		
	L. 27,600,000,000		
on which an interim payment of L. 45 was made for each preference and ordinary share on Nov. 12, 1968, or a total of L. 10,350,000,000		L.	—27,600,000,000
		L.	414,000,000
1.5% of the total dividend of L. 27,600,000,000 to Board of Directors:			
— for Directors' fees	L. 207,000,000		
— for the Giovanni Agnelli Foundation	» 207,000,000	»	— 414,000,000
		L.	—

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