

"AutoAlliance"

By Giovanna Boursier

GIOVANNA BOURSIER VOICE OVER

On February 15th, Sergio Marchionne, FIAT's Chief Executive Officer, was summoned to parliament to explain what he intended to do with Italy's largest company. Was it to remain in Italy, or would he move its headquarters to the United States?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

The choice for the location of the company's registered offices has not yet been made. However, as far as operational offices are concerned, it is necessary for the company to have a specific presence in markets where we are operating. For this reason, while the heart of FIAT is and remains in Italy, our head must be in other places; in Turin for European operations, in Detroit for American operations, but also in Brazil and in the future also in Asia.

GIOVANNA BOURSIER V.O.

We see him for the first time in a jacket and tie, but he has not clarified matters. Members of Parliament should be asking for an accounting, but the first MP to speak sounded like a car dealer...

SANDRO BIASOTTI – PDL MEMBER OF PARLIAMENT

If you would allow me to ask some questions about an industry that is very important for me, even if I feel a certain conflict of interest as I have a dealership. I read your April industrial plan report and there are a number of items that I must challenge as they speak of increasing the distribution network and opening new dealerships at a time when current car dealers, especially FIAT dealers, are going through a very rough period.

GIOVANNA BOURSIER V.O.

What bothers the Honourable Mr. Biasotti is not the fate of Italian industry, but the possibility that someone will open a FIAT dealership next to his.

GIOVANNA BOURSIER

Mr. Marchionne, may we ask you why you declined to take part in an interview with Report Rai3? We are doing a story on FIAT.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I had no idea.

GIOVANNA BOURSIER

You didn't know it, but now that you do, will you?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

It was he who said no...

GIOVANNA BOURSIER

He said no... Migliarino said no? The head of your press office...

SIMONE MIGLIARINO – FIAT PRESS OFFICER

I am at your disposal for everything you want to do...

GIOVANNA BOURSIER

Exactly, an interview!

SIMONE MIGLIARINO – FIAT PRESS OFFICER

Except that the interview...

GIOVANNA BOURSIER

It's hard to do a piece on FIAT without hearing FIAT's voice, isn't it?

SERGIO CHIAMPARINO – MAYOR OF TURIN

I understand what you're saying, but I can't... I am a mere substitute.

GIOVANNA BOURSIER

Seeing that you are Marchionne's friend and are going to eat with him, why don't you ask him?

SERGIO CHIAMPARINO – MAYOR OF TURIN

If you want, I'll ask him.

GIOVANNA BOURSIER

No, tell me what kind of person Marchionne is.

SERGIO CHIAMPARINO – MAYOR OF TURIN

He gives me the impression of being a little timid and so, to break from that as timid people do, he becomes a little aggressive. Maybe from a communicative point of view this isn't always very effective... he strikes me as a very capable person. Very modern, very American... can I say something? Very left wing...

GIOVANNA BOURSIER

Marchionne? Very left wing?

SERGIO CHIAMPARINO – MAYOR OF TURIN

On certain issues much more left wing than I am...

GIOVANNA BOURSIER

It is said you two are friends. Do you play cards together?

SERGIO CHIAMPARINO – MAYOR OF TURIN

Sadly, it's been a while since I've played. In any case, I always won.

GIOVANNA BOURSIER

Isn't he a good card player, in spite of what everyone says?

SERGIO CHIAMPARINO – MAYOR OF TURIN

We've always beaten him at Italian card games.

GIOVANNA BOURSIER

Do you play the more complicated version?

SERGIO CHIAMPARINO – MAYOR OF TURIN

My deputy mayor and I have always beaten him and a few of his managers, but you know, these are very Italian card games.

MILENA GABANELLI - STUDIO

FIAT's future also appears to be a game requiring cleverness and there is no guarantee that the cards will be dealt in Italy. This is the 200 page contract defining the terms of the alliance between Chrysler and FIAT and these instead are the 30 slides that outline the terms of Marchionne's commitment to the factories in Italy. There are just a few sentences, including, "we will invest 20 billion" and "if the management and the trade-unions get along, we can do many things together." Earlier in parliament, we heard about a heart in one place and many heads in other places, and an MP who was more interested in the fate of his dealership than the fate of Pomigliano, Melfi, Mirafiori or Cassino. The Labour Minister assures us that "the government is following the situation closely." But what is the plan that will decide the fate of 80,000 employees and many satellite industries, and it is hard to understand where the 20 billion euro for investments will come from. Perhaps it will depend on how events envisaged by this contract go, which we will try to explain as we go along. It is March 1st and in Geneva the Motor Show is on and our Giovanna Boursier is there too.

GIOVANNA BOURSIER

Mr. Marchionne, it is us from Report again. May we ask you a couple of questions?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I have to go to a press conference.

MAN

He said later, he will later.

GIOVANNA BOURSIER

He will later?

GIOVANNA BOURSIER V.O.

New car models are being launched, the latest Ferrari, the FF, Gran Lusso. Then there are the new models from the American alliance; the Voyager, which is from Chrysler and will be sold in Italy as will the Thema by Lancia. Then there's the Flavia and the new Ypsilon.

GIOVANNA BOURSIER

Here we are. Was it you who first said you would do something in Italy and then at a certain point you said you'd put the registered offices over there?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, to be clear, I only said that the choice of where the registered office would be will be made after Chrysler is listed on the stock market, and that is a decision to be made on the basis of governance. It's not a problem for today. I know that you are worried about the future.

GIOVANNA BOURSIER

What matters is the head, and as far as I have understood there is just one?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Yes, but I believe we have managed to find a way of having both head and heart working together. We have made a choice that is not entirely based on economics and finance. The fact is, we will be investing in this country because we have decided to. This is an issue that Elkann also brought up and did so openly. We decided not to accept this situation, but to change and improve it. That's all.

GIOVANNA BOURSIER

Will the Agnelli family stay with FIAT? What will they do?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

You will have to ask the Agnelli family that question.

GIOVANNA BOURSIER V.O.

Up until a few years ago, no one would have said that, because FIAT was the Agnelli family. Founded in Turin in 1899, within ten years Senator Giovanni Agnelli bought all the company's stocks and was investigated for stock manipulation and fiddling the balance sheets, but he became the majority shareholder. In the 1920's FIAT was already Italy's largest industry. In the 1950's his grandson Gianni inherited, but because he was too young, for 20 years the 'regent' was Vittorio Valletta, the accountant who invented the barracks-like factory. This discipline continued until the 1970's, then came the great power struggles, strikes, the crisis and Cesare Romiti, who reorganized the company.

CESARE ROMITI – FIAT'S FORMER CHIEF EXECUTIVE OFFICER AND PRESIDENT

It was my opinion that the automobile manufacturing sector alone, and I'm speaking about those times, could have been risky and therefore, in a certain sense, we needed to diversify, and up to a certain extent that is what I did.

GIOVANNA BOURSIER V.O.

Romiti introduced automation, let people go, but mostly opened to the world of finance and in came Gemina, RCS, Impregilo, Toro Insurance.

CESARE ROMITI – FIAT’S FORMER CHIEF EXECUTIVE OFFICER AND PRESIDENT

Can you imagine that when I joined FIAT in 1974, I discovered in October that the company didn’t have enough money for the end of year payroll? I took FIAT’s chief financial officer aside, who was a very worthy person, and then I took him to appear before 20 bankers in Milan to say, “We need to set up a financial operation.” And all the way from Turin to Milan, he was practically in tears, saying, “Mr. Romiti, what on earth will they think of us?!”

GIOVANNA BOURSIER V.O.

The last golden moment dates back to the 1980’s, when FIAT auto was led by Vittorio Ghidella, the inventor of one of the great success stories in FIAT history, the Uno. During those years there was an attempt to merge with Ford, and Ghidella wanted to focus on product. It ended when Romiti prevented the merger, and he also won against Ghidella, who was forced to leave in 1989. At the beginning of the 1990’s sales dropped and FIAT was once again in trouble.

CESARE ROMITI – FIAT’S FORMER CHIEF EXECUTIVE OFFICER AND PRESIDENT

During crisis periods, what happens is that if one has planned well and then produced or is still producing cars that are better than the competition’s, one is in a better position.

GIOVANNA BOURSIER V.O.

And to return to manufacture better products, state subsidies came in. It is estimated that from 1990 to 2000, FIAT received about 10,000 billion lire, or 5 billion euro. Romiti left FIAT in 1998, age 75. For him, after that, there was nothing.

CESARE ROMITI – FIAT’S FORMER CHIEF EXECUTIVE OFFICER AND PRESIDENT

A few men wrote the true history of FIAT. They were Giovanni Agnelli senior, Vittorio Valletta, Giovanni Agnelli and Cesare Romiti.

GIOVANNA BOURSIER

Umberto Agnelli?

CESARE ROMITI – FIAT’S FORMER CHIEF EXECUTIVE OFFICER AND PRESIDENT

Cesare Romiti, we will stop there! As leaders of FIAT we stop there. I have given you the names.

GIOVANNA BOURSIER

Well, now there is Marchionne, right?

CESARE ROMITI – FIAT’S FORMER CHIEF EXECUTIVE OFFICER AND

PRESIDENT

I remained within the framework of my time with the company.

GIOVANNA BOURSIER V.O.

The CEO after Romiti was Canterella, followed by Galateri, then Morchio. FIAT was always gripped by a crisis. In the early years of this century, FIAT partnered with General Motors who bought 20% of the company with an option to buy a controlling share. None of the former FIAT leadership wants to talk about it. Paolo Fresco was the company president at the time, and agreed to meet us, but cancelled at the last moment.

GIOVANNA BOURSIER

Rather than talking to the lead player, who should I ask, was it you at the time?

Speaking on the phone, PAOLO FRESCO - FIAT'S FORMER PRESIDENT

You're right, but my job now is to be a pensioner. I have no desire to start talking about the past.

GIOVANNA BOURSIER V.O.

Let's see what Cantarella has to say.

GIOVANNA BOURSIER

Are you sure you don't want to talk to me?

Speaking on the phone PAOLO CANTARELLA – FIAT'S FORMER CHIEF EXECUTIVE OFFICER

I'm very sure, yes, very sure.

GIOVANNA BOURSIER

Not even about the time when you were there, to talk about what happened?

Speaking on the phone PAOLO CANTARELLA – FIAT'S FORMER CHIEF EXECUTIVE OFFICER

Absolutely not.

GIOVANNA BOURSIER

Even those who say 'yes' to me, later say 'no', saying 'I have thought it over and it is best not to speak.'

Speaking on the phone PAOLO CANTARELLA – FIAT'S FORMER CHIEF EXECUTIVE OFFICER

I don't know, but I've felt like this for eight years, which means that I've thought about it.

GIOVANNA BOURSIER V.O.

After Gianni Agnelli died in 2003, his brother Umberto became company president, but when he died in May 2004, CEO Morchio asked for carte

blanche, the heirs did not agree. It was at the cemetery that the succession was decided by the family and the lawyers, Gabetti and Grande Stevens, board members of the Agnelli holding company IFIL, which with 30.5% of the shares controls FIAT. The president was to be Montezemolo, and the CEO Sergio Marchionne. The company was in a mess. Marchionne asked GM to exercise its option to buy the company. The Americans refused and Marchionne negotiated the penalty clause, cashing in 1.5 billion euro.

MASSIMO MUCCHETTI – JOURNALIST FOR “CORRIERE DELLA SERA”

This billion and a half euro included the so-called penalty for not having bought FIAT Auto. It also included the conveyance, the sharing by FIAT Auto of an entire series of technologies with General Motors. In particular it meant sharing the multijet engine, which is a jewel of FIAT technology. Let us say that while on the one hand Marchionne brought the penalty home, on the other, in order to put an end to negotiations, he had to give up some technology.

GIOVANNA BOURSIER V.O.

Having given away the best, it then became complicated to improve FIAT Auto and the billion and a half did not balance the books. It was 2005 and the loans the banks had made to FIAT three years earlier were coming due. And the operation became better known as ‘converting worth 3 billion.’ The brains behind the operation were Matteo Arpe, at the time CEO for Capitalia.

GIOVANNA BOURSIER

If FIAT had not had the loan, would it have gone bankrupt?

MATTEO ARPE – PRESIDENT OF THE PROFILO BANK

It was difficult, as frequently been the case in the past; I saw two such events when I was at Mediobanca and one when I was at Capitalia. It was a time of financial crisis. I wouldn’t speak of bankruptcy, but a serious financially tense situation.

GIOVANNA BOURSIER V.O.

Seven banks took part in the rescue operation. Along with Capitalia, there were San Paolo, Intesa and Unicredit. They lent 3 billion, but if FIAT did not pay back by September 20th, 2005, the loan would have been converted into shares. They also imposed a series of conditions.

MATTEO ARPE - PRESIDENT OF THE PROFILO BANK

In exchange, FIAT was asked to sell assets not linked to car-manufacturing, in particular they were asked to sell FIAT Avio and Toro. Thus in the agreement of the ‘conversion’ there was a commitment to sell these two companies as later happened. The second condition was new management so as to be able to relaunch the car sector.

GIOVANNA BOURSIER V.O.

In the end, Marchionne was not able to turn things around and had to convert, a risky operation for the banks, because the agreement established a price of

10.28 euro a share, while the market value was 7 euro a share. The overpricing brought FIAT 858 million euros, which were added to the 2005's balance sheet as "atypical financial revenue."

ALESSANDRO PROFUMO – UNICREDIT'S FORMER CEO

However, the correct reasoning was that we had credit with FIAT and if FIAT had problems, how much would it have repaid? Would it have paid back 70%? Because we are talking about 7 out of 10 euros, correct? Or not? I don't think so; therefore at the end I am convinced that the "conversion" was an intelligent operation from the banks' point of view.

GIOVANNA BOURSIER

Better to get something back than nothing at all?

ALESSANDRO PROFUMO – UNICREDIT'S FORMER CEO

Better to get 70%... after which, obviously, there was a problem. How was FIAT's ownership organized? Because to retain more than 30%, the family later had to act and IFIL, Exor today, had to make further investments.

GIOVANNA BOURSIER V.O.

To prevent the banks from having a majority, IFIL bought from Merrill Lynch FIAT shares that had been acquired on the markets. It was a sophisticated financial operation, but not a transparent one, and that cost Gabetti and Grande Stevens a 6 million euro fine from Consob. After having converted, the banks got out, and whoever sold first, lost money.

MATTEO ARPE - PRESIDENT BANCA PROFILO

We decided not to get out right away, in the sense that when the loan was converted into capital, we immediately lost over 120 million euro. We therefore decided to sell slowly, over a very long-term. The share prices later had a strong recovery and therefore, at the end of the conversion, after all the shares were sold, we made a significant profit of about 150 million.

GIOVANNA BOURSIER V.O.

So FIAT survived thanks to finance rather than because of its products... today they have about 200,000 employees worldwide and 80,000 in Italy, plus satellite industries, which in Piedmont alone means 100,000 people and 880 companies. One of the suppliers is the president of the small businesses association.

GIOVANNA BOURSIER

Does one have to pay to become a FIAT supplier?

FABRIZIO CELLINO – PRESIDENT API

No, what I can tell you is that in the various negotiations, as happens with foreign commissions, there are evidently multi-year agreements involving reduced demand. Now these reductions can be the result of reductions in our price list, which is more normal, or in other cases take the form of a bonus.

What I mean is, instead of taking 1%, 2% off the list price, perhaps because of increases, rises in volume or turnover, at the end of the year I will take into account this 1%, we don't take it off the list price, but we pay it as a bonus to the buyer. This is what happens. I, FIAT, tell you, that at the end of the year I will work out what I have given you in terms of work, 10 million euro worth for example, and you give me 2% of 10 million euro, which amounts to 200,000 euro. I write you a check. This is the bonus.

GIOVANNA BOURSIER

But who to?

FABRIZIO CELLINO – PRESIDENT API

To FIAT purchases. I write a check to FIAT Spa. At times, I have heard it said that it is necessary to pay to become the supplier of a company, but personally I have never experienced this. If, for example there is new business worth 3 million euro, then one would call for a bid, so to speak. That would include saying, "in addition to the price for this supply contract, can you let me know what the bonus is?" I am not saying that I like this system, but it is part of how business is done and one is free not to accept it.

GIOVANNA BOURSIER V.O.

There are people who have gone out of business this way. Let's talk about sub-suppliers and consultants who supposedly ask for a percentage for finding contracts for you.

MAGNETI MARELLI SUB-SUPPLIER

One entrust a number of people one considers honest, who are former employees or are receiving a pension, who act as go-betweens for those still on the inside and those who have to work to survive, procuring work that does not make a profit anyway. So they are already including percentages for themselves. After two or three years you realize what you've done and you discover that the only ones who made any money are these people and all you have are debts. And they call it consultancy...

GIOVANNA BOURSIER

I don't understand that. They want a percentage for themselves?

MAGNETI MARELLI SUB-SUPPLIER

Absolutely.

GIOVANNA BOURSIER

How much do they ask for?

MAGNETI MARELLI SUB-SUPPLIER

In a case of one of these agencies, the consultancy fee was 6% plus a fixed fee of 3,500 euro a month.

GIOVANNA BOURSIER

Under the table?

MAN

No, they are organized with invoices and the lot. Everything is totally in order and it's very unlikely that things go wrong, they are extremely well organized. It's all totally wrong, but the form is in order. These are consultancy companies. All you have to do is not use them and you'll be fine. The problem is that one needs to work and so, just like everything else, one looks for contacts.

GIOVANNA BOURSIER

But if a supplier offering items at a discount, in order to get the work, then has to pay you, as happens with a bonus, the quality of FIAT products could decline.

FABRIZIO CELLINO – PRESIDENT API

What I can tell you is that nowadays we find it necessary to lower prices in order to get more work, and in the long run this must be difficult for small and medium-size companies. I have to say that I think there are small and medium-size companies that lower their prices beyond what they should, dumping, in a manner of speaking, in order to stay afloat.

MILENA GABANELLI IN STUDIO

FIAT says that it "deals directly with its suppliers and excludes relations with possible intermediaries, while it confirms the practice of discounts in the form of bonuses to be paid back with a cheque, to re-establish the economic balance of the agreement." ... accounting mysteries. The fact remains that the product isn't selling and now we are at a crossroads. On the one hand there are 60,000 employees who, in order to keep their jobs, have been obliged to accept harsher conditions, and on the other hand FIAT has become larger with Chrysler. Marchionne has always said that the alliance with Chrysler would bring a new glorious age for FIAT. Not only will he have saved jobs, but will have created new ones. Let's try and understand how, by going to America, we become great over here... the operation began in 2009 and Chrysler had just come out of bankruptcy and was beginning to reorganize, which means the company needed money and a partner. The American and Canadian governments lent the company 7.5 billion and the partner was FIAT.

BARACK OBAMA

FIAT has committed to build new fuel-efficient cars and engines right here in the United States. We have also secured an agreement that will ensure that Chrysler repays taxpayers for any new investments that are made, before FIAT is allowed to take a majority ownership stake in Chrysler.

GIOVANNA BOURSIER V.O.

FIAT does not put up a penny. It enters Chrysler with a 20% share by providing its technology, and to reach 35% it must provide more technology, open the Brazilian market to Chrysler and manufacture a fuel-efficient car in

the United States. And after paying back Obama, FIAT's share of Chrysler will be allowed to rise to 51%.

MASSIMO MUCCHETTI – JOURNALIST FOR THE "CORRIERE DELLA SERA"

Marchionne's FIAT joined Chrysler, a new Chrysler. The American government did with Chrysler something not dissimilar to what the Italian government did with Alitalia. It took over everything, or shall we say, not everything, it took a large part of all that was rotten in Chrysler and left it in the old Chrysler that was put into bankruptcy, and then the government committed to pay out two or three billion dollars. What is left is a new Chrysler, lighter with fewer employees, fewer plants, fewer debts, and a company in much better shape. In addition to this, the American and Canadian governments allocated the new Chrysler restart loans worth about \$7 or \$8 billion. The governments helped out at very high interest rates, which are high because no one else would have lent them a penny.

GIOVANNA BOURSIER V.O.

The largest shareholder in Chrysler, now run by Marchionne, is the American union, with 63% of the shares. It means that the workers have put their health funds and pensions in the company. They hope they will put the company back on its feet, list it on the stock market and recover their money. For this reason they have agreed to very tough conditions, lowered salaries and longer shifts.

GIULIO SAPELLI – ECONOMIST

In the United States the working class considers itself the middle class, and that is why it is prepared to invest money to keep the factory going. The Americans have done their duty, mainly because American unions are serious, or they would not have invested all their pension funds to save the company. This led to the 'magic' involving the appearance of a certain Mister Marchionne, and after a few years we would find out where this all really started. They were also trying to do favours for the Agnelli family, but not simultaneously completely destroying FIAT.

GIOVANNA BOURSIER V.O.

Marchionne was born in Chieti in 1952. When he was 14, his family moved to Canada. He has three degrees, one in Law, one in Economics and one in Philosophy. His first job was with Deloitte's, and then he worked for Lawson Mardon, a Canadian multinational packaging firm. In 1993 he moved to Zurich and became the CEO for the metal-chemical company, Alusuisse Lonza Group. He did a term with UBS and then SGS, an assessment and verification company part-owned by the Agnelli family. It was Umberto Agnelli who brought him to FIAT in 2004. He works 18 hours a day and boasts that he has never asked for public funds.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Luckily, thanks to our capabilities, intelligence, and a stroke of luck, we have never had to ask for any money from anyone, have we? Then came the

financial disaster that brought everyone to their knees. FIAT survived on its own merits, without help from anyone, it never went to the government, it raised money by itself, and did everything by itself. Instead of beating up FIAT from morning to night, will you give the company some credit for ability?

GIOVANNA BOURSIER V.O.

To be precise, Marchionne's FIAT benefited from state incentives throughout 2008 and 2009. In fact, in 2010 without these incentives, sales in Europe fell by 23%. For at least 10 years FIAT has only been posting profits in Brazil and Poland where production costs are lower. In Europe FIAT only has 7.5% of the market, but the objective of the alliance with Chrysler is to produce six million cars in the world.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Which we can accomplish together with Chrysler.

GIOVANNA BOURSIER

Will you be able to produce six million cars?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Yes, in 2014.

GIOVANNA BOURSIER

With these models?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

With these and others we are planning.

GIOVANNA BOURSIER V.O.

You are planning 34 new models.

GIOVANNA BOURSIER

How many have you brought out so far?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I don't know, last year we presented 16 just with Chrysler.

GIOVANNA BOURSIER

But do you think you can sell these cars, they're all American, can you sell them in Europe?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

The one you're leaning on is completely European.

GIOVANNA BOURSIER

But aesthetically the others look a little like American cars.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

To me instead they look European.

GIOVANNA BOURSIER

You're telling me that FIAT will grow by 64% in a European market that is growing by 15%?

ALDO ENRIETTI – TURIN UNIVERSITY

Exactly. So this, if one reasons on the figures, this means that that FIAT will take market share from competitors, it can only be like this. So, if we meet again in a few years, we will see what has happened. It certainly poses some problems.

GIOVANNA BOURSIER V.O.

The Volkswagen model proves that crisis or no crisis, by relying on the product, one continues to sell. In the first few months of 2011 the company has had 17% growth.

JOCHEM HAEIZMANN – BOARD MEMBER, VOLKSWAGEN_

Last year we sold 7.2 million cars. That was the best result ever achieved in the history of our company.

GIOVANNA BOURSIER

But does this means that you have done what Marchionne wants to do in the next few years?

JOCHEM HAEIZMANN – CEO VOLKSWAGEN_

Well, I do not wish to talk about FIAT. We have a growth strategy that aims to improve the quality of our products, to arrive at a production quota of 10 million cars in 2018, thereby increasing profits by 8%.

GIOVANNA BOURSIER V.O.

Volkswagen has incorporated Audi, Skoda, SEAT, Bentley, Lamborghini, Bugatti and this year will complete its partnership with Porsche.

GIORGETTO GIUGIARO – ITALDESIGN

I did a great deal for FIAT, more than I have done for Volkswagen, but when Marchionne came along he forgot all about me. But not just about me, about the company.

GIOVANNA BOURSIER V.O.

In May VOLKSWAGEN bought the Giugiaro brand name, which means they bought one of Italy's greatest Italian designers. They designed, for example, the Uno, the Panda, and the Punto.

GIOVANNA BOURSIER

Why did you choose to go with VOLKSWAGEN?

GIORGETTO GIUGIARO – ITALDESIGN

Excuse me, if in four years, five, since Marchionne came along, I restyled the front of one vehicle, as my product research for four years, I did nothing. Therefore for FIAT, I was already dead. So, if Germany has the VOLKSWAGEN Group and makes us an offer to join this great collection of brand names, one can have fun. This allows us to work with a degree of security, knowing that this group will not have financial difficulties.

GIOVANNA BOURSIER – V.O.

The Wolfsburg Group had profits of 7 billion in 2010 and in the next five years is planning to invest at least 50 billion in its products.

GIOVANNA BOURSIER

Will you leave just a bit of the European market for FIAT, which needs it so much?

JOCHEM HAEIZMANN – CEO VOLKSWAGEN_GROUP

No, now excuse me. I'm late and I must leave... OK?

GIOVANNA BOURSIER

How can you increase sales in Europe with a crowded market and Volkswagen not leaving you even a corner...?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

We will continue to compete, as we have done up till now.

GIOVANNA BOURSIER

But up to now things haven't gone that well. The market is more Volkswagen's than FIAT's.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

You are absolutely right.

GIOVANNA BOURSIER

I'm right? And so? Where will you sell these cars?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

To people who want to buy them.

MAURO COPPINI – FORMER EDITOR-IN-CHIEF FOR QUATTRO RUOTE

The problem is that it is an incomplete product, inasmuch as the range of products is incomplete. And today in such a competitive market, it is hard to move ahead.

GIOVANNA BOURSIER

But Marchionne said, "I will come out with 34 new models in five years." Will that put him back in the game?

MAURO COPPINI – FORMER EDITOR-IN-CHIEF FOR QUATTRO RUOTE

He takes the Chrysler models, which are typically American and tries to bring them to Europe, for example as he did with the Lancia brand. It's something that rarely works. These are cars made with completely different standards. In the United States the 300C, which will be the new Thema, is not a luxury car. It's a car that sells for \$20,000, about 16-17.000 euro. Here it will cost 40-50,000 euro. These are short-cuts he has to take, but these are short-cuts that won't take him very far.

GIOVANNA BOURSIER V.O.

FIAT is making a profit in Brazil and Poland, where labour costs less and one can produce more. But here it is necessary to take into account Mirafiori, Cassino, Melfi, Pomigliano and Termini Imerese. Marchionne has promised investments worth 20 billion, but wants to go from producing 650,000 cars to 1.5 million by 2014.

MASSIMO MUCCHETTI – JOURNALIST FOR THE "CORRIERE DELLA SERA"

Yes, it was highly emphasised, and as far as I'm concerned in a demagogic and distorted manner, using the number of vehicles produced at Pomigliano rather than at Mirafiori, then comparing them to those produced in Poland at the Tichy plant, or Brazil. Let us be careful when we talk like this, because it is true that in Italy there is a productivity problem that needs improving, but it is also true that those are not the terms, because if at Pomigliano one has for example 40 weeks of redundancy payments in a year, well it's obvious that not a lot of cars are being made. And why are there so many weeks of redundancy at Pomigliano while three years ago this didn't happen? Because three years ago Pomigliano produced cars for a market that no longer exists, so no cars are now made. Production of the only models that FIAT sells reasonably well in Italy and Europe has in the meantime been concentrated in Tichy.

GIOVANNA BOURSIER V.O.

So as to return production to Italy, FIAT closed its factory in Termini Imerese, with its high transportation costs and running at a loss, promising to invest 650 million in Pomigliano, formerly Alfa Sud, to build the Panda, which is now made in Poland. But to do this FIAT requested longer shifts, a faster work pace, more overtime and fewer breaks.

WORKER

Everybody needs to work... with 1,200 euro a month I have to pay a mortgage, I pay 500 rent and have 700 euro left. I can't go on living like this. Unfortunately we all accepted the deal...

WORKER

There's no choice, I need a job... and we have to work.

GIOVANNA BOURSIER V.O.

Changing the labour contract was the condition for moving Panda production from Poland to Italy. The trade-unions have accepted it, except FIOM.

MAURIZIO LANDINI – SECRETARY FIOM

This happened because, the worker was told, 'say yes or the factory closes' and we are now faced with a serious deterioration of working conditions; fewer breaks, if you get sick you don't get paid and if you strike, you can be fired. This is unheard of in Italy and Europe.

GIOVANNA BOURSIER

What about the investments you have been guaranteed?

MAURIZIO LANDINI – SECRETARY FIOM

Those are statements, but there is nothing written in the agreements signed by the other trade-unions about how much will be invested.

RAFFAELE BONANNI – SECRETARY CISL

We were faced with a company that just needed its obituary written. At that point, faced with a possible partnership with the Americans, and an extension of our commercial network and a ranking mechanism that would be created, and with guarantees of maintaining employment levels and even salary increases if efficiency rose, we entered an agreement.

GIOVANNA BOURSIER V.O.

The unions were split, and the workers voted. In June 2010, 64% of the workers voted that they agreed with Marchionne, with 36% voting against. In January, they voted in Mirafiori.

**SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER
ON TG1 10 January 2011**

One of the important objectives for Mirafiori is for the plant to become a production centre for Italian exports to other countries, also America. There would even be room to add more employees.

GIOVANNA BOURSIER V.O.

For Mirafiori's 5,600 workers, Marchionne has promised a 2 billion euro investment to manufacture SUVs and Jeeps for export, also to America. For now, Mirafiori has rotating collective redundancies.

GIOVANNA BOURSIER

How much do you earn?

WORKER

Normally I make around 1,300 euro, full time, but with redundancy, I get 950.

GIOVANNA BOURSIER

But now with the new contract?

WORKER

They're really not giving almost anything away, because the money they say

they're giving us is all for overtime, you work on Saturdays, at night.

GIOVANNA BOURSIER V.O.

Marchionne is determined, he has promised investments and jobs, but no more national contract, FIAT leaves Confindustria, and if you don't sign you're fired. FIAT has set the vote for January 15th, and the workers are under pressure.

GIOVANNA BOURSIER

You mean because FIAT has left Confindustria?

FEMALE WORKER

It is true that some things have changed, but the assembly line is still hard work because the pace has increased...

FEMALE WORKER

Okay, I mount the wind screen valence panel, it's a plastic gasket that goes between the body shell and the windshield and I mount it like this... because one must bear in mind that the engine compartment is here and I have to keep walking, because the assembly line moves for one minute and 22 seconds during which I am in this position. I close it; I pick up my box, my screw driver and move on to the next car... I do this for 292 cars.

GIOVANNA BOURSIER

How many hours do you do this?

FEMALE WORKER

Seven hours and 50 minutes if you count my lunch break.

GIOVANNA BOURSIER

What has changed now?

FEMALE WORKER

What's changed is that the 10 minute changeover is important because I can straighten my back.

GIOVANNA BOURSIER

Did you ask worker to vote 'yes' in the Mirafiori referendum?

SERGIO CHIAMPARINO – MAYOR OF TURIN

Of course.

GIOVANNA BOURSIER

Do you really believe in this type of industrial relations and in what Marchionne wants to accomplish?

SERGIO CHIAMPARINO – MAYOR OF TURIN

First of all as Mayor of Turin, I cannot allow the area to lose almost 2 billion euro's worth of investment in this sector. Second, I don't think it's blackmail,

because I believe there is an immense competitiveness problem in Italy.

MILENA GABANELLI - STUDIO

In the mean time the process that is leading to a merger with Chrysler is moving ahead, and the United States is counting on our technology to produce low fuel consumption cars. In the meantime, 2 billion euro worth of investments have been promised for Mirafiori to manufacture SUVs as well as 20 billion for the whole country. In exchange sacrifices have been asked. To make back the money of the investments made, the factories have to work at full capacity. Who will oblige Marchionne to keep his promises? For now we are dealing with intentions and we must take him at his word. Even credibility requires a good deal of sacrifice. We will be back after the break.

MILENA GABANELLI - STUDIO

A few days ago Sergio Marchionne warned trade unions at the former Bertone plant that they must follow Mirafiori's example or there will be no 500 million euros to produce Maserati SUVs and the 1,000 workers who have been on redundancy wages for six years will lose their jobs. Either they accept an increase in pace, shorter breaks, compulsory triple overtime and restrictions to the right to strike, or FIAT will leave. In January the Mirafiori factory workers were called to vote. In Detroit, FIAT's president, John Elkann, said, "they are voting whether to work or not." Embarrassed, in an interview on Tg2 he felt unable to explain where, or if, FIAT will continue to manufacture cars in Italy. This interview was never broadcast.

FROM TG2 OF 10 January 2011

QUESTION

Do you really think that there are some people who don't want to work?

JOHN ELKANN – PRESIDENT FIAT

I think that the answer is that one must understand the conditions that one can work under. One must be ready for these. I would prefer you to cut this, because the manner in which you posed the question was leading to the usual discussion about FIAT not wanting to be in Italy and with Elkann saying, those who wants to work, etc...

QUESTION

Okay, let me pose the question again in what is perhaps a better manner. Is FIAT's heart half American and half Italian, or in what percentages?

JOHN ELKANN – PRESIDENT FIAT

That's a different question. No, but these are questions that are always then taken the wrong way. Having posed a question like that, I can't adequately present any answer I provide you with. The fact is that to work well, you must do so under certain conditions.

GIOVANNA BOURSIER V.O.

On January 15 vote counting was followed until late at night... The 'yes' vote

won with 54%... FIOM is out of the factory and turns to the courts... the government has not said a word.

GUSTAVO ZAGREBELSKI – CONSTITUTIONAL EXPERT

A change of this kind, in my opinion, should have necessarily have involved local and national government authorities, because it is an issue the terms and repercussions of which cannot be restricted only to the two signatory parties.

GIOVANNA BOURSIER

If I understand properly, if a worker violates the agreement, the company is in charge and can even fire him, but if the company violates the agreement?

GUSTAVO ZAGREBELSKI – CONSTITUTIONAL EXPERT

There is no third party involved, and in particular there is no way you can turn to the courts. Do you honestly think you can go to a judge who can force the company to make that particular investment? What do you think would happen in a case in which FIAT says that international conditions will not allow the company to keep faith with declarations of intent?

GIOVANNA BOURSIER V.O.

It already happened with the 2006-2010 plan. "We estimate sales of 600,000 between Alfa and Lancia." Then sales amounted to 200,000. In Pomigliano in 2006 the company said, "We will manufacture SUVs," instead there was redundancy. Now their intention is to make SUVs at Mirafiori.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I think it is totally absurd to come and debate our accounting, with a market that has vanished in America, an incredible global automobile crisis, with the problems that Toyota and all the other manufacturers have experienced. If you want to, go ahead, we have to press ahead and continue with our strategic development. It is not that these questions embarrass FIAT. FIAT knows exactly what it is doing.

GIOVANNA BOURSIER

You don't like unions. Why don't you like unions?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I am not against unions. Look, I am simply trying to update the way in which we manage our factories in Italy, to make them competitive and bring them up to world standards, not those of the Chinese or the Indians, but to the way in which factories are managed in Germany or the United States, thus, where we have experience.

GIOVANNA BOURSIER V.O.

Right now the average monthly wage for an Italian worker is 1,200 euro; the average wage for a worker in Germany is 2,500 euro. There is only one union, IG Metall, which has representatives in the council that supervises management and labour contracts.

JOCHEM HAEIZMANN – BOARD MEMBER, GROUP VOLKSWAGEN

During the crisis in the 1990s, we asked the unions to move to a four-day work week. Business picked up as our models became popular and we recently returned to a five-day working week, also increasing overtime. Both the reduction and the increase in hours proved possible without much disagreement between the parties. It's clear that to be successful, you have to organize production in this manner, a success we want all our employees to participate in.

GIOVANNA BOURSIER V.O.

In 2008 Volkswagen workers were given a 3,700 euro bonus and this year they were given a one-off payment of 500 euro. Marchionne has not promised Italian workers to increase pay from 1,200 euro to 2,500 euro like the Germans, but he is ready to concede increases if all labour contracts change.

GIOVANNA BOURSIER

Based on these labour conditions, you have now signed contracts in two factories.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

And this is already a great step forward.

GIOVANNA BOURSIER

Isn't it enough?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, because there are other factories in which the issue must be addressed?

GIOVANNA BOURSIER

And which ones are they?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Let's see, two factories, Cassino...

GIOVANNA BOURSIER

One is Bertone, one is Melfi.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Then there are three, Cassino, Melfi and Bertone.

GIOVANNA BOURSIER

So this is the way to increase car sales?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, you increase sales by making cars people want to buy. But to make them competitive from a cost point of view, you have to be able to manufacture them.

GIUSEPPE BERTA – UNIVERSITY BOCCONI

I don't think we're dealing with a manager. Marchionne's ambition seems to me to be that of an entrepreneur, because his range of action is more than that of just a manager and, thanks to the authority given to him by the president of the United States, I think that Marchionne wants to consolidate this margin of action, he has an ambition that is not that of a manager, but of someone who founds and refounds, chose your own words, a new kind of business.

GIOVANNA BOURSIER V.O.

Effectively, in 2014 when his shares and stock options come due, and FIAT may have 51% of Chrysler, Sergio Marchionne could become the second largest FIAT shareholder after its president, John Elkann.

GIUSEPPE BERTA – UNIVERSITY BOCCONI

Exactly, exactly, I think he will become a shareholder. Not a controlling shareholder, but he could have that share base that validates his role as an entrepreneur.

GIOVANNA BOURSIER V.O.

His average wage is 4 million a year, excluding severance pay. Take into account shares and stock options, after seven years at the top of the company he will have made 250 million, 38 million a year.

GIOVANNA BOURSIER

How much did you make? Four million euro a year? In other words, 8 billion, when there was the lira, excluding stock options and...?

CESARE ROMITI – FORMER FIAT CEO AND PRESIDENT

No, I never did... at the time, I always refused to take stock options and this is well known, I have said so many times, I find them damaging. I, who had all the power in the company, because Agnelli made me CEO, actually he gave me all the power, I told him one simple thing, "Avvocato, every morning I make dozens of decisions. I don't want to have stock options, I want to decide normally trying to do the best I can, but without having to be influenced by stock options."

GIOVANNA BOURSIER

What was your monthly salary?

CESARE ROMITI – FORMER FIAT CEO AND PRESIDENT

I don't remember!

GIOVANNA BOURSIER

I cannot believe that you don't remember!

CESARE ROMITI – FORMER FIAT CEO AND PRESIDENT

I don't know, I never looked, I don't remember.

GIOVANNA BOURSIER

Roughly, Mister Romiti...

CESARE ROMITI – FORMER FIAT CEO AND PRESIDENT

I'll try, I could be mistaken, I am very grateful to FIAT.

GIOVANNA BOURSIER

In any case, a good manager is well paid?

CESARE ROMITI – FORMER FIAT CEO AND PRESIDENT

Of course.

GIOVANNA BOURSIER

Very well paid.

CESARE ROMITI – FORMER FIAT CEO AND PRESIDENT

Of course, of course.

GIOVANNA BOURSIER

Therefore a 4 million euro yearly salary is not an exaggeration.

CESARE ROMITI – FORMER FIAT CEO AND PRESIDENT

These are your words, I was not paid that amount, I was not.

MILENA GABANELLI - STUDIO

However, he received 101 billion lira severance at age 75! Perhaps for this reason he has forgotten what his salary was! Marchionne's salary, on the other hand, is well known, about 4 million a year plus shares, as well as stock options, that is a lot of money, but he may even have earned it because his work is serious. He must drag companies out of the situation they are in and on the other side of the table many of the unions have lost their credibility. Then there are those who just want to know things which not even he is capable of saying. The fact is that today there are more than 10,000 workers on redundancy benefits that we are paying for and it is not their fault if the product they are manufacturing doesn't sell. And now he's telling those who work on the assembly lines, "you can stand up straight when I say you can" or to a man who is supporting his family on 1,200 euro a month, who has paid his 20% tax without being able to deduct a euro, "meet me half way and together we will make many beautiful things." When the captain asks for sacrifices, to be believable, he should also be ready to make some sacrifices himself.

GIOVANNA BOURSIER

But is it true you live on airplanes?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, you are exaggerating a little.

GIOVANNA BOURSIER

Tell me where you live.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Everywhere, look, I travel all the time. I've been a Swiss resident for many years and lived there before I came to work in Italy in 2004.

GIOVANNA BOURSIER

Where?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

In Switzerland, these are personal matters, it's no use you asking me, I don't ask you where you live.

GIOVANNA BOURSIER

But I'll tell you, my fiscal residency is in Italy.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I've been a resident in Switzerland for years, so it's useless for you to try and change...

GIOVANNA BOURSIER

But you're a resident of Zug?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I've always lived in Zug.

GIOVANNA BOURSIER

Zug?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Always!

GIOVANNA BOURSIER V.O.

For the past eight years Marchionne has been the CEO of FIAT, but he doesn't live in Italy. He has a house in Toronto, in Detroit... and one in Switzerland, where taxes are lower. But in Switzerland, Marchionne is resident for tax purposes in the German-speaking canton of Zug, which is even more convenient. The tax rate here is 23%.

GIANNI BOMIO – ADMINISTRATOR OF THE CANTON OF ZUG

We are really number one for everyone, for people who make a lot of money and people who earn less, but I think Switzerland has advantages compared to Italy.

GIOVANNA BOURSIER V.O.

This is Marchionne's house in the village of Walchwill.

GIOVANNA BOURSIER

Good morning, do you live here?

WOMAN

Yes.

GIOVANNA BOURSIER

Do you know who lives in this house?

WOMAN

Oh... no. I don't know anything.

GIOVANNA BOURSIER

The CEO of FIAT, the big Italian company...

WOMAN

Yes, I know, but we don't willingly talk about these things.

GIOVANNA BOURSIER

Do you know Marchionne?

MAN

Never heard of him.

GIOVANNA BOURSIER

He lives in this house.

MAN

Why should I know him?

GIOVANNA BOURSIER

He's FIAT's CEO.

MAN

WOW!

GIOVANNA BOURSIER V.O.

The canton of Zug is becoming a place of fiscal residents; there are more mail boxes than inhabitants, frequently for companies, but also for individuals. The people in Walchwil complain that house prices are rising.

WOMAN

Ordinary people can no longer buy houses here, and the politicians don't do anything. They're happy that rich people come here bringing the tax that they don't pay in their own countries.

GIOVANNA BOURSIER V.O.

There's no one in Marchionne's house...

QUESTION

To enjoy these advantageous tax conditions, is it necessary to actually live in this canton or is it enough just to be a resident?

GIANNI BOMIO – ADMINISTRATOR OF CANTON OF ZUG

You have to live here, they check to see if you actually live here. Normally you have to spend half of the year in Zug and if someone is absent for months, the office finds out.

QUESTION

And what happens?

GIANNI BOMIO – ADMINISTRATOR OF CANTON OF ZUG

If someone is actually not in Switzerland, he can lose his residence permit.

QUESTION

So the canton sends the police to the front door to see if Marchionne lives here, I don't think Marchionne is here six months out of the year?

GIANNI BOMIO – ADMINISTRATOR OF CANTON OF ZUG

This is the way it is. When you go to the Immigration Office you can say, "I have a job that keeps me travelling 300 days out of the year, then we can discuss things, we always assess the situation."

GIOVANNA BOURSIER V.O.

The situation is that for tax purposes Marchionne lives in Walchwil, but he owns another house in the canton of Vaud, at Blonay, a half hour from Geneva. Here they say he bought a home in 2007 and his ex-wife and two children live there. It is a typical chalet of the area, entirely built in wood with gardens and a tennis court. Marchionne preferred to choose an Italian company, which, according to the unions, underpaid its gardeners. On this Swiss law is strict.

ALDO FERRARI – SECRETARY UNA

These gardeners were paid Italian wages. Clearly Italian wages are much lower than Swiss wages. He should have paid them double, therefore...

GIOVANNA BOURSIER

This means that you can bring in who you want to put your grounds in order.

ALDO FERRARI – SECRETARY UNA

No problem.

GIOVANNA BOURSIER

But you have to pay them according to Swiss rules since the work is done in Switzerland, because you have a home there?

ALDO FERRARI – SECRETARY UNA

Exactly.

GIOVANNA BOURSIER

And therefore

ALDO FERRARI – SECRETARY UNA

And therefore they had paid only half the amount and the Italian company had to make up the difference.

GIOVANNA BOURSIER

So in 2007 he bought this house in Blonay?

ALDO FERRARI – SECRETARY UNA

He bought this house in Blonay and totally restored it, even the exterior, and the part that was done by “Italian” gardeners.

GIOVANNA BOURSIER V.O.

According to the law, if you spend at least 183 days a year in Italy, you cannot pay taxes anywhere else. Your press office told us that when you work in Turin, you stay there at least half of the week.

GIOVANNA BOURSIER

Okay, but how much time does he stay in this house in Turin?

FIAT PRESS OFFICER

He stays here, he stays here! He is right when he says, “I am a citizen so to speak of the world.” He stays four days in Turin. Tonight he is going to his home in Turin. He doesn’t sleep in Geneva; he goes to sleep at his house in Turin. To give you an example, he sleeps there. He takes care of all his possessions at his house, so he has a house, it exists!

GIOVANNA BOURSIER V.O.

It is not easy to understand how much tax is paid in Italy.

GIOVANNA BOURSIER

If it true you are creating the great ‘Fabbrica Italia’, why is it you don’t have a home in Italy and don’t pay tax here? Can you clarify that!

SERGIO MARCHIONNE – FIAT’S CHIEF EXECUTIVE OFFICER

I do pay tax in Italy.

GIOVANNA BOURSIER

No, you don’t pay tax in Italy.

SERGIO MARCHIONNE – FIAT’S CHIEF EXECUTIVE OFFICER

I pay my taxes in Italy and then I pay the difference in Switzerland. I pay my tax in Italy like all Italian workers living abroad, that’s all; I pay tax just like

everyone else.

TOMMASO DI TANNO – TAX ACCOUNTANT

He is subject to a sort of flat 30% withholding tax on all payments received from Italian companies.

GIOVANNA BOURSIER

So that means he pays a flat 30% withholding tax in Italy and then in Switzerland he pays between 15% and 23% in Zug?

TOMMASO DI TANNO – TAX ACCOUNTANT

No, he pays nothing in Switzerland because the dual tax treaty between Italy and Switzerland establishes that in cases such as this one, the tax is withheld only in country where the company making payments is resident, and there is no more to be paid in the manager's country of residence. So he pays 30% tax and that's it.

GIOVANNA BOURSIER

So compared to the 43% tax rate, which is the Italian rate...

TOMMASO DI TANNO – TAX ACCOUNTANT

Were he resident in Italy, or if he spent more than 183 days a year here, then he would pay 43% in Italy. So this person saves 13% by being resident in Switzerland.

GIOVANNA BOURSIER

So, 13%...

TOMMASO DI TANNO – TAX ACCOUNTANT

This applies to money paid by Italian companies, but should the person be receiving other salaries...

GIOVANNA BOURSIER

You mean for example a salary paid by an American company of which he is also the Chief Executive Officer?

TOMMASO DI TANNO - TAX ACCOUNTANT

Perfect. In this case he would pay nothing in Italy since he is resident in Switzerland where he would pay a rate of between 15 and 23%.

GIOVANNA BOURSIER

However, on a 4 million euro salary that 13%...

TOMMASO DI TANNO - TAX ACCOUNTANT

Amounts to 500,000 euro.

GIOVANNA BOURSIER

Not such a small sum? Paid every year...

TOMMASO DI TANNO - TAX ACCOUNTANT

That is the situation, all in his favour!

GIOVANNA BOURSIER V.O.

The Agnellis too have never liked paying tax in Italy, at least not all their taxes. We learned about that from Gianni Agnelli's heir Margherita, who, from Geneva, when her father died, requested information about the foreign assets allegedly managed by Gabetti and Grande Stevens, Maron's tax accountant, and her mother Marella. The story ended up in court, but Margherita lost because it was impossible to trace the trustees for these trusts abroad. Margherita did not give up and reported the matter to the tax authorities and the document went from Turin to the prosecutor in Milan who has opened an inquiry, this time for tax evasion.

VINCENZO CIULLO – MILAN FINANCIAL POLICE

Elements and data have emerged that seem to confirm the suspicion that there are, let us say, financial activities abroad that can be linked to the Agnelli. There are also situations of a criminal nature that concern various people involved in the civil court case in Turin.

GIOVANNA BOURSIER - V.O.

So this is what allegedly happened. There was a Luxembourg company called Exor and in 1998 the Agnelli-owned company Sapaz, using the Luxembourg-registered Giovanni Agnelli International, launched a takeover bid for Exor which obtained a maxi-dividend of about 1.5 billion. Soon afterwards Agnelli emptied Exor, which was worth about 2 billion and, with the anonymous companies, took off with the treasure, but no one knows where. Investigators found 400 million in Lichtenstein, in the Alchione Foundation, headed by Marella who is settling in instalments for about 50 million; another 50 were found in Sapaz, and a further 12 to Margherita.

VINCENZO CIULLO – MILAN FINANCIAL POLICE

There is currently a legal argument between the Internal Revenue Services and the Agnelli heirs.

GIOVANNA BOURSIER

So in some way your investigations have resulted in the Internal Revenue Services recovering tax for the moment and...

VINCENZO CIULLO – MILAN FINANCIAL POLICE

...and could potentially be helpful in the investigation carried out by the Internal Revenue Services.

GIOVANNA BOURSIER V.O.

Investigators are searching for another one and a half billion in Switzerland. Should these suspicions be confirmed, tax evasion would amount to over 250 million. The prosecution has sent the rogatory letters but has been waiting for

a reply for over a year.

VINCENZO CIULLO – MILAN FINANCIAL POLICE

And I have to say that until now...

GIOVANNA BOURSIER

There has been no answer?

VINCENZO CIULLO – MILAN FINANCIAL POLICE

It has already been ...

GIOVANNA BOURSIER

How long?

VINCENZO CIULLO – MILAN FINANCIAL POLICE

Quite a long time

MILENA GABANELLI – IN THE STUDIO

The Agnellis care deeply about FIAT, but one cannot say that they reinvested everything they have earned in the company. Marchionne too says he cares about FIAT. Now, regardless of what is legal and we are certain that he is perfectly in compliance with the law in everything, he does not work in Switzerland, but in Turin and in Detroit. So he should move his residency to Italy or to the United States and contribute like all his employees to the development of the country that hosts the company that pays his salary, by paying all his taxes in one of those two countries, whichever one he chooses. Should he choose Italy the tax would be higher, but he earns a lot. That would be a gesture that would prove that he wishes to serve the company as a whole. The 60,000 workers in Pomigliano, Mirafiori, Bertone and soon also Melfi and Cassino, need to believe that when he says, "I will make investments for 20 billion," it is true and not just a fairytale. The plans for Chrysler are extremely well thought out and there is the risk of feeling excluded. How? We shall learn about that after the break.

MILENA GABANELLI – IN THE STUDIO

On January 1st this year, the FIAT Group was divided into two. On one hand there is now FIAT Industrial, which is doing well since it makes trucks, tractors and industrial vehicles, and it is here that the family holding company Exor is involved. On the other hand there is FIAT Spa, which makes luxury products such as Ferraris, Maseratis, and owns other companies as well as FIAT Automobiles. It is precisely the car sector that is doing less well and has inherited the 2009 alliance with Chrysler. So we have understood that the section doing less well is the one that will attempt a takeover of Chrysler. An independent analyst who has examined the contract explains what this break-up means in practice.

ALFONSO SCARANO

It is obvious that with two separate companies the market will be in a better

position to understand in greater detail the capacity to generate wealth attributable to FIAT Industrial and the capacity of being able to generate wealth or not attributable to the car sector. What is interesting is that in a roundabout way, this seemed a given in this enormous contract signed. Also because rather trivially, the parameter on which the presence of the Chrysler shares is deducted is based on the car sector. This break-up has ensured that thanks to the lowering of this parameter, the famous 'achievement' of buying 51% of Chrysler became far more attractive and therefore less expensive.

GIOVANNA BOURSIER

So the worse FIAT does... the easier the takeover becomes...

ALFONSO SCARANO

That is what is curious in this contract, this is very odd.

GIOVANNA BOURSIER V.O.

The mechanism is a complex one, but for FIAT owning 51% of Chrysler before being listed is extremely advantageous because share prices fall if the FIAT car sector's profit margins fall.

ALFONSO SCARANO

These papers reveal that the worse FIAT does the more attractive the Chrysler deal becomes.

GIOVANNA BOURSIER V.O.

And yet in mid-February when the FIAT Group presented its balance sheet for 2010, the headlines in newspapers read, "profits return," "dividends are back", "debt reduced to half a billion." Less emphasis was placed on the 31 billion financial debt. But there are also 15 billion in liquidity. Are these needed to guarantee the debt or will they be used for the promised investments in Italy?

GIOVANNA BOURSIER

FIAT has debts for 30 billion...

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Not that I am aware of!

GIOVANNA BOURSIER

No? FIAT does not have 30 billion worth of debt. No?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, the group's net industrial debt at the end of December was about half a billion.

GIOVANNA BOURSIER

The group's net industrial debt is about...

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, but you must distinguish. The financial part is the one used to finance both clients buying retail cars, and our so-called dealers or FIAT distributors. We have reached an agreement with the Crédit Agricole so as to have the system's retail part managed and also to finance a number of dealers. When you undermine the group's financial position you are speaking of positions that self-extinguish.

GIOVANNA BOURSIER

They self-extinguish?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Yes, when the client pays, the debt too is extinguished.

GIOVANNA BOURSIER

Where will you get the 20 billion for investments to be made in Italy?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

The revenue becomes available when I sell vehicles

GIOVANNA BOURSIER V.O.

You mean that for the moment the money is not available? In the meantime in America you must respect the stages for the merger with Chrysler. You still have to make the low consumption car that will allow you to reach 35% without paying a single dollar, to then aim for the 51% objective and be quoted on the Stock Exchange.

GIOVANNA BOURSIER

How long will that take? When will you get to 35%?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I have no idea! Hopefully, very soon. We are working extremely hard to achieve that, we need to have approved a 40 miles to the gallon car, with FIAT architecture, so that is a technical objective we must achieve.

GIOVANNA BOURSIER

Can you tell me when you will own 51%? Before or after the shares are listed?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I have clearly stated that it would be preferable to do this before the listing.

GIOVANNA BOURSIER

Because that is less expensive for you?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, because according to the contract my option expires once the shares are listed

GIOVANNA BOURSIER V.O.

If you should not manage to reach 51% repaying the debt to the USA, you can still reach 49% by paying half. Steven Rattner has seen the contracts because he was the White House negotiator for the automobile industry...

STEVEN RATTNER

The price is based on a complex formula and depends on results achieved by Chrysler, the automobile market in general, as well as specific results obtained by FIAT. FIAT can however still move up from 35 to 49% even without having yet repaid America the 7 billion and then later move up to 51%.

GIOVANNA BOURSIER V.O.

So FIAT takes over Chrysler paying very little, but once the company is listed on Wall Street, according to analysts, the group could be worth \$20 billion on the market and FIAT's share would be worth about 10... if it works it is a great financial operation.

ALFONSO SCARANO

I have instead asked myself another question. Why FIAT? I mean could, for example, another group have saved Chrysler? And then there is the fact that by contract the deal is attractive... if in any case Chrysler becomes the best, the healthiest, the most attractive and productive company, the most capable... etc etc, then where will attention be directed if one were faced with two subjects that are in any case in a difficult market that has fewer operational margins? So I told myself that perhaps a German, Frenchman, Japanese or Korean might have had a number of problems in conceiving or drafting a contract for an agreement of this kind, but that's just what I think.

GIOVANNA BOURSIER

When analysing the contract, to say the least, does one becomes suspicious that the operation really is there, in America, Chrysler?

ALFONSO SCARANO

It is rather more than a suspicion

MILENA GABANELLI - STUDIO

Let us summarise the facts. To manage to merge with Chrysler in an advantageous manner it is necessary to manage to manufacture low consumption cars as quickly as possible, then pay back Obama and then get listed on Wall Street. In the United States things are going well, Chrysler has started to sell and Marchionne hopes to complete the takeover before the end of the year. The real problems remain in Italy. So let us return to the last consolidated balance sheet dated December 31st 2010. The figures are complicated but explain a great deal; 31 billion euro of financial debt and 15 billion liquidity. Why not use the liquidity to reduce the debt? Because, says Marchionne, this debt is needed to finance car sales and it self-extinguishes when clients pay their instalments. However, this 31 billion of debt, we read, includes 2 plus 9 billion in bonds, that will have to be paid back to investors when they mature and hence to not self-extinguish. And then we read, 2.3 plus

6.6 billion in bank loans. Passive interest must be paid on this overall debt. Faced with the coexistence of high debt and high liquidity, the question one must ask is, how much revenue does this liquidity provide and what is the cost of this debt? On page 47 of the balance sheet one reads, "In 2010 the FIAT Group's net financial debt amounted to 905 million euro, higher than in 2009 so as to maintain greater levels of liquidity."

So, Marchionne decides to pay 150 million euro more in passive interest to increase liquidity. How does he intend to use it? Not to make the promised investments since when asked he answered, "I find the money by selling cars." So what are these 15 billion, of which 12 in FIAT Auto, really for? To look good? An anomaly that Marchionne should clarify for the financial markets. The fact remains that, for the moment, he is saving American workers and doing his best for the family. But who will save the Italian workers?

GIOVANNA BOURSIER

How much does Exor, and therefore the Agnellis, have in the FIAT – Chrysler alliance?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

That depends on how one does the calculations.

GIOVANNA BOURSIER

You do them, you already have them.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, what is important is what FIAT controls. If FIAT controls Chrysler and, effectively, they enjoy the benefits of what FIAT has, and FIAT will have 51%. So don't make calculations that are really pointless, unless you insist.

GIOVANNA BOURSIER

What I think is that perhaps Exor is automatically diluted by becoming part of a company that is FIAT plus Chrysler, hence it is not true that the family will have 51%, and I think that since the money will be invested by Americans, it is evident that at least the car sector has effectively been ceded, if not sold.

CESARE ROMITI – FIAT'S FORMER CEO AND PRESIDENT

I have taken note of your observations

GIOVANNA BOURSIER

Taken note? Tell me what you think of them.

CESARE ROMITI – FIAT'S FORMER CEO AND PRESIDENT

I have taken note. What is it to do with me? It is what you said.

GIOVANNA BOURSIER

Just tell me if I am talking nonsense.

CESARE ROMITI – FIAT'S FORMER CEO AND PRESIDENT

You never speak nonsense.

GIOVANNA BOURSIER V.O.

Three weeks ago in an interview with the Financial Times, John Elkann confirmed that Exor is ready to dilute by handing part of FIAT over to Chrysler. This would have been an unthinkable choice for the old Agnellis, commented the newspaper... Elkann also said that, "going abroad does not mean reducing our commitment to Italy." We shall see... for the moment the great 'Fabbrica Italia' so often announced by Marchionne, is slowly changing its nationality.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

This is not a question of who becomes Italian and who is not Italian.

GIOVANNA BOURSIER

At the moment the problem is indeed an Italian one.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, because Chrysler is an American company and for the moment is in debt to the U.S. Treasury.

GIOVANNA BOURSIER

But if 51% of that American company belongs to an Italian company does that mean that Chrysler becomes by majority Italian?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

No, the ownership may become Italian but the company will always remain American. This is an important matter and there should be no confusion.

GIOVANNA BOURSIER

If the ownership becomes Italian then why did you pose the problem of the registered office?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

Because, once Chrysler is quoted on the stock market, and will have to be so as to pay off its debt with VEBA, the UAW's trust, that problem will have to be solved. We will have one company listed on the American stock market and one listed on the Italian stock market.

GIOVANNA BOURSIER

And so?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

It is an important question of governance, is it not? I mean we would have two companies doing exactly the same job with two different prices on 2 different stock markets.

RATTNER

It is a question of different proportions and the importance the two companies

have in their respective markets. In my opinion the point is not where the registered offices are, but saving American jobs, that is what I think must be dealt with. So whether FIAT comes in at 20, 50 or 100%, that's fine and is a good thing for Americans.

GIOVANNA BOURSIER V.O.

The Americans quite rightly worry about their jobs, in Italy we make do with promises.

ALFONSO SCARANO

There could also be a scenario in which FIAT becomes a so-called screwdriver company, an assembler. From a certain perspective there appears to be no emphasis on FIAT's growth capacity, its ability to save its plants, or in any case establish industrial continuity in Italy. There is rather a scenario that is more attractive and is attentively observed by financial market speculators, emphasising the great business opportunity in listing Chrysler.

GIOVANNA BOURSIER

In your opinion will FIAT become American?

CESARE ROMITI – FIAT'S FORMER CEO AND PRESIDENT

What do you think? For as long as Agnelli was in charge, and to a certain extent myself, we would never have undertaken operations in which FIAT would be subordinated to another manufacturer.

GIOVANNA BOURSIER

So in the end Marchionne is therefore managing to do what you never managed to do?

CESARE ROMITI – FIAT'S FORMER CEO AND PRESIDENT

I won't answer that!

GIOVANNA BOURSIER V.O.

For now we have heard of negotiations for selling Magneti Marelli or Ferrari, and talks with Volkswagen for Alfa.

GIOVANNA BOURSIER

Listen, will you sell Ferrari?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

My personal Ferrari or the company?

GIOVANNA BOURSIER

I thought you had destroyed yours in a crash? I mean Ferrari...

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I have ordered another and replaced it. No, we are not selling Ferrari. Not for the moment.

GIOVANNA BOURSIER

And Alfa? I know you have been to speak to the Germans.

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

But we Italians talk to everyone, I even spoke to the French today. This does not mean that I am selling something every time I meet with another manufacturer.

GIOVANNA BOURSIER

Do the Germans want Alfa?

SERGIO MARCHIONNE – FIAT'S CHIEF EXECUTIVE OFFICER

I think that we have been brutally clear

GIOVANNA BOURSIER

Do you want to buy Alfa Romeo?

JOCHEM HAEIZMANN – VOLKSWAGEN GROUP CEO

No, no comment at this time.

GIOVANNA BOURSIER

But are negotiations taking place?

JOCHEM HAEIZMANN – VOLKSWAGEN GROUP CEO

No, I really do not wish to comment on this point.

GIOVANNA BOURSIER

No comment.

MILENA GABANELLI - STUDIO

Perhaps not immediately, but in a year or two Alfa could become German and perhaps that is a good thing, what matters is saving jobs. The fact remains that for now we have FIAT-Chrysler guaranteed by a contract in which the American government is personally committed, and on the other we have our own car manufacturing industry guaranteed by unwritten commitments, certain sacrifices and an absentee government. The match Marchionne is playing is a gamble, a very brave and fascinating one, and we hope all works out perfectly. However, we would have more confidence in it if, instead of slide-shows on Italian plants, he would prepare a real industrial plan. This would remove from our minds the idea his head as well as heart have for sometime decided where to go, and will inform us when the time is right. Let us retrace our steps.