



On the road to a bright future

Fiat's industrial know-how, market positioning and development programmes make it one of the world's most solid and competitive groups

It is a global industrial group that designs, produces and sells cars for the mass market under the Fiat, Lancia, Alfa Romeo, Fiat Professional and Abarth brands, and luxury cars bearing the Ferrari and Maserati badges. In addition, as a result of the alliance with Chrysler, Fiat will be able to strengthen its position as a global player.

It also operates in the components sector through Magneti Marelli, Teksid and Fiat Powertrain, and in the production-systems sector with Comau.

Treasury in Fiat is managed in a highly centralised fashion, with direct responsibility over group funding, financial-needs planning, liquidity investments and management of financial risks (foreign exchange, interest rates and commodities). Cash flow is centralised through domestic and international cash-management structures.

Central treasury has the direct responsibility for relations with banks, financial institutions and rating agencies, and provides group business sectors with a full range of treasury services. It operates through Fiat Finance SpA in Torino and a network of regional subsidiaries in Europe, North America and South America.

"UniCredit is among the core-relationship banks in providing treasury services in many specialist fields for Fiat group," says Enrico Zecchini, senior vice president, treasury operations, at Fiat Finance SpA. "It is a wide relationship in terms of product and geographical presence.

"In many fields – funding, investment of liquidity, derivatives, cash management and management of credit risks – UniCredit is an important partner," says Mr Zecchini. "It's a long-standing relationship, both in Italy and internationally as both groups have grown."

It is also a trusted relationship which has stood the test of time. UniCredit,

with its corporate and investment banking services, is a major international financial institution with strong roots in 22 European countries and many territories which overlap with Fiat's geographic business map.

UniCredit's business model is based on a customer-centric approach implemented by a network that operates in multiple markets through deeply rooted local banks. Its extensive expertise in core and emerging European markets leverages the UniCredit group's role as one of the region's leading banks. It provides innovative and efficient solutions in the world of international cash management.

"In Italy, Fiat Finance SpA is the treasury vehicle for all Fiat domestic companies," says Mr Zecchini. "Concerning cash-management operations, Fiat Finance SpA is the sender of all payments and receiver of all collections on its bank accounts, operating on behalf of hundreds of domestic companies in various business sectors."

According to UniCredit's international cash management specialist Luciano Cassiogo, when adopted by Fiat, this model was very innovative compared with more common cash-pooling structures.

"Achieving the technical requirements necessary to make this work offered UniCredit, and other banks, the opportunity to evolve," says Mr Cassiogo. "In fact, Italian standard banking instruments, like those for payment and collection, were unsuited to a centralised treasury, so we had to adapt the instruments to fit Fiat's requirements. Almost all features implemented at this time for Fiat are now included in the most up-to-date Single Euro Payments Area (SEPA) instruments."

January 1 this year witnessed the merger of Fiat SpA and Fiat Industrial



SpA to create two operationally and legally separate groups.

Before the de-merger, Fiat was a combination of two different businesses. On the one hand, there was the automobile and automobile-related components and production systems business; on the other, the capi-

tal goods business, consisting of trucks and commercial vehicles, agricultural and construction equipment, and related powertrain activities.

These are fundamentally different from each other in terms of business cycles, characteristics of their customers and markets, capital requirements, profit margins and returns on capital employed.

Separation of Fiat into two distinct entities has finally enabled the resolution of a strategic issue that had been a thorn in Fiat's side for a number of years. De-merger has provided strategic and financial clarity to both businesses and enabled them to develop strategically and independently of each other.

After the de-merger, Fiat SpA and Fiat Industrial SpA were listed separately on the Milan Stock Exchange, operating as independent companies with their own management teams and boards of directors.

Mr Zecchini says: "Regarding the de-merger, from a corporate treasury point of view, we had the goal that, by January 1, 2011, we needed to have a clear separation and segregation of worldwide treasury activities between Fiat and Fiat Industrial. In other words, the objective was that Fiat Industrial had its own central treasury and would be independent from Fiat Finance with regard to treasury activity.

"The de-merger was announced at the end of April 2010, so the time schedule was tight as the process not only affected Italian domestic operations but also the international operations.

"The decision was taken to create a clone of the current treasury structure and network, along with banking relationships and connectivity. The first step was to replicate the existing Fiat treasury network worldwide as legal entities, starting from the incorporation of Fiat Industrial Finance

SpA and then the foreign network of regional subsidiaries.

"Once this was done, we worked to provide those companies with the current integrated treasury procedures, cash-pooling structures, state-of-the-art security features, automation and connectivity with banks and group companies. As Fiat Finance SpA is a member of the SWIFT SCORE and TRCO (Treasury Counterparty) environment, so it became Fiat Industrial Finance SpA.

"Since January 1, Fiat Finance and Fiat Industrial Finance have had their own source of financing, their own bank relationships and their own approach to capital markets. All inter-company debt has been repaid; all derivatives are in the separate groups of treasuries depending on whether they are hedging Fiat or Fiat Industrial financial risks."

The de-merger presented fresh challenges for UniCredit who had just two months to prepare for the changeover. "We have been able to meet Fiat's requirements without any major issues," says Mr Cassiogo. "But sometimes this has not been easy and we are still working to fix a few minor technical things.

"Overnight from December 31 to January 1, payments and collections had to be switched to a totally separate network of treasuries and, at the same time, all the instructions and receipts sent to the banks had to be sent from a brand new set of treasuries."

Mr Zecchini acknowledges the part played by UniCredit. "Concerning treasury operations, we would not have been able to accomplish the restructuring related to the de-merger without total commitment by all the main bank counterparts among whom UniCredit played an important role," he says.

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