

Why borrow when you can make your own ?
The latest thoughts on optimizing Liquidity Management

25th March 2010



Agenda

- Introduction
- Recent trends and benchmarking
- Building blocks for an optimal liquidity structure
 - Cash centralization
 - Cash utilization
- Considerations and challenges in deploying an optimal structure
 - Market restrictions and practices
 - Aligning infrastructure to requirements
 - Critical success factors
- Conclusion

The intensified Treasury focus on Liquidity continues...

Recent market conditions continue to stimulate even greater Treasury focus on effective management of both liquidity and counterparty risk

Reduced Cost of Funding

- Optimize capital structure
- Capital Planning for large capital expenditures or acquisitions
- Plan cash to return to stakeholders

Provide Liquidity

- Liquidity planning & contingency to withstand economic downturns
- Right mix of cash / financing
- Consolidate positions and reduce trapped cash where feasible

Manage Risk

- Hedge FX, interest rates
- Obtain insurance to reduce operational risk costs
- Monitor / mitigate counterparty, liquidity, and other risks

Higher Option Value Of Cash

Focus on the Treasurer's role as enterprise-wide
"Chief Liquidity Officer"



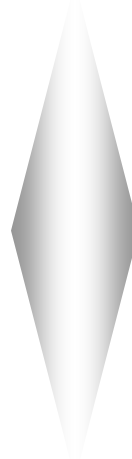
... while global Corporate Finance priorities are in transition

Last year clients focused on preserving capital and building financial flexibility. Today, they are contemplating market expansion and investment opportunities. But, there is a divergence between the strong and the challenged.

In Defensive Mode

Priorities for The Challenged

- Address 2011 refi's early
- Re - equitize balance sheet through equity issuance or asset sales
- Review strategic vulnerability incl. takeover defense



Priorities for The Strong

- Ensure capital buffers are not excessive
- Deploy capital for growth
 - Step up capex selectively
 - Step up capital distributions
 - Exploit peer weaknesses opportunistically (organic, M&A)

Pursuing Growth

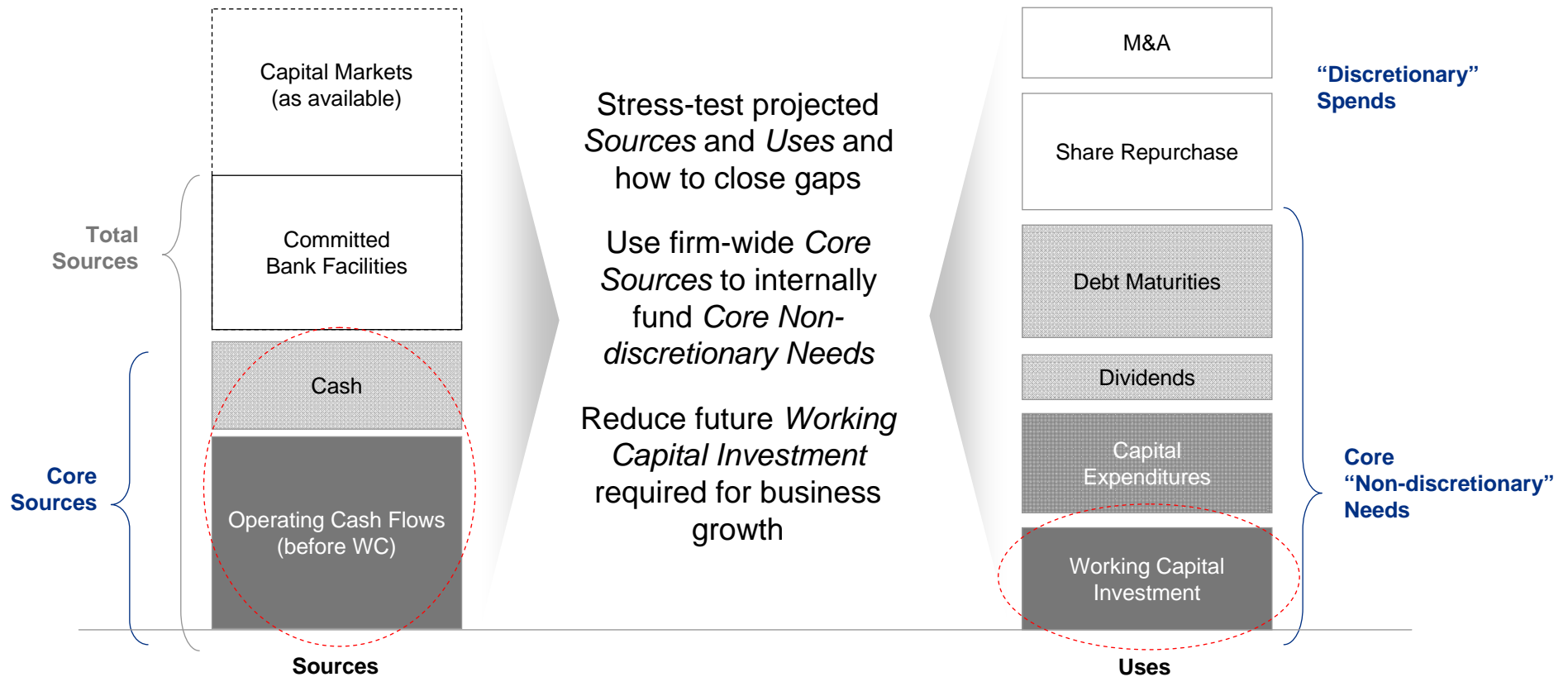
Common Priorities

- Diversify funding / liquidity sources
 - Strengthen risk management
- Improve operational efficiency and effectiveness

Value Creation

The crisis demonstrated benefits of a strategic treasury approach to better match internal sources and uses, reducing reliance on external funding and extracting cash trapped in working capital

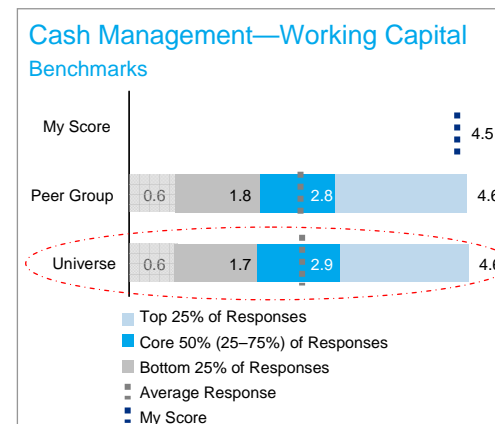
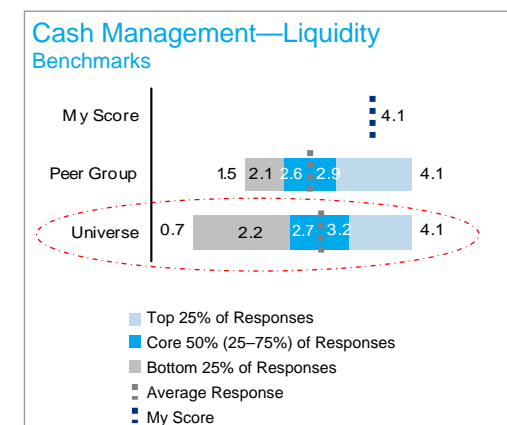
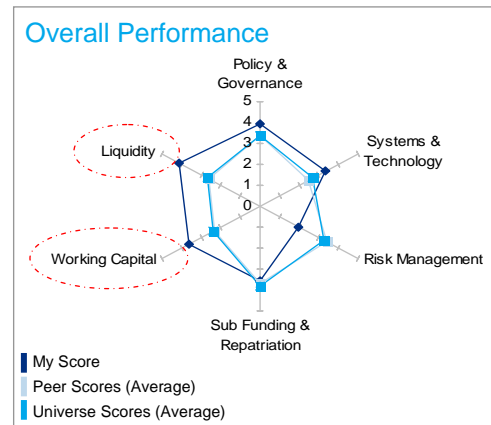
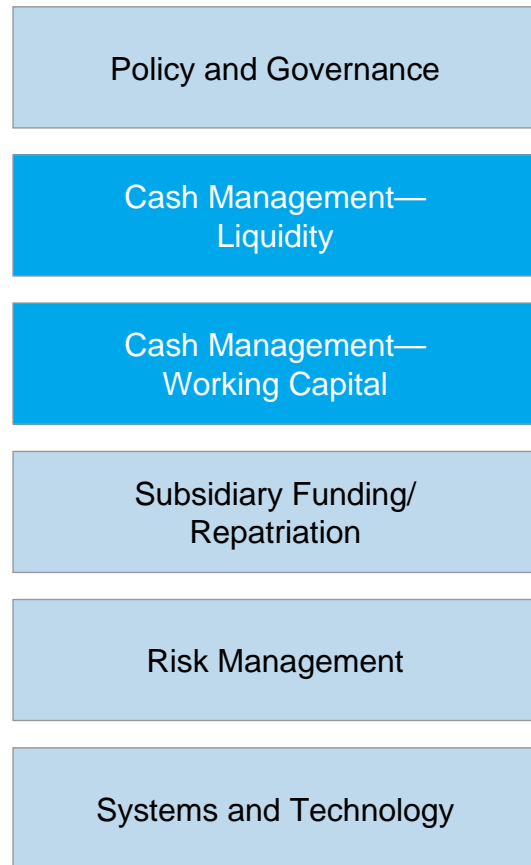
Disciplined growth and investment is the mandate for 2010



Benchmarking with Citi Treasury Diagnostics

Citi Treasury Diagnostic provides objective benchmarking against best in class practices in treasury management across six dimensions of treasury operations and risk management.

Six Pillars of Treasury



Benchmarking with Citi Treasury Diagnostics

The “best-in-class” treasury organizations excel in liquidity, investment and working capital management.

Key Differentiators

Liquidity Management

- 95% + visibility of global cash
 - Centralized, global management of physical and notional cash pooling with 95%+ operating cash flows in the pools
 - Cash forecasting done daily, with supporting automation
 - Collections forecast using expected receipts pattern
 - Payables forecast using standard payment terms
-

Investment Management


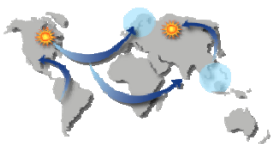
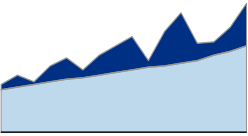
- 95% + visibility of short term investments
 - Investment policy covers counterparty, instruments and concentration risk
 - Compliance with investment policy monitored on a daily basis
 - Global treasury is involved in investment decision making
-

Working Capital Management

- Shared Service Centers process all working capital transactions
- External payments are processed on a single instance payment processing system
- Over 90% of payments and receivables are processed and reconciled electronically
- Collection methods are reviewed quarterly to optimize float and cost

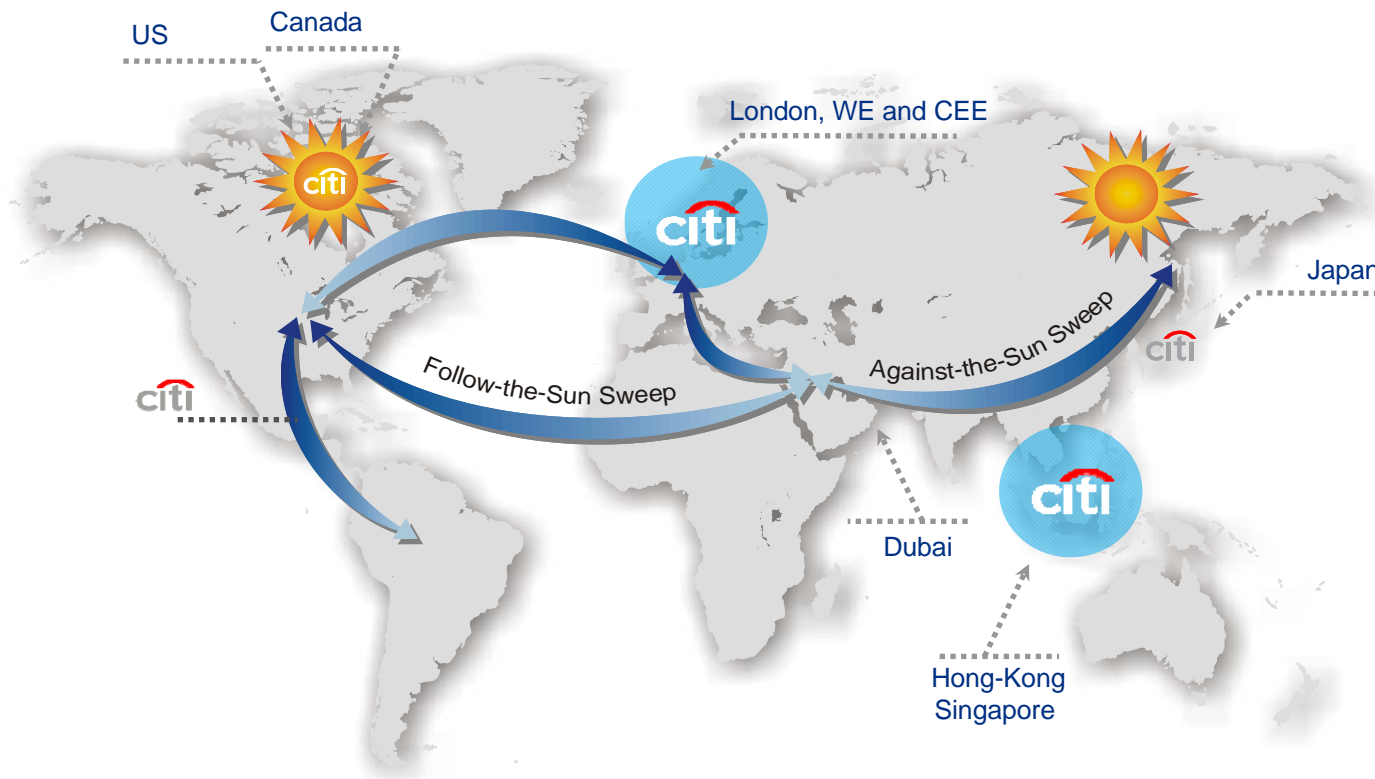
Streamlining Treasury Processes And Banking Structures

Rationalization of bank accounts and utilization of automated liquidity structures links pools of liquidity and greatly increases efficiency of cash utilization as “leakage” is reduced.

Requirement	Functionality	Results	Solution
Visibility 	<ul style="list-style-type: none"> Real-time actionable visibility on cash positions and flows 	<ul style="list-style-type: none"> Accurate cash positioning to determine funding requirements or excess available for investment Corporate governance and risk mitigation 	<ul style="list-style-type: none"> Electronic banking web-based front end or host to host information exchange Treasury Workstation - aggregates real-time financial information from all banks
Mobilization 	<ul style="list-style-type: none"> Automated movement of cash “with the sun” and “against the sun” Customized to regulations and tax rules—what can be centralized vs. must remain local 	<ul style="list-style-type: none"> Mobilize available cash flow for benefit of the enterprise Facilitate centralized access, control and deployment Internal offsets 	<ul style="list-style-type: none"> Cash sweeping and pooling using parent/child structures Intra-day, EOD, multi-bank automated target balancing; interest reallocation; specialized structures for regulated environments, e.g. subrogation structure, IHB support
Optimization 	<ul style="list-style-type: none"> Automated and active cash investment options on overnight and excess cash 	<ul style="list-style-type: none"> Optimize yield on excess liquidity taking into consideration the risk profile and tenor 	<ul style="list-style-type: none"> Bank deposit products; range of on and offshore money funds (inc. Treasury and Gov’t funds); single and MC notional pooling; interest optimization; automated investment sweeps, online investment platform, desk and agency services

Building Blocks: Global or Regional Cash Concentration

Citi's Global Target Balancing centralizes global liquidity for non-regulated countries, with follow-the-Sun and against-the-Sun sweeps.



Bank Products

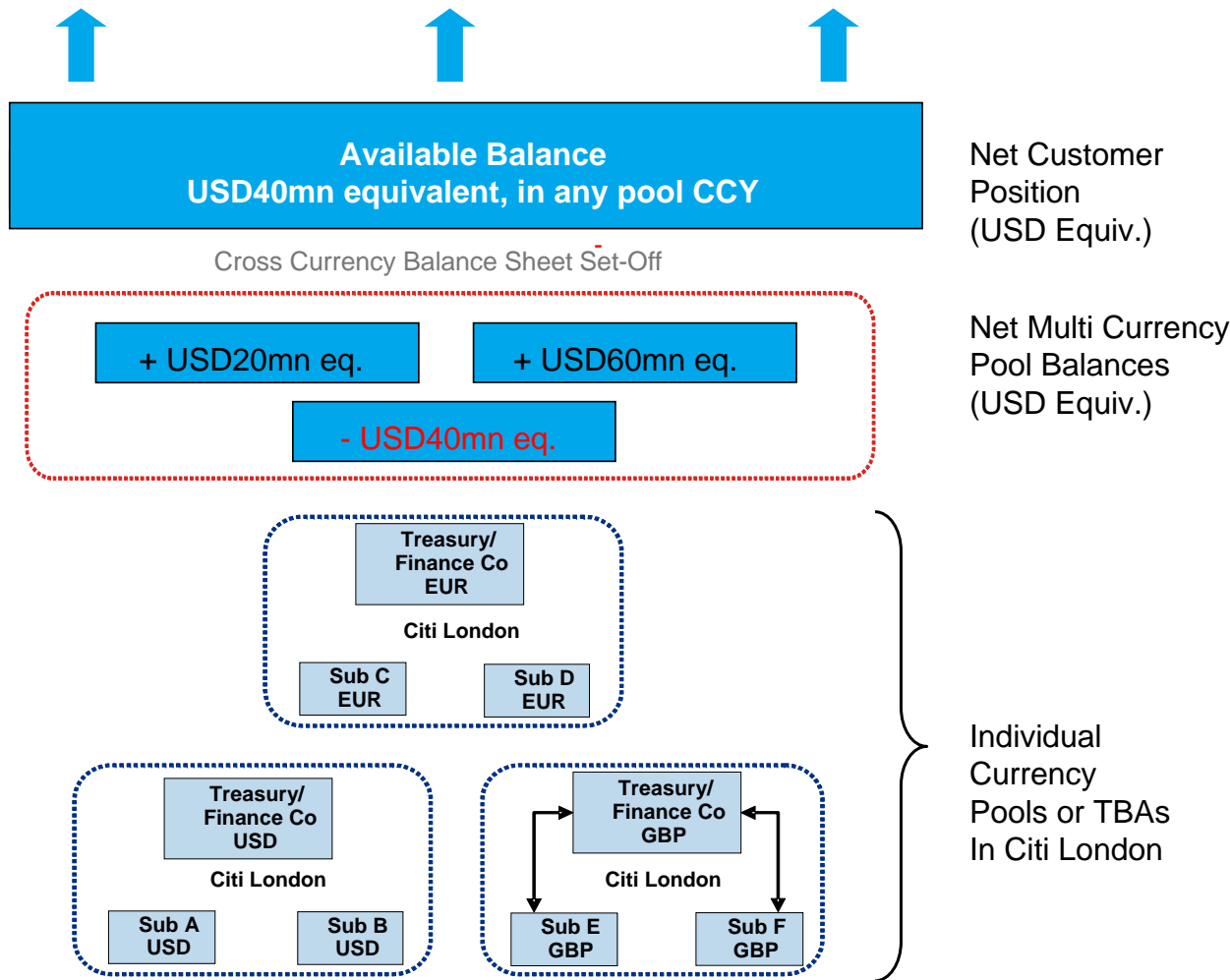
- Global Target Balancing, automated funding and concentration of cash
 - Domestic or cross-border; intra-day and end-of-day; multi-bank
 - Uniquely coded transactions for automated accounting and reconciliation
- Interest Reallocation; automatically calculating and applying intercompany interest between entities
 - Applying interest at client defined “arms length” rates

Considerations

- Clear transfer of ownership between entities
- Intercompany accounting entries
- Transfer Pricing; “Arms length” compensation
- Tax Treaties, Withholding Tax, Interest Deductibility, Thin Capitalization, etc.

Building Blocks: Global Multi-Currency Pooling

Global Multi-Currency Pooling allows credit & debit balances across multiple currencies to be utilized as a single net position, once funds from all operating accounts have been automatically centralized.



Bank Products

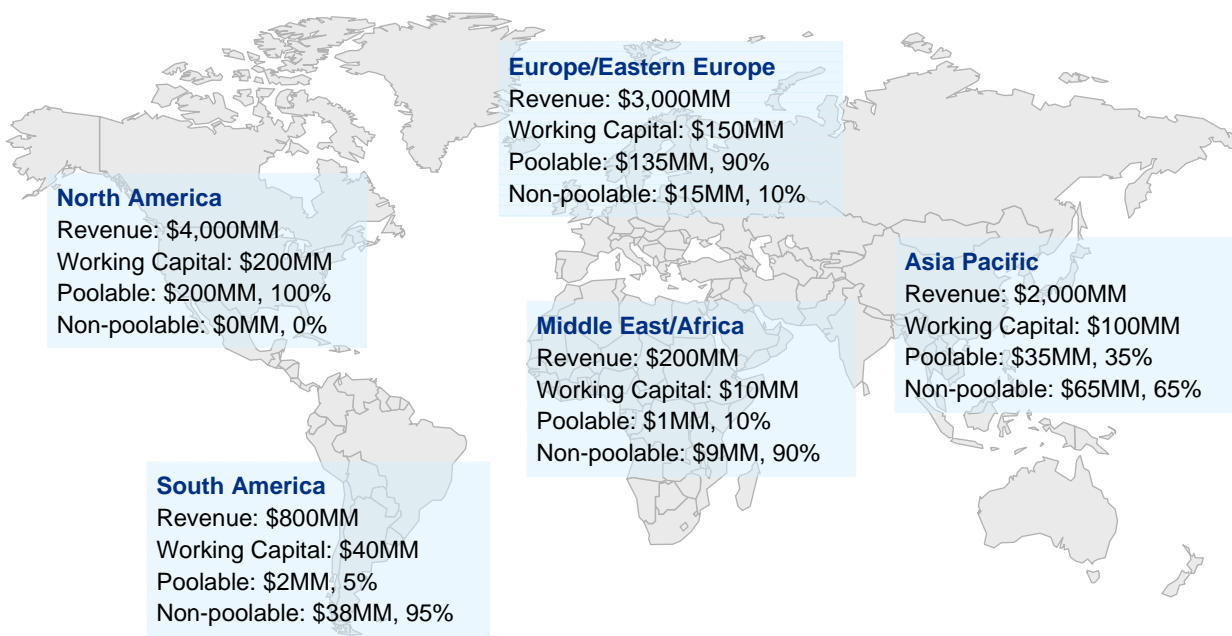
- Global Multicurrency Notional Pooling with interest reallocation; notionally off-setting debit and credit positions. Flexibility to transact in any pooled currency, without FX conversion
- Applying interest at client defined “arms length” rates

Considerations

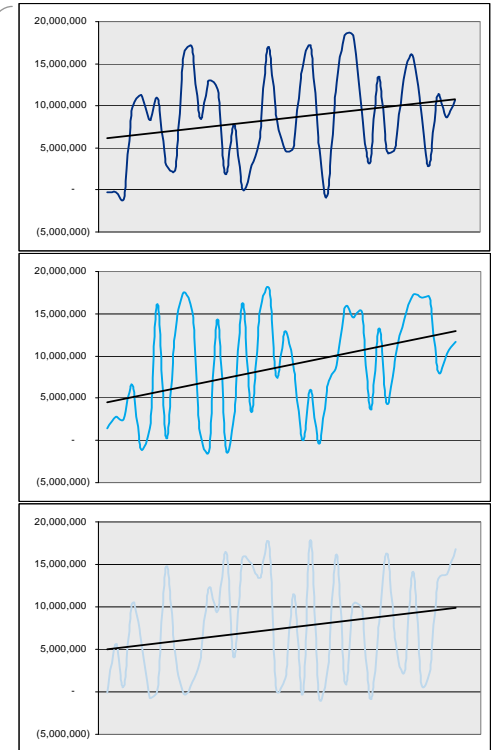
- Ownership remains in the name of each entity
 - Participating accounts all in one bank location (e.g. London, Singapore, etc.)
 - Entities subject to jurisdiction approval (Citi confirms 50+ approved jurisdictions)
- Cross-indemnity and right of off-set
- Characterization of borrowing and interest
- Transfer Pricing; “Arms length” compensation
- Tax Treaties, Withholding Tax, Interest Deductibility, Thin Capitalization, etc.

Deploying internal funds more effectively across the firm

An integrated global cash management and liquidity structure dramatically reduces cash volatility—our sample company reduces local cash reserves by over 30% while increasing centralized “core” cash.



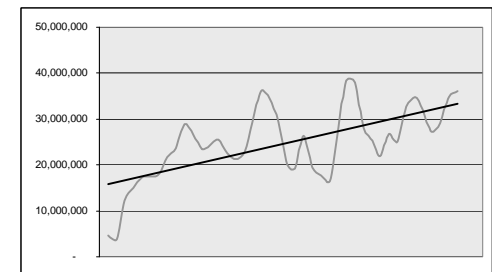
Separately Managed Cash



In This Example:

- Global Cash Required w/o liquidity structure : \$500MM
- Global Cash Required with liquidity structure: \$329MM
- Reduction = \$171MM
- Cost of Capital Benefit @ 10% Cost of Capital = \$17.1MM pa

Pooled Cash



Market Considerations

Navigating Tax, Accounting, Regulatory, and Operational considerations to craft a liquidity solution to satisfy global Treasury needs.

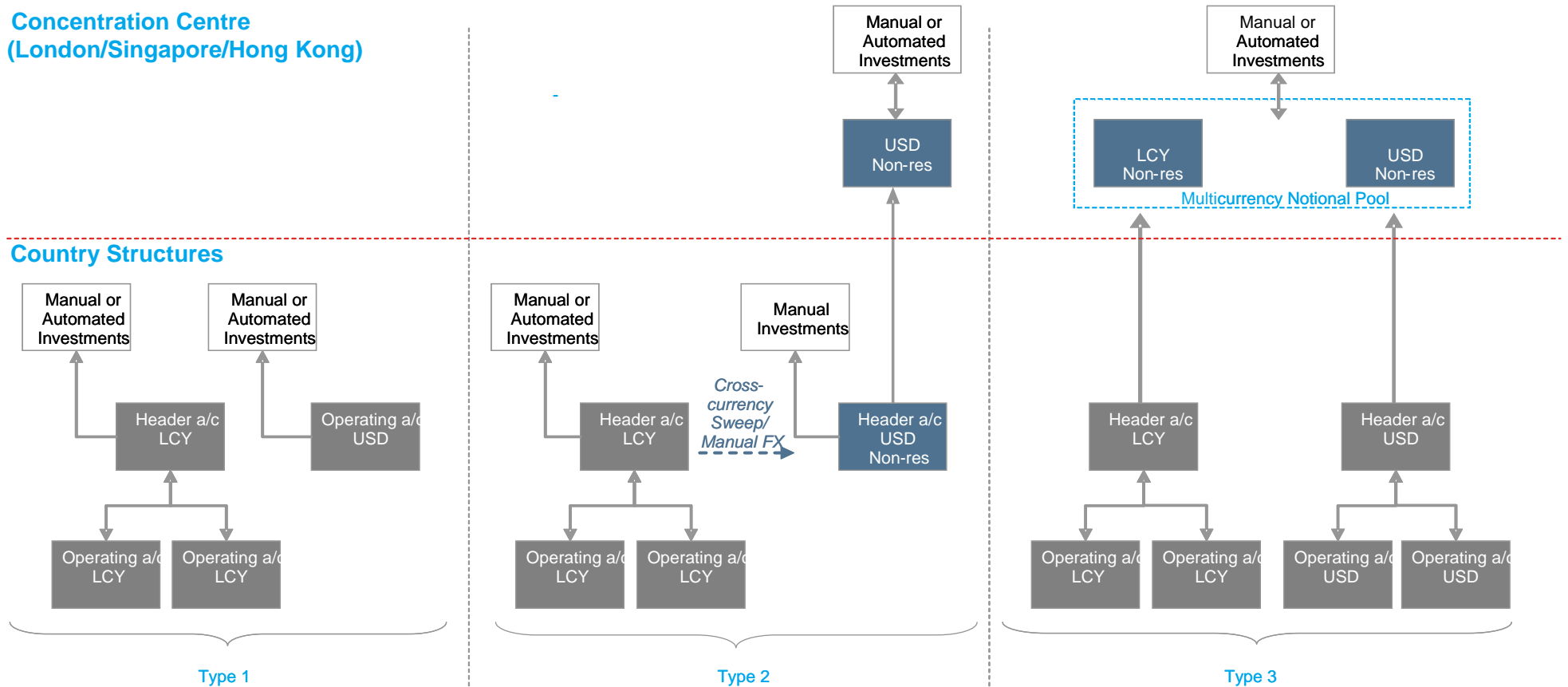
Liquidity Structure	Tax and Accounting Considerations	Other
<p>Commingling of funds amongst residents</p> <p>Or</p> <p>Commingling of funds between residents and non-residents</p> <p>Target Balancing with Interest Reallocation</p>	<ul style="list-style-type: none"> • Clear transfer of ownership between entities • Intercompany accounting entries • Transfer Pricing; “Arms length” compensation • Tax Treaties, Withholding Tax, Interest Deductibility, Thin Capitalization, etc. 	<ul style="list-style-type: none"> • Regulations may limit or prevent intercompany transactions • Regulations may limit or prevent holding an off-shore account • Regulations may limit or prevent off-shore LCY • Central Bank Reporting may be required for x-border transactions
<p>Notional aggregation of accounts; no commingling of funds</p> <p>Notional Pooling with Interest Reallocation</p>	<ul style="list-style-type: none"> • Ownership remains in the name of each entity • Cross-indemnity and right of off-set • Characterization of borrowing and interest • Transfer Pricing; “Arms length” compensation • Tax Treaties, Withholding Tax, Interest Deductibility, Thin Capitalization, etc. 	<ul style="list-style-type: none"> • Participating accounts in one bank location • Regulations may limit or prevent holding an off-shore account • Regulations may limit or prevent off-shore LCY • Entities subject to jurisdiction approval

Pulling It Together: Effective Global Structures

Most complex structures employ global target balancing and notional pooling, in combination with other local and global structures, to mobilize and optimize cash efficiently through a consistent framework.

Concentration Centre (London/Singapore/Hong Kong)

Country Structures



- **Type 1:** Possible structure for countries which restricts transferability of both LCY and FCY e.g. China, India, Korea, Pakistan
- **Type 2:** Possible structure for countries where LCY is restricted, but FCY is potentially transferable e.g. Indonesia, Malaysia, Russia, Egypt
- **Type 3:** Possible structure for countries where both LCY and FCY are freely transferable e.g. Australia, Hong Kong, Japan, W. Europe

■ Resident Account ■ Non-Resident Account

Challenges and critical success factors

Beyond the optimal approach to account structuring, centralized organization structure, globally consistent treasury processes, and participation of all subsidiaries in the structures are key drivers of success.

Organizational Readiness

-
- Defined scope, objectives, and timeline
 - Subsidiaries' buy-in to centralization and willingness to pool their cash
 - People, process, and technology readiness
-

Experience / Advisory

-
- Navigating regulatory landscape to reduce “trapped” cash
 - Tax, legal and accounting partnership
 - Flexing liquidity structures to regulatory landscape – not “one size fits all”
-

Service Provider

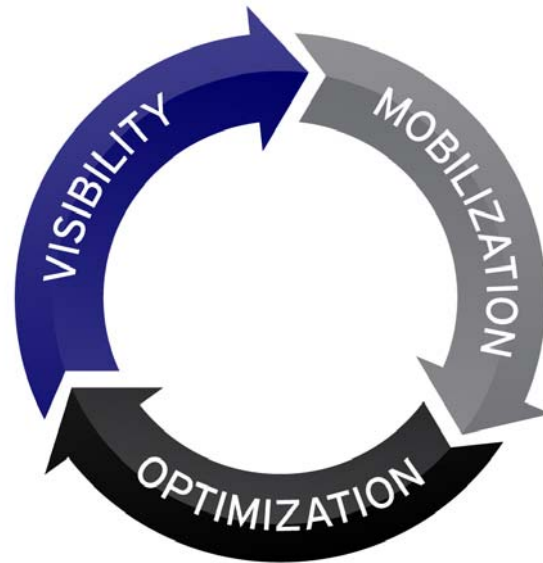
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- Reach and integration – consistency and ease of delivery
 - Maintenance of local banking services without excessive physical treasury touch points across the globe
 - Matching treasury goals and structure to service providers' capabilities
-

The rewards of optimizing your use of internal liquidity

The benefits of an optimal model enhance control, improve operating efficiency and drive benefits to the bottom line.

Enhance Control

- Greater visibility of cash across the globe
- Improve forecasting
- Maintenance / control of bank relationships and counterparty exposures



Improve Operating Efficiency

- Recycle own productivity
- Leverage service providers to automatically concentrate/net
- Minimize localized time and efforts on sourcing funding
- Reduce volatility

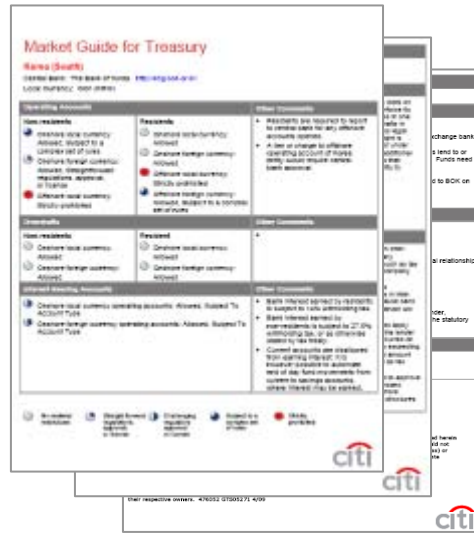
Improve Financials

- Reduce external funding costs
- Manage interest dynamics
- Enhance equity markets view
- Improve investable balance and returns

Treasurer's Decision Support from Citi

Market Regulatory Guides

- Quick reference guide for regulations impacting in-country treasury decisions



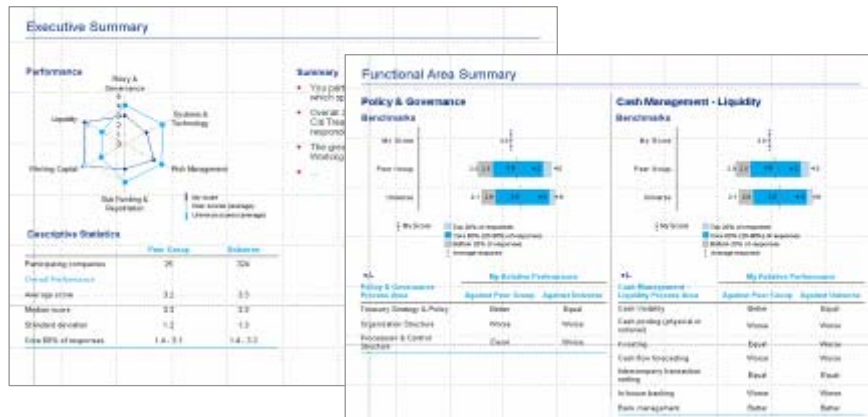
Deloitte Tax guides

- Comprehensive guide for treasurers to cash and notional pooling considerations in major concentration centers
- Developed in partnership with Deloitte



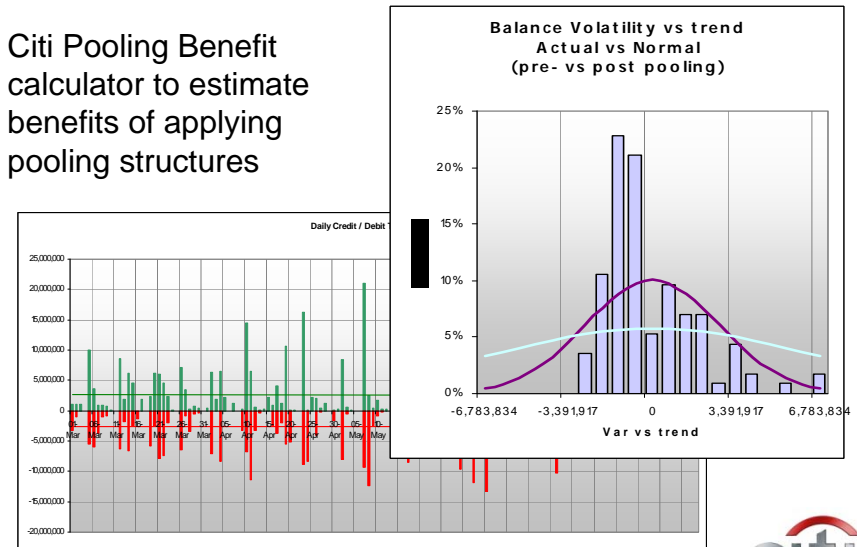
Treasury Diagnostics

- Treasury Benchmarking process to assess best in class performance and opportunities for improvement



Pooling Analysis

- Citi Pooling Benefit calculator to estimate benefits of applying pooling structures



Questions and Answers

- Today's Presenters

- Cindy Gerhard cindy.gerhard@citi.com +1 (212) 816-4844 (New York)
- Hugo Parry-Wingfield hugo.parrywingfield@citi.com 44 (20) 7508-9872 (London)

Future Webinars

- **Top Priorities For Treasury in 2010: Using Citi Treasury Diagnostics To Set New Standards of Performance**
 - When: April 15, 10:00AM EST / 3:00PM GMT
 - Speakers: Ron Chakravarti and Declan Mcgivern
- **Centralizing Global Short-term Investing: New tools and Techniques**
 - When: May 6, 10:00AM EST / 3:00PM GMT
 - Speakers: Mali Bartlett and John Carter
- **Effective Global Liquidity and Risk Management: Global Visibility As A Key Step**
 - When: June 2, 10:00AM EST / 3:00PM GMT
 - Speakers: Cindy Gerhard and Duncan Cole
- Register at: <http://www.transactionservices.citigroup.com/transactionservices/home/corporations/calendar.jsp>

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