

BEST PRACTICES IN INTERNATIONAL CASH MANAGEMENT

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Recent Market Events

- Panic and loss of confidence on numerous fronts resulting in ...
 - Severe dislocation in the credit market
 - Extreme stock market volatility with huge declines due to company performance, credit issues and/or liquidity needs
 - Debt capital market options are extremely limited with almost no bond issuance and very low Commercial Paper market demand

How Corporations Reacted

- Re-evaluated investment portfolios and shifted to low risk investments
- Investment terms became extremely short
- Assets were being liquidated and businesses were turning to their reserves and revolving credit facilities to hoard cash
- Placed greater importance on internal liquidity and working capital processes
- Treasurers began managing cash in a more strategic manner to ensure adequate levels of liquidity
 - Greater focus was placed on international cash and Inter-company activity to fill liquidity gap
 - Worked closely with Tax to develop means of accessing international cash balances
 - Re-assess international liquidity structures to streamline flows of cash
 - Placed greater importance on visibility and control of global cash

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Global Treasury Market Trends

People

- Identifying, hiring, retention of strategic leaders
- Project management focus
- International background, knowledge
- Associates must be comfortable in fast-paced environment, adaptable to change

Process and Efficiency

- Continued migration from paper to electronic
- Development of long term strategic plans for Treasury, aligned with Corporate objectives
- Transactional process improvement (i.e., Straight Thru Processing)

Global Treasury Market Trends

Technology

- Increased integration with banking partners to automate payments and receipts
- Greater reliance on ERP systems and treasury workstations

Visibility and Control

- Automated view of domestic and global cash balances, leveraging multi-bank reporting when required
- Rationalizing / optimizing bank relationships and structures to improve and streamline cash positions
- Adopting global standards across regions for internal process and audit for better control

Global Treasury Market Trends

Expanded Role of Treasury

- Control or strong influence over all aspects of working capital
- Increased responsibilities and oversight for risk management, including Trade Finance and Capital Markets activities
- Corporate Strategic Partner

Organization and Influence

- Globalization and centralization of treasury and finance activities
- Visibility and accountability for global accounts and bank relationships
- Major stakeholder in all key corporate strategic decisions: “A Seat At The Table”

Global Treasury Market Trends

Risk Management and Mitigation

- Managing more risk than before (including trade, fx, etc.)
- Developing and executing plans to mitigate identified risks
- Using technology and standardized processes to strengthen controls around risk and exposure management

Optimized Liquidity and Treasury Structures

- Cash concentration / Pooling to leverage cash and optimize returns
- In-House Banks, global treasury centers, payment factories, and shared service centers
- Outsourcing of investment management, reporting and other treasury functions
- Inter-company netting and loan administration

Global Treasury Market Trends

Global Liquidity

- Continued concerns around counter-party risk
- Consolidating the number of international banking relationships to key strategic credit / global partners to mitigate counter party risk, while rationalizing the need to maintain non-core relationships for overlap of day to day treasury management
- Treasurers and cash managers are becoming more strategic, since operating cash has become more strategic – liquidity at adequate levels is as important as yield in this environment
- Expensive credit markets are placing greater focus on internal liquidity and cash flow forecasting has become most critical

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Best Practices on Global Liquidity and Working Capital

Global Liquidity

- Forecast and segment liquidity needs
- Establish appropriate investment guidelines
- Select investments appropriate for cash segments
- Maximize liquidity transparency and efficiency

Working Capital

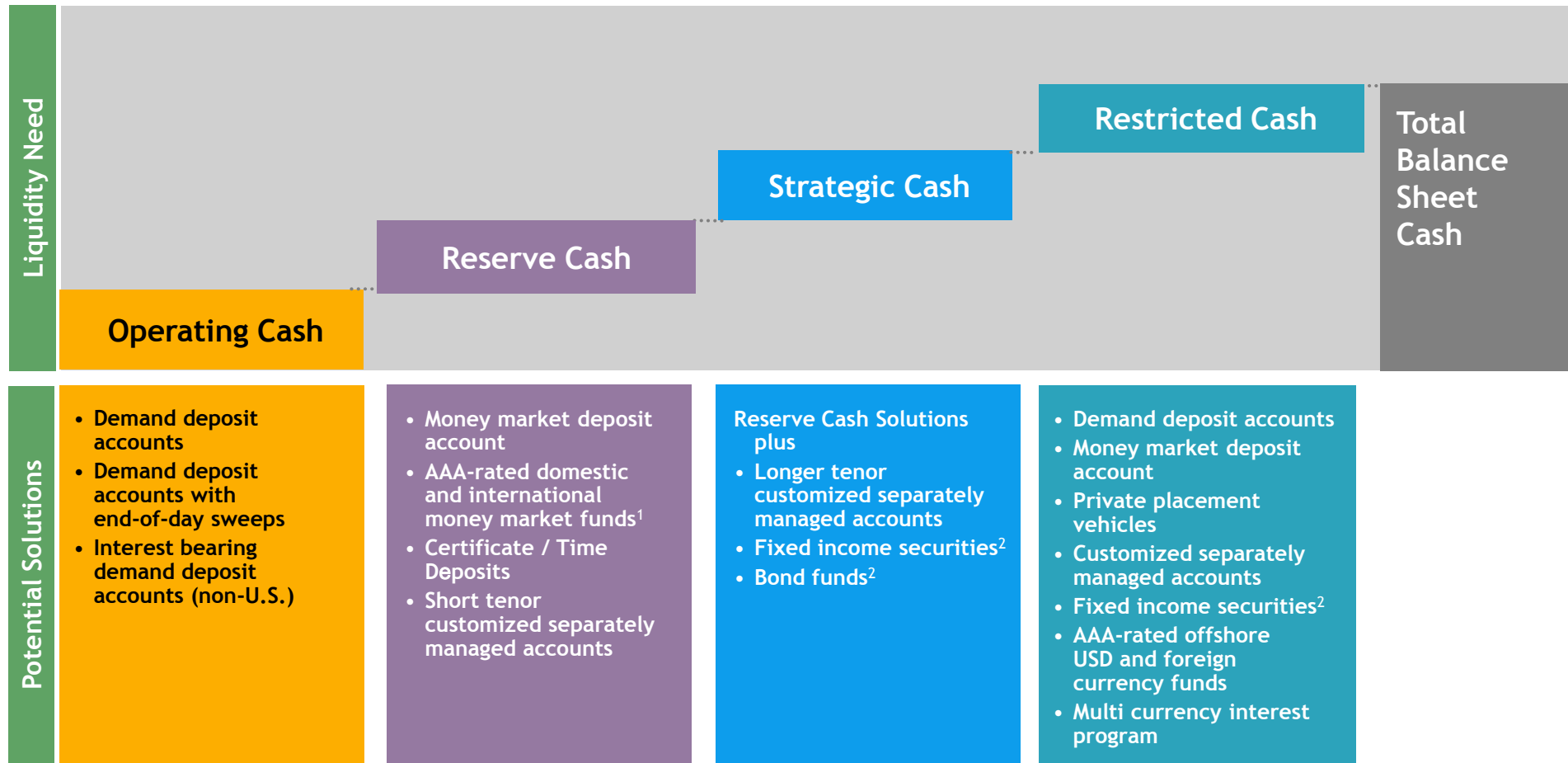
- Streamline underlying operational processes

Global Liquidity: Forecast and Segment Cash Needs

Cash Forecasting

- Develop cash flow analytics (receipts / disbursements)
 - By legal entity and geography
 - Use historical balance reporting data to develop trend analytics
 - Consider limitations / differences arising from currencies, time zones, other local in-country processes (including tax and regulatory rules)
- Create time bucket progress from daily to weekly to monthly
- Continually revise based on latest information
 - Establish an open dialogue with key internal partners
- Stress assumptions for idiosyncratic and market risks
 - Identify key drivers and dependencies of significant flows
 - Update periodically or more frequently as the environment changes
- Establish a “Forecast vs actuals” variance analysis process
 - Reconcile assumptions against reality

Global Liquidity: Select Investments for Each Cash Segment



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Global Liquidity: Establish Appropriate Investment Guidelines

- State objectives: Preservation of Principal
- Specify roles and responsibilities
- List authorized investments
- Balance flexibility and control
- Identify risk tolerances (aggregate and individual)
 - Tenors
 - Counterparties
 - Complexity
- Report investments and any guideline breaches
- Incorporate into firm-wide risk framework
- Update with evolution business model



Global Liquidity: Maximize Liquidity Transparency and Efficiency

Centralize Treasury Management

- Implement global information reporting
- Rationalize, analyze and consolidate accounts with global bank relationships, using regional and local providers only where necessary
- Centralize liquidity management through a cash concentration structure
 - Consolidate cash to maximize investment or pay down debt
 - Realize savings through self-funding and reduce local overdraft /external funding requirements
 - Centralize credit facility based on parent company credit standing
- Consider alternative tax effective structures
- Stay current and take advantage of new international initiatives like “SEPA” in Europe
- Develop centralized Treasury policies and procedures

Working Capital: Streamline Underlying Operational Processes

- Leverage investment in ERP technology to automate the accounting, receivables and payables processes:
 - Accounting:
 - daily electronic bank statement to record cash and reconcile disbursement activities
 - Facilitate In-House bank and Inter-company netting activity
 - Payables: standardize PO / Invoice, electronic workflow approvals, vendor set-up and global settlement processes
 - Global multi-payables file for all payment methods
 - Supports Shared Service Center and Payment factory structures
 - In-house bank and netting settlements
 - Receivables: automate cash application process to relieve customer A/R

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Summary on Global Best Practices

- Staff with international expertise, knowledge and the ability to act strategically
- Implement process improvements like migrating disbursements from paper to electronic channels; and incorporating new industry standards, i.e. SEPA
- Increase integration with banking partners for higher levels of automation both for collections and payments
- Leverage the functionality and standardization of ERP systems and treasury workstations
- Rationalize global banking relationships to key providers for a streamlined view/structure
- Consolidate the view of domestic and global cash balances through one platform or leverage multibank reporting, if required
- Establish global standards on visibility and control
- Take an active role in exerting greater influence and control on all aspects of working capital
- Align Treasury goals with those of corporate
- Develop and execute risk mitigation strategies in foreign exchange, trade and other areas under an expanded role in the corporation
- Build efficient liquidity structures either thru cash concentration or pooling (notional and physical) to gain access and streamline flow of cash
- Establish global treasury centers, payment factories, and shared service centers

Planning Ahead – Some Questions to Consider

- What is the right amount of liquidity to make sure you can meet all of your expected and unexpected funding needs?
- How accurate is your cash forecasting? Is it conservative? Do you frequently stress test it?
- Do you segment your cash position? How often do you have to tap reserve cash?
- What is your investment strategy?
- How often do you review your investment policy or guidelines?
- When evaluating approved counterparties, do you review names for removal with equal vigor as you do for new names?
- How frequently do you review the strength of your banking relationships?
- What level of visibility and control do you have on your balances globally?
- Can I begin to standardize and centralize my global treasury function?
- Do I have an optimal account structure in place today?
- What if what you never thought could happen actually did?

Questions

