

Best Practices for Improved Receivables Management

An Integrated and Centralized Approach

October 21, 2010

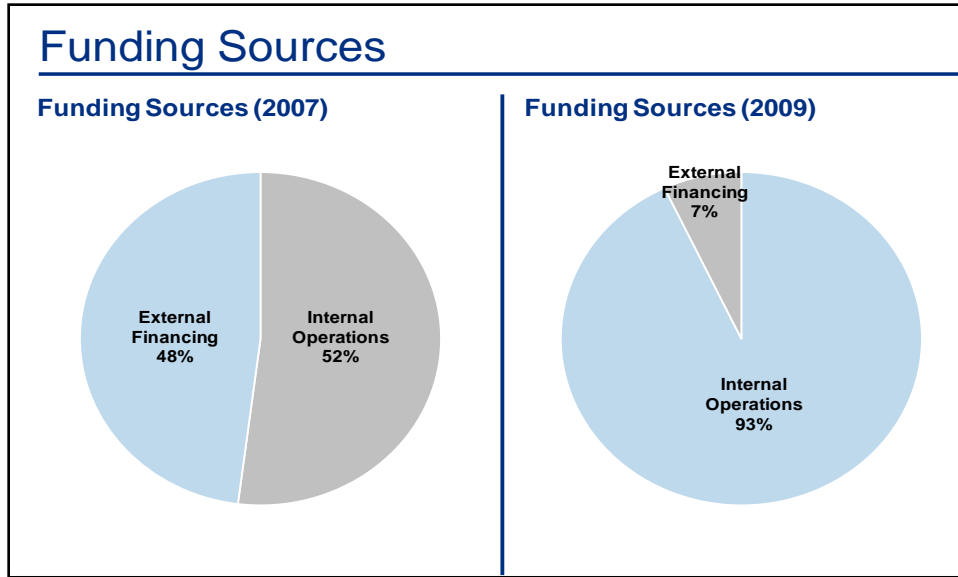
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DSO and its impact on Working Capital

The hunt for cash

With credit likely to remain scarce and expensive, identifying alternate sources of internal funding remains a priority for organizations worldwide.

Cash remains King!

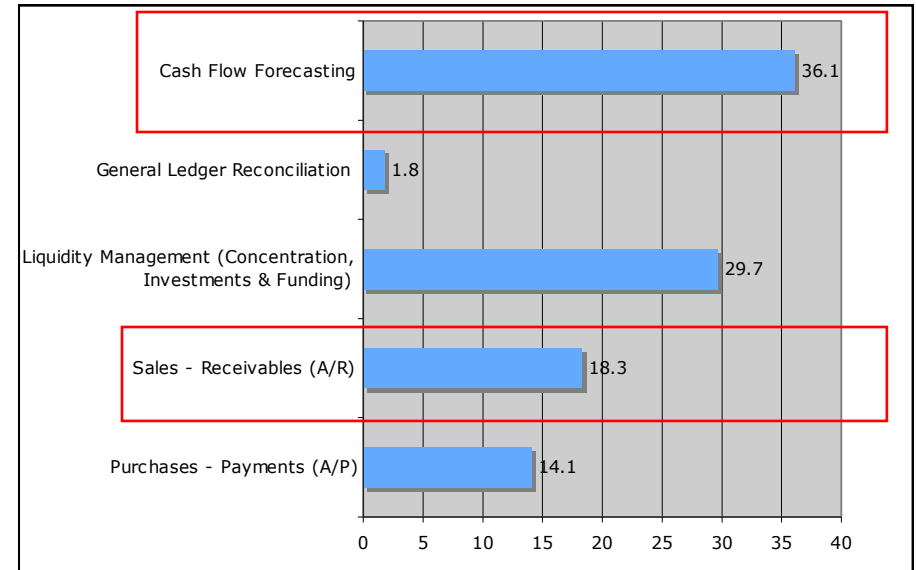


Source: Citigroup Global Market Inc. Putting Working Capital to Work – July 2009

- Market analysis indicates that the top 1,000 US companies currently have over **\$750B in trapped liquidity**; the top 1,000 in Europe have approximately **EUR740B***.
- Analysts view working capital as an indicator of the overall efficiency & control a company has over its production cycle and cash management
- Efficient working capital management is an enabler for a company to self-fund its operating or production cycle, invest surplus balances or use funds to pay down debt

(*) Source: REL Working Capital Reports 2010

Receivables represents significant opportunity!



Which Process has the Greatest Potential for Improving Cash Management? Gtnews.com Survey of Over 400 Companies

Source: GTNews, Cash Management Survey 2010

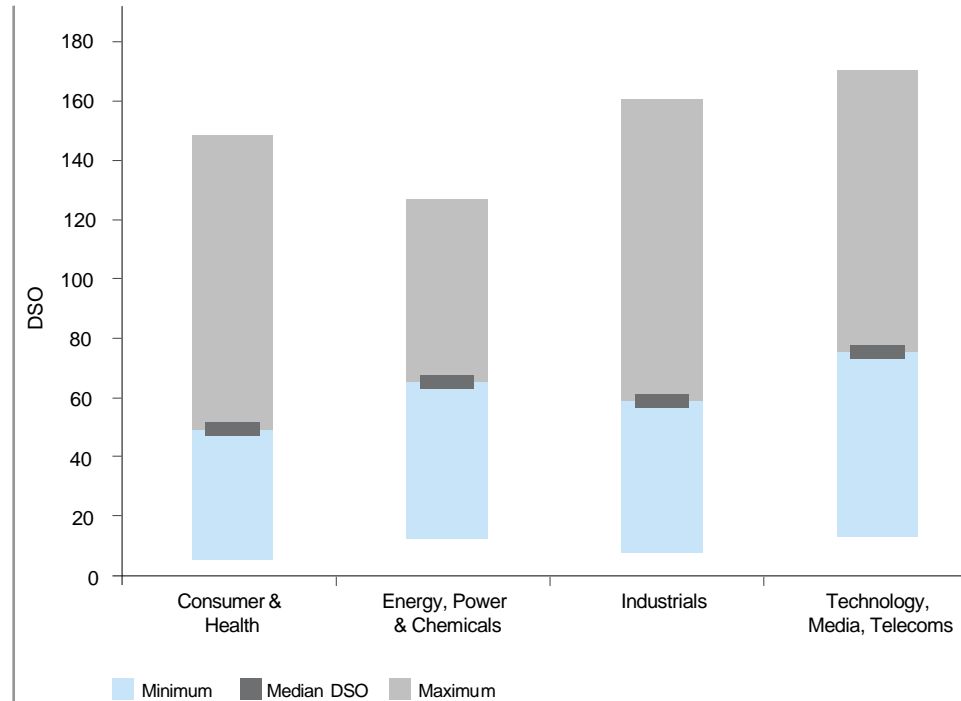
- While DPO/DIO have traditionally been the primary focus of optimization efforts, DSO remains the critical missing link in maximizing working capital efficiency
- By adopting best in class practices, the typical large, multinational company could reduce working capital financing requirements by up to 30% and boost EPS by 2-3%*

(*) Source: REL Working Capital Reports 2010

DSO's variation across industries

DSO (the number of days taken by a company to collect payment from a completed sale) varies widely within the same industry.

- **DSO performance varies across different industries** but also varies widely within the same industry:
 - Across the different industries the spread between the min DSO and the max DSO varies from 2 to 156 days
 - Within each industry, the difference between the “best” and the “worst” of the main players is more than 90 days
- **Industries with complex supply chains** and global operations typically have the **largest potential working capital savings**
- These companies have trapped liquidity which they could unlock by **moving to their industry median**
- **DSO is influenced by geography** where for example commercial terms and/or debtor behaviour tends to be more relaxed in some European markets
- **Poor receivables management is reflected in high DSO** and effects the company's access to internal funding sources.



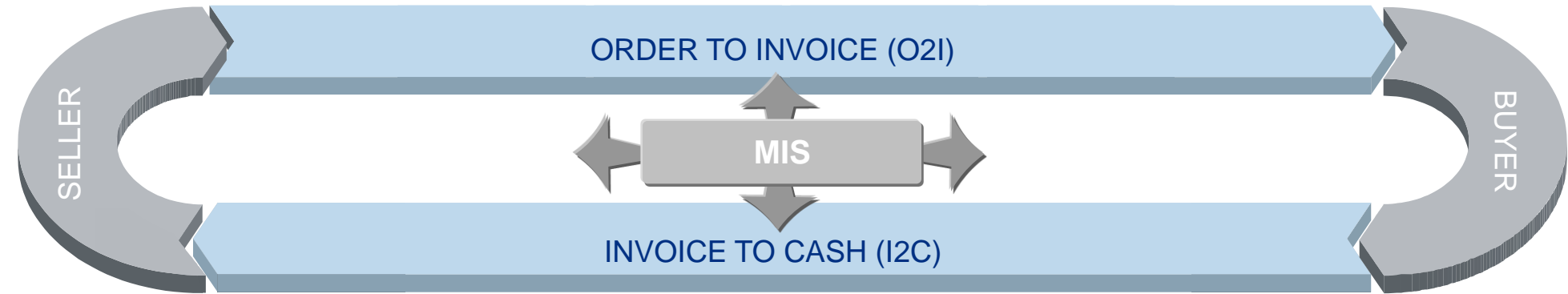
For a company with a turnover of USD 11 billion, decreasing average DSO by one day has a positive impact of USD 30 million

Source: REL Working Capital Reports 2010

The focus shifts from DPO to DSO and from P2P to O2C

Unlocking trapped cash in the O2C cycle

Cash gets trapped due to variety of upstream root cause issues emanating in the order to cash cycle.



Order to Invoice (O2I)

Order Management <ul style="list-style-type: none"> Order Entry Order Tracking Shipment Service Management Database Management Terms of sale 	Billing <ul style="list-style-type: none"> Invoice generation and dispatch Freight and tax management Invoice adjustments Sales management
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Invoice to Cash (I2C)

Accounts Receivable <ul style="list-style-type: none"> Cash application Revenue accruals Debt/Credit notes Returns chargeback Discounts management 	Credit Collections <ul style="list-style-type: none"> Credit control Payment follow-up Disputes management Banking channels Bad debt provisioning
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MIS

Customer Management <ul style="list-style-type: none"> Master data maintenance Account reconciliation Query management Customer credit line updates 	Reporting & Analysis <ul style="list-style-type: none"> Sales trend analysis Revenue forecasts Cash management Period reporting/ad-hoc analysis
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Addressing These Issues Reduces DSO and Unlocks Trapped Cash

- Big trappers of cash

Working Capital – Challenges and Opportunities

The impact of accelerating collections, reducing administrative costs and unlocking trapped liquidity has the potential to significantly impact overall Financial Performance.

Working Capital Inhibitors

- No clear, single point of trapped cash
- De-centralized processes across many departments
- Fragmentation of information management infrastructure
- Scarcity of resources or time to focus on improvement initiatives
- Acquisitions and system integration disruption
- Heavy reliance on customers' payables processes and lack of tools and/or proper incentives to influence more progressive customer payment behavior

Working Capital Opportunity

- For a company with a turnover of USD 11 billion, decreasing average DSO by one day has a positive impact of USD 30 million
- Strengthen analysts, lenders' and other financial partners' assessment of the company strength and, ideally, value and creditworthiness
- Demonstrate strong metrics to the market and shareholders
- Improve service and enhance customer loyalty and relations
- Enhance market competitiveness
- Support "green" or other business initiatives

Source: REL Working Capital Reports 2010

Customers can unlock liquidity by fixing fragmented processes, improving cash velocity, minimizing leakages while reducing Day Sales Outstanding (DSO).

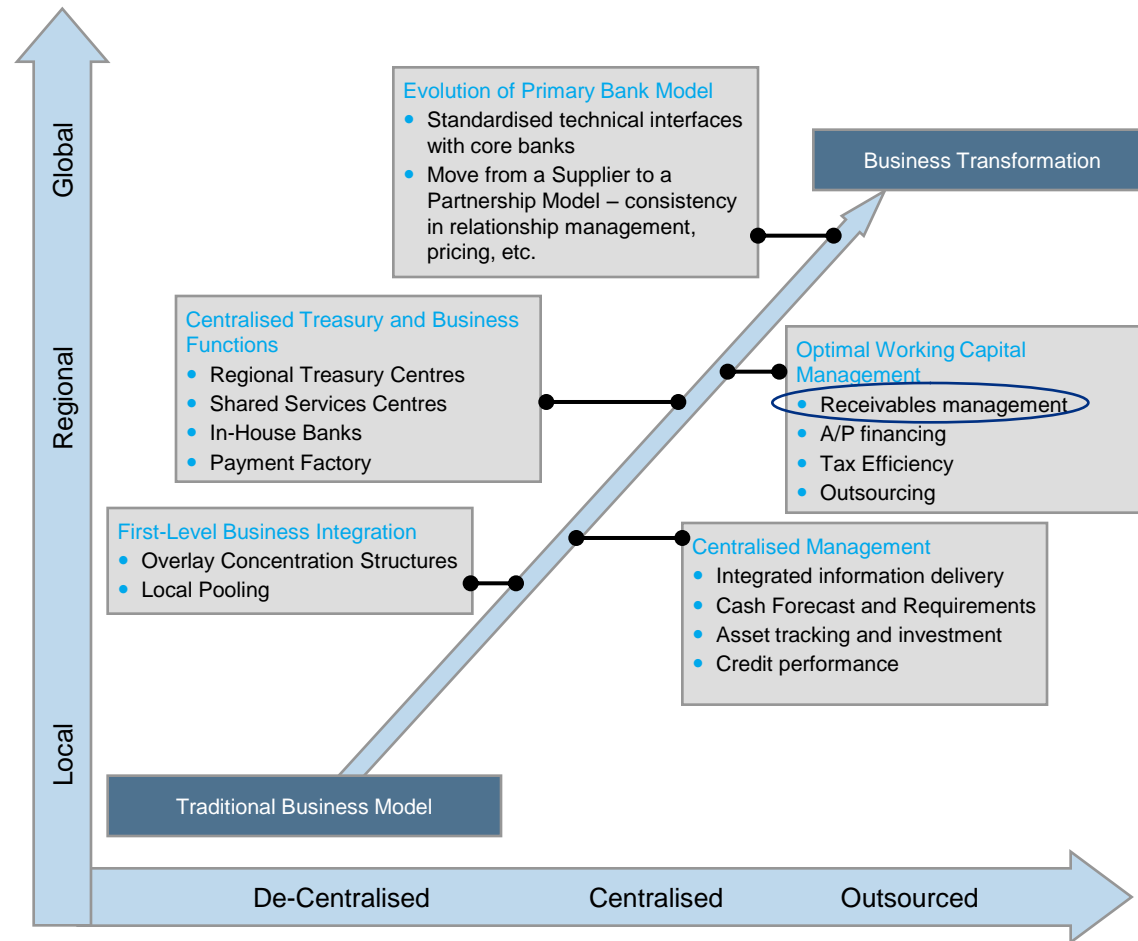
Taking the efficiency agenda to the next level

The trend towards increased centralisation, standardisation and automation continues. For existing SSCs, Receivables is the untapped frontier while new SSCs should look to incorporate Receivables early on.

- 82% of SSCs are performing AP functions whilst only **69% have integrated AR functions** (such as payment receipt) in the past 10 years*
- SSCs have been looking separately at different AR functions** such as Payment Receipt and Cash Application and there is a trend now to bring the two functions together**
- Whilst the above mentioned functions are performed by SSCs **the benefits of the model** (in terms of cost and cash-flow) are drastically **reduced by non-standard processes****
- There is a trend amongst SSCs to implement dynamic credit & risk monitoring processes hence **collecting funds and applying them timely becomes very relevant****

* Source 2008 Deloitte Study

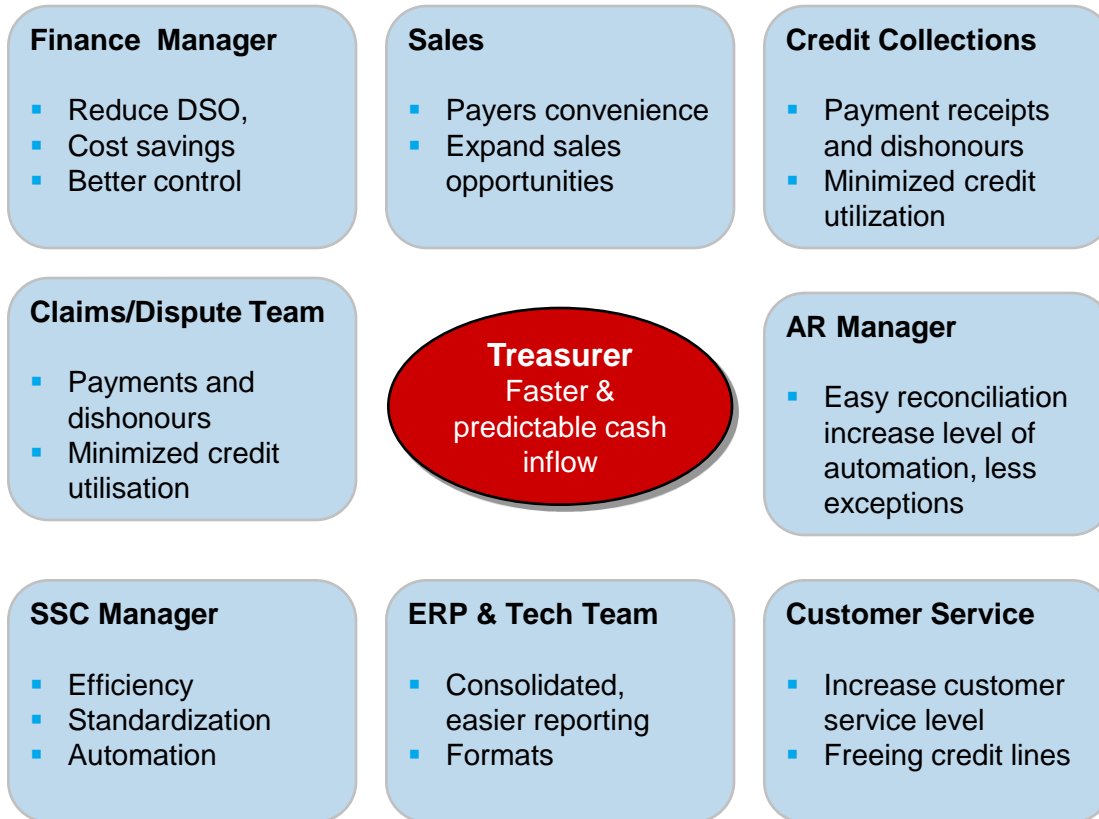
** Source 2009 Hackett Group Report



The Approach to Change

The approach to change

Key stakeholders have various interests relative to Receivables and the solution needs to balance their needs.



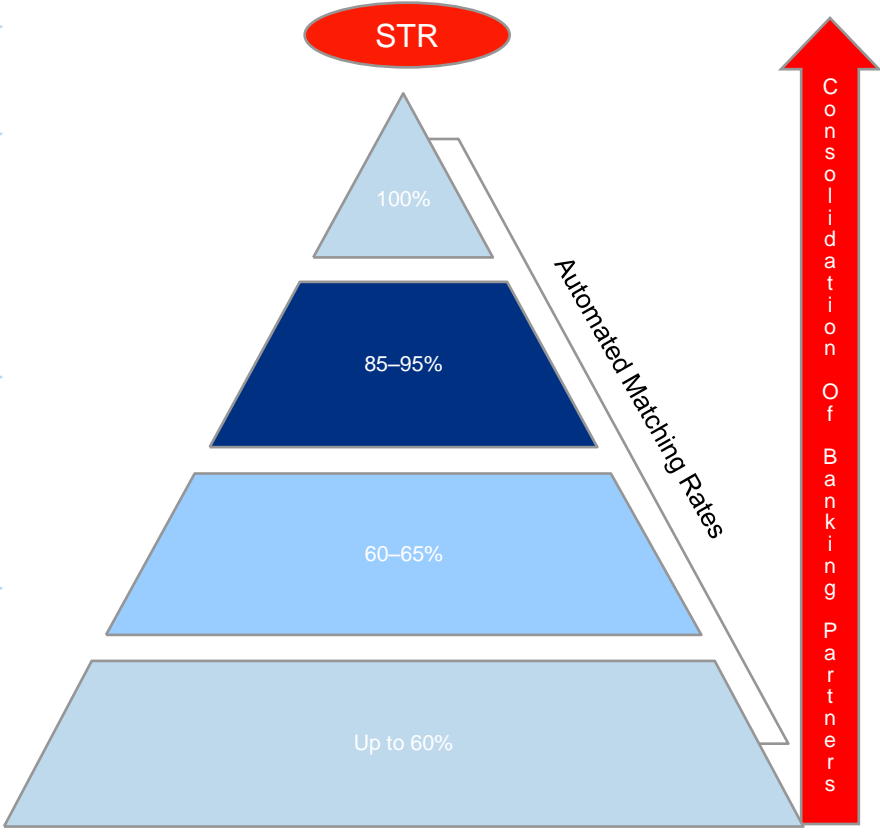
Roadmap to change

- 1. Measure your DSO**
 - What is driving the DSO performance?
 - Which parts of the organisation does it sit in?
 - How can it be influenced?
- 2. Implement business relevant collection channels**
 - Efficient collection channels, catered to local payer behaviours
- 3. Improve A/R performance**
 - Review the cycle time, costs and effort
 - Ensure relevant Receivables solution is in place e.g. Lockbox
 - Evaluate outsourcing solutions
- 4. Standardise and automate Cash Application to achieve Straight Through Reconciliation (STR)**
 - Electronic data flow and process automation
 - Improved automated matching rates
 - Streamline reconciliation
- 5. Constantly monitor progress**
 - Define KPIs aligned to each business function
 - Execute, track, reinforce, realign continuously

Efficient receivables management – Best practices

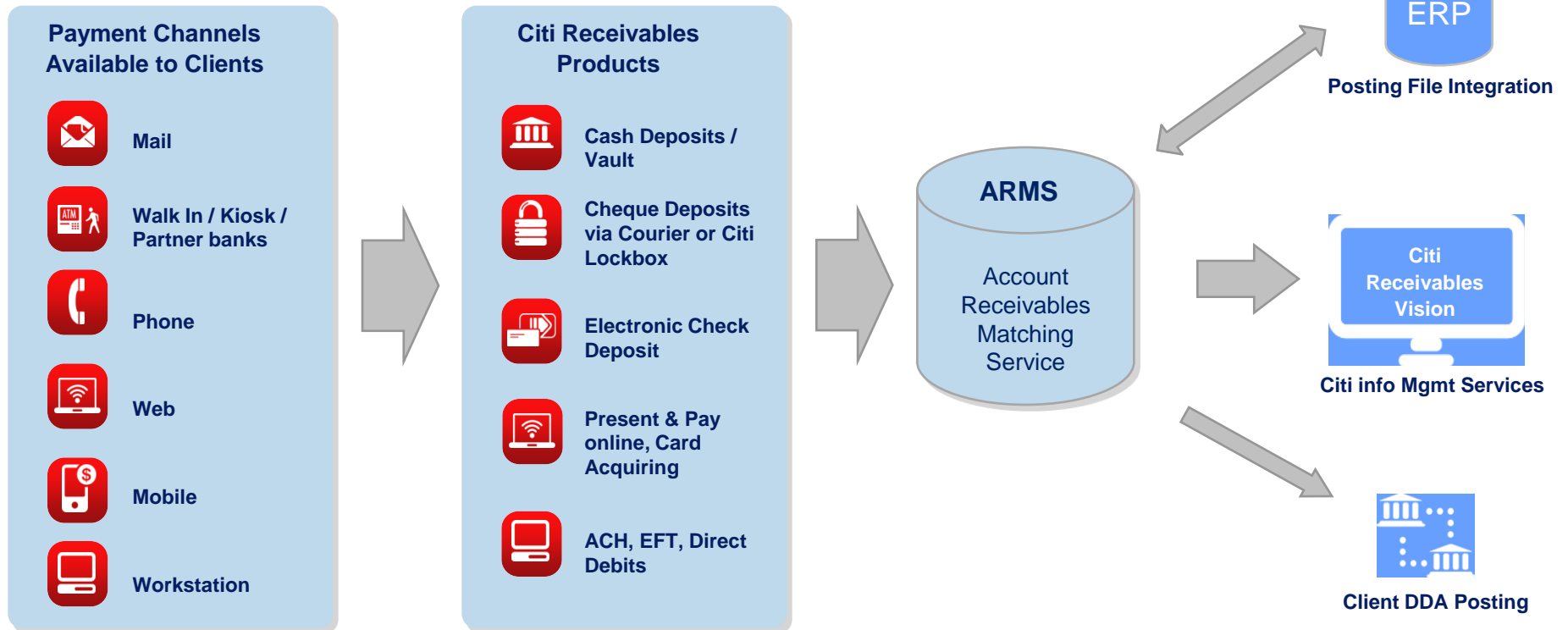
Combination of Banking Solutions, Adoption of Market Practices and Systems Integration Leads to STR. Once that completed, an Integrated Receivables Hub is the Next Logic Step.

Outsourcing	<ul style="list-style-type: none"> • Outsourcing of exceptions handling
Integrated Matching	<ul style="list-style-type: none"> • Apply advanced matching techniques on various collection channels. ERP automation <ul style="list-style-type: none"> – Virtual Accounts – Consolidated and Enriched Receivables Reporting – Rejects and exceptions automation – ERP Integration
Electronification	<p>Cash Application and Reconciliation</p> <ul style="list-style-type: none"> • Move from paper – Based reconciliation to electronic delivery and a system based matching process <ul style="list-style-type: none"> – Lockbox with detailed reports and complete remittance information
Dematerialisation	<p>Payment Methods</p> <ul style="list-style-type: none"> • Move from paper based collection instruments as a first step to achieve system-readable, comprehensive data <ul style="list-style-type: none"> – Incoming ACH, Direct Debits (SEPA, Local) – Mobile – Electronic Invoice Presentment and Payment (EIPP)



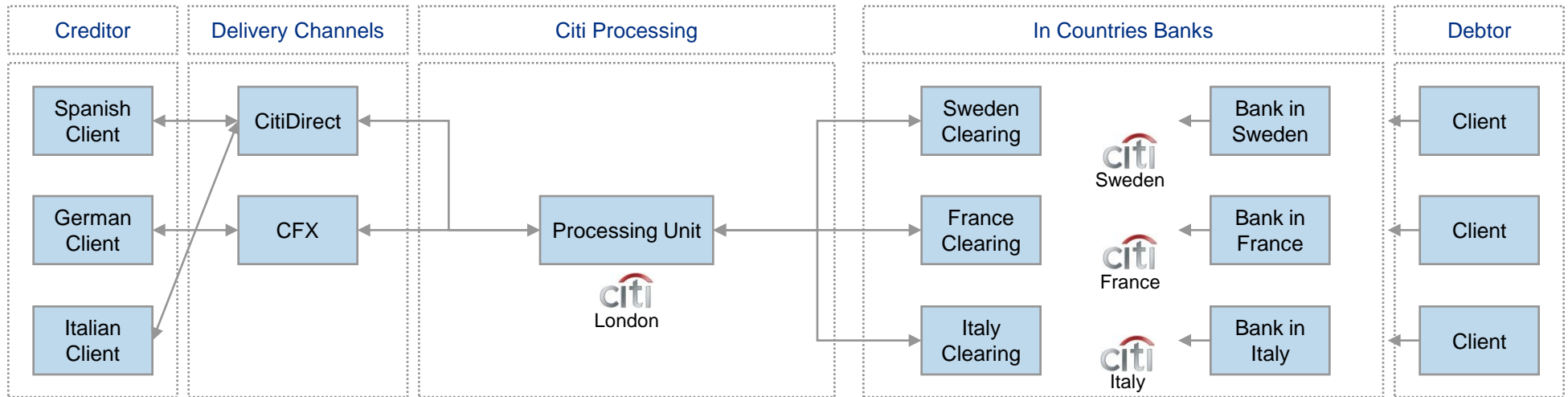
Citi Receivables Strategy

- Provide comprehensive Receivables suite of services that support all channels and methods of payments
 - Facilitate migration from paper based payment channels to more efficient electronic channels
 - Increase straight through reconciliation through on line dispute management, data enrichment, AR matching and interactive suspense management
 - Provide central information management and workflow portal to enhance visibility, analytics, performance metrics and workflow
-
- Value to customers:
 - Improved Financial Performance - Accelerate payment (DSO Improvement)
 - Reduced collections costs (Efficiency)
 - Improved relationship with clients
 - Improved competitive positioning



Receivables Citi Solutions - EMEA

Electronification/Use of Electronic Collections – Direct Debit



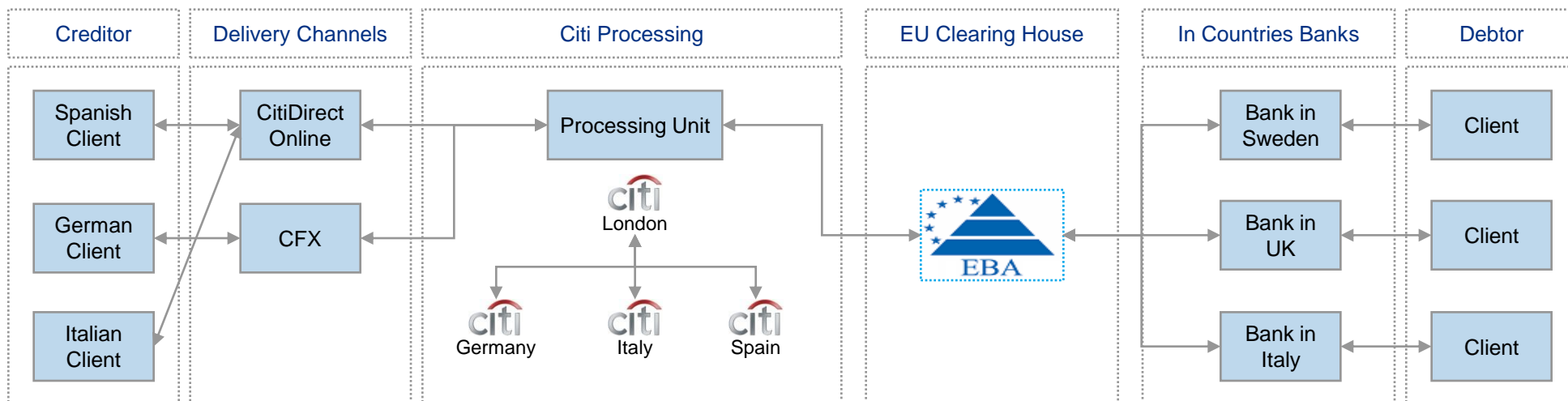
Product Overview

- One single file for all direct debit types, geographies and currencies as per relevant country rules
- File received in Citi London, transactions validated and dispatched to the local ACH's
- Debtors' accounts debited and creditor accounts in each country credited as per relevant clearing cycles
- Reject and return files sent the following working day
- **Relevant Landscape**
- Germany, UK, France, Spain (markets with high penetration rate of electronic collections)

Key Benefits

- **Single communication interface, single file format for local currency collections across 15 countries**
- **Standardized reconciliation process**
- **Complete information** on received amounts and outstanding items
- **Security to the debtor guaranteed by revocability**
- **Single file for rejected items** received for all countries
- **Value added services:** Warehousing, e-Mandates

Electronification/Use of Electronic Collections – SEPA Direct Debit



Product Overview

- Euro direct debits from any participating bank in SEPA (live since 1 November 2009)
- Standardised approach to payment: mandatory use of BIC and IBAN and standard mandate
- One single file sent for all SEPA direct debits
- File received in Citi London, transactions validated and dispatched to EBA for clearing and settlement
- Debtors' accounts debited and creditor account credited as per relevant clearing cycle
- Reject and return files sent the following working day

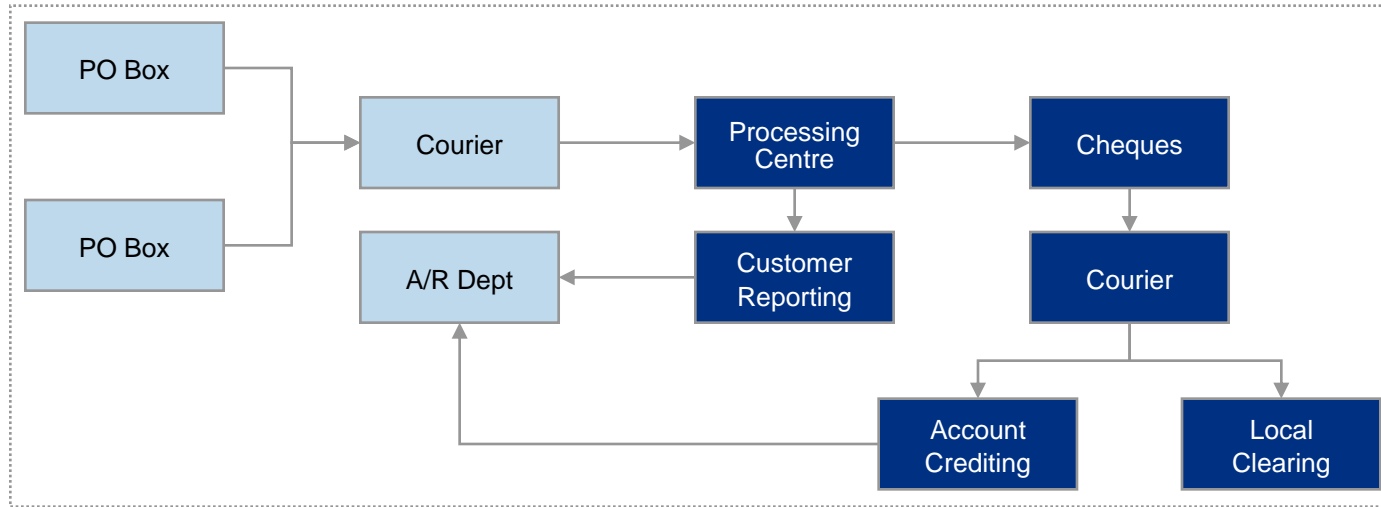
Relevant Landscape

- SEPA Countries with focus on Germany, UK, France

Key Benefits

- Single communication interface, single file format for local currency collections across 32 countries
- Standardized reconciliation process
- Complete information on received amounts and outstanding items
- Security to the debtor guaranteed by revocability
- Single file for rejected items received for all countries

Electronification – Citi Lockbox



Product Overview

- Cheques and remittance advices posted to one of our 15 local PO Boxes
- Items collected by a courier overnight and delivered to the Citi processing centres in UK and Germany
- Cheques and remittance advices scanned and key information extracted and included in a daily report
- Creditor's account with Citi credited with the amount of cheques cleared

Relevant Landscape

- UK, France, Italy (markets where cheques are intensively used)

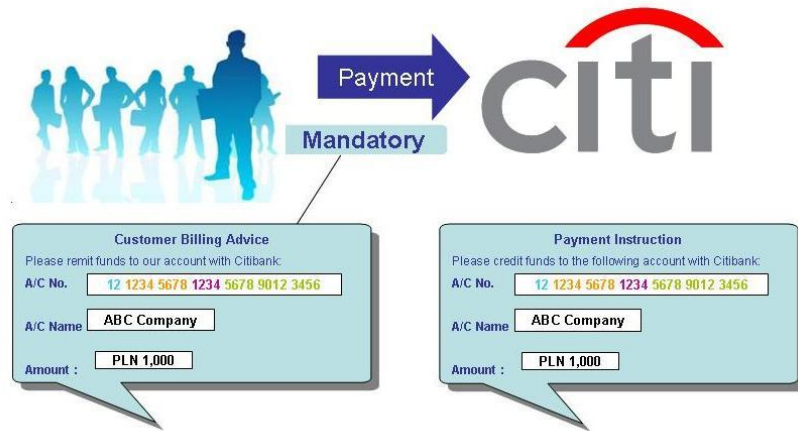
Key Benefits

- [Detailed cheque and remittance information](#) for an accurate reconciliation
- [Single solution](#) covering 15 European countries
- [Payment information detailed reporting](#) available via CitiDirect

Integrated Matching – Citi's Virtual Accounts Solution

Payment Process

- Payer will receive invoice from creditor quoting the virtual account (VA) assigned to him
- Payer will initiate a transfer quoting his VA
- Citi will receive the payment with the same VA assigned by creditor to that customer

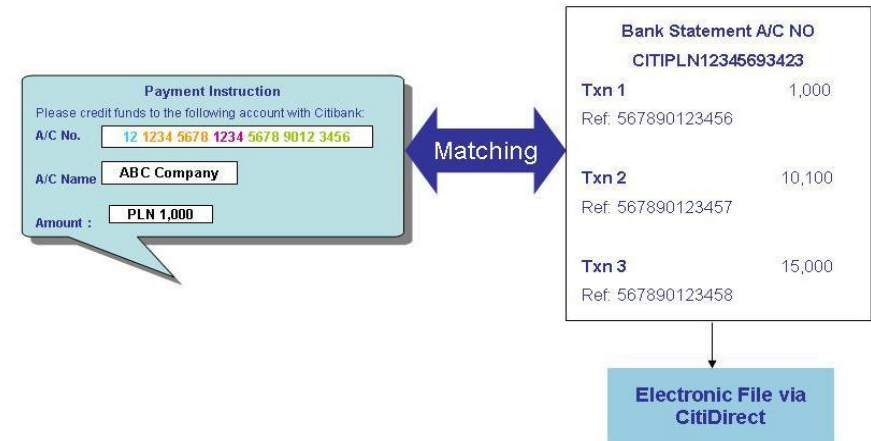


Relevant Landscape

- Hungary, Ukraine, Bulgaria, Poland, Morocco and Russia

Account Posting & Reconciliation

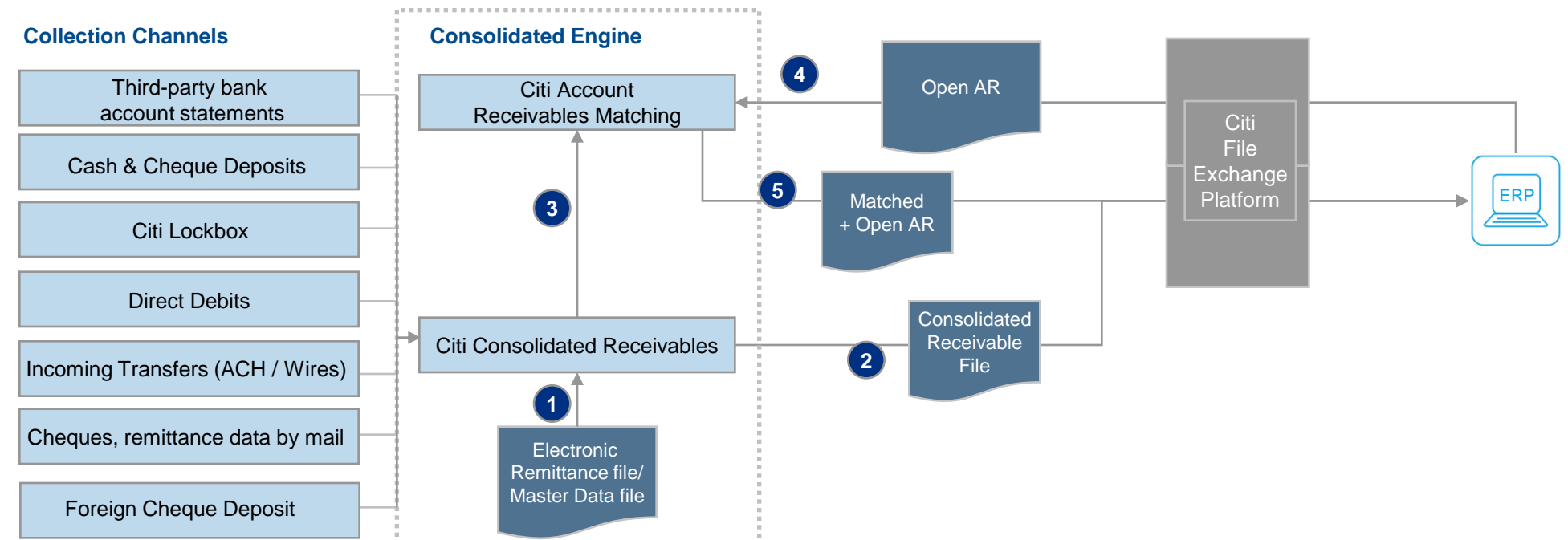
- Citi will automatically match the VA to creditor's real account number
- Credits will be posted to creditor's real account number
- MT 940 Statements quoting the VA of creditor's customers as payment details are available via CitiDirect and in some cases AR files are available



Key Benefits

- Streamlined flow of information as it offers a payer Identification Service
- Simplifies the reconciliation process through a fully automated solution
- Increases automation by reducing the manual effort to extract data from statements

Integrated Matching – Consolidated Receivables, Account Receivables Matching



Product Overview

- The information from available sources (MT940, Direct Debits, Lockbox) is consolidated
- Parsing rules which have been established with the client are applied so as to identify the key items of information which will assist in the reconciliation of open items
- Consolidated Receivables file is provided in a flat file format which can be directly loaded into the ERP
- Accounts Receivable Matching goes one step further
 - creditor provides its open AR file to Citi for matching to be performed robust parsing rules to handle tolerance in amount, payment discounts and other items to aid the matching process
 - Full, partial and unmatched files transmitted to creditor daily

Key Benefits

- Auto-repair of truncated/incomplete invoice numbers based on user-defined rules
- Increase auto-match rates with open AR items based on user-defined rules
- Streamlined and simplified cash application

Receivables Citi Solutions - US




Electronification/Use of Electronic Collections

Citi's Customer Initiated Payments (CIP)

CIP provides a customer branded, multi-channel bill presentment and payment solution for C2B transactions.

Benefits

- Offers a variety of presentment and payment channels: Web, IVR, Customer Service Assisted
- Eliminates paper processing and postage costs, and expedites cash receipts
- Accelerates the process and funds availability by allowing a quick set-up of consumers and audit trail for tracking payments

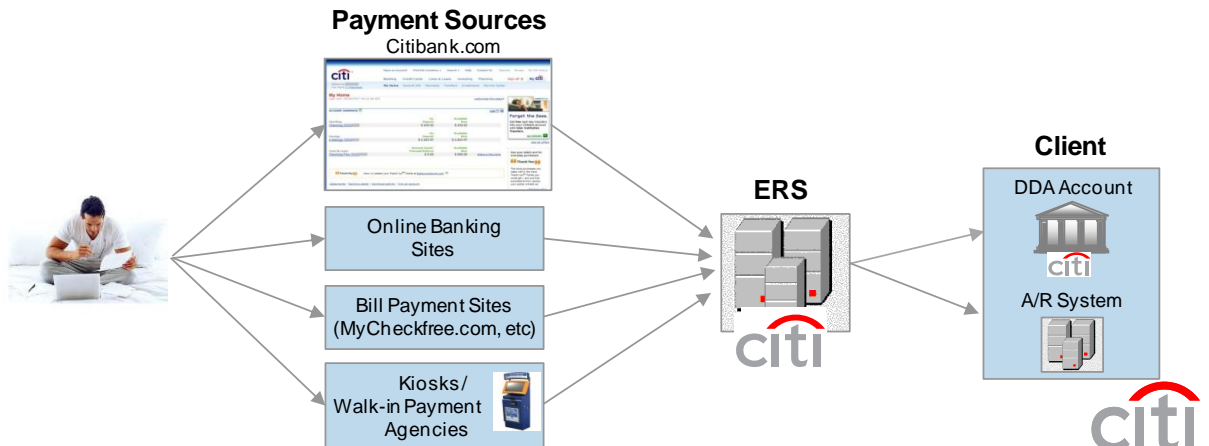
Web 	IVR 	CSR 
<ul style="list-style-type: none"> • Fully branded and linked to biller's website 	<ul style="list-style-type: none"> • Dedicated 800 numbers; option for link from biller's IVR 	<ul style="list-style-type: none"> • Payment initiation using browser-based interface
<ul style="list-style-type: none"> • Supports enrolled and one-time payers 	<ul style="list-style-type: none"> • Customized greetings and scripts 	<ul style="list-style-type: none"> • Can be scripted to improve consistency of calls
<ul style="list-style-type: none"> • Pre-populated fields based on billing file 	<ul style="list-style-type: none"> • Announcements based on date in liability file 	<ul style="list-style-type: none"> • Access to full payment history for inquiries
		<ul style="list-style-type: none"> • Ability to reverse payments

Citi's Electronic Receivables Services (ERS)

ERS is a service in which Citi collects payments electronically from over 5,000 home banking websites, bill payment sites, walk-in bill pay providers and delivers them to our client (billers) as a single ACH credit and single payment credit file

Benefits

- Accelerates receipt of online payments, improving working capital and reducing DSO
- Eliminates the cost of processing lockbox exceptions
- Delivers transaction data accurately and quickly, reducing delinquencies and inquiries
- Improves internal operating efficiency with automatic cash posting to A/R system



Electronification/Use of Electronic Collections

Citi's Electronic Invoice Presentment and Pay (EIPP)

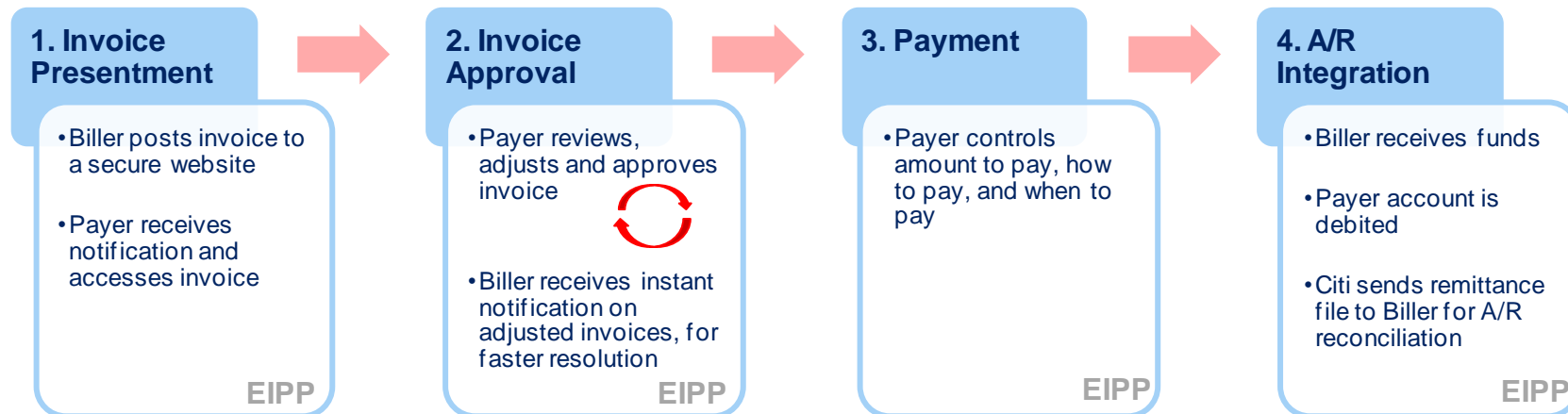
EIPP is a robust, intuitive, B2B solution which electronifies your existing invoice presentment process and eliminates the inefficiencies and lengthy processing associated with paper invoicing and payment. According to our research, clients can save \$6.50 per invoice on average by migrating from paper to electronics.

Features

- Presents an invoice online, via secure browser interface
- Allows speedy dispute management and robust dispute audit trail
- Enables billers to offer prompt pay discount
- Provides email notifications for all involved parties and thus facilitates the effective, accurate and timely processing of the invoice
- Provides and supports safe, secure electronic payments
- Integrates with existing ERP systems (SAP, Oracle, etc.)
- Is a Global solution

Benefits

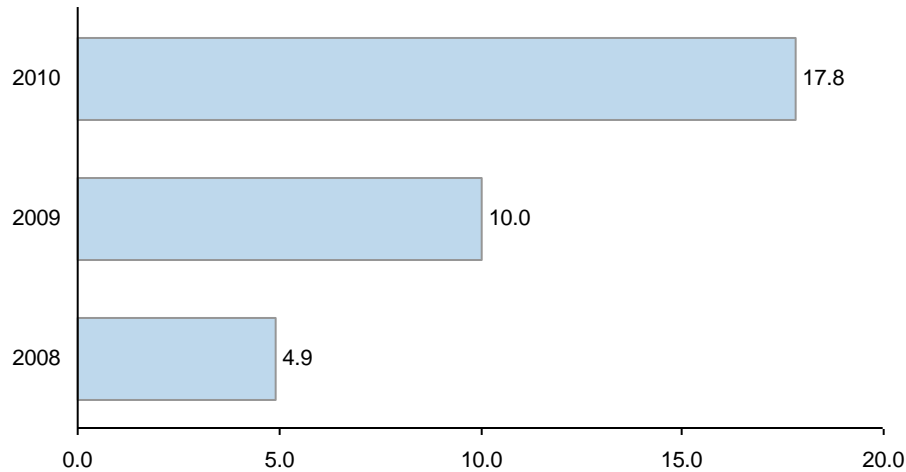
- Automates processes
- Reduces print and mail costs
- Shrinks Days Sales Outstanding and frees up working capital
- Reduces dispute rates and accelerates payment settlement
- Increases cash flow visibility and improves treasury management function
- Improves customer service
- Alternative to less sophisticated EDI solution



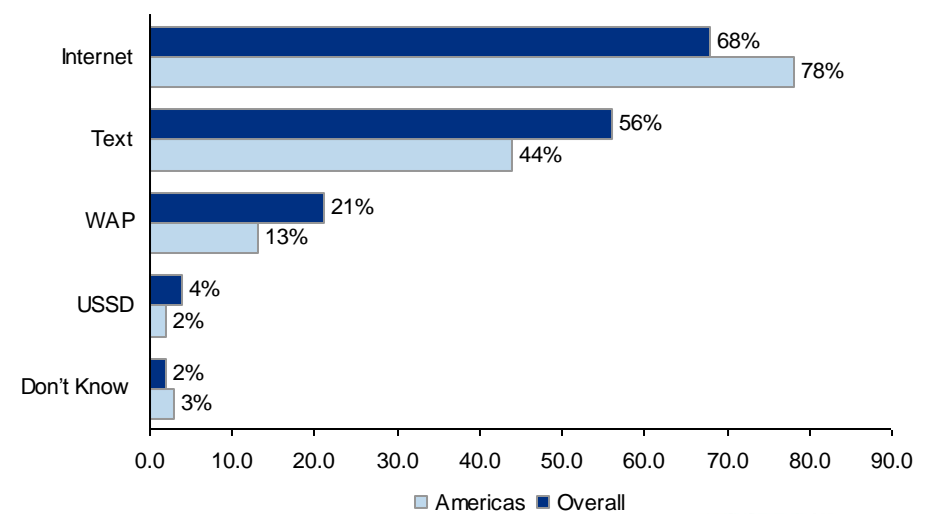
Electronification/Use of Electronic Collections (Cont'd)

Citi's Mobile Bill Presentment and Payment

US Mobile Banking Users ⁽¹⁾



Methods for Conducting Mobile Banking ⁽⁴⁾



Key Growth Drivers

- Smartphones ⁽²⁾: 44% CAGR vs. 0.3% non-smart phones
- Data Services ⁽³⁾: 41% CAGR vs. (10)% voice spend

Citi's Mobile Capabilities: Comprised of Four Elements, Used Collectively or Interchangeably

- SMS: Text-based bill delivery and payment authorisation. Broadest reach, but least sophisticated experience
- Mobile Browser (API): Tightly integrated with presentment and payment engine through web services calls
- Mobile Browser (Content Adaptation): Maps an existing website to a variety of phones/PDA's through style sheets. Easiest, and most cost effective to deploy, but risk of out-of-sync conditions between web and mobile experience
- Downloadable Application: Designed specifically for the biller. Most sophisticated experience, but adoption/reach is currently limited

Based on your goals and requirements, Citi can deploy any or all of the above

- (1) Tower Group May 2009.
- (2) Oppenheimer.
- (3) Credit Suisse
- (4) Survey commissioned by Sybase 365, conducted by Loudhouse Research (2010).



ReceivablesVision

ReceivablesVision integrates Receivables transactions through an online portal, thus empowering our clients to better manage their cash flow.

What is it?

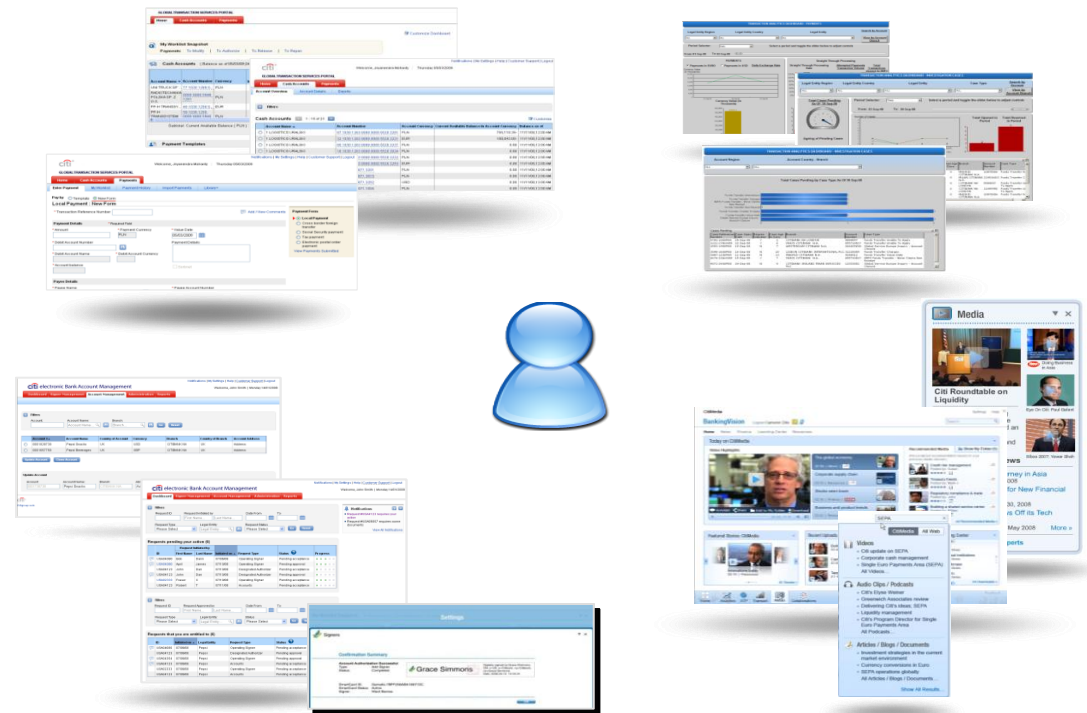
- Citi's global, interactive, online Accounts Receivable portal
- Enhances visibility across all regions, channels and payment methods
- Accesible through Citi's award-winning CitiDirect Platform

Core Elements

- **Information Transparency**—online access to all receivables transactions, images and supporting detail
- **Client Communication**—inquiries, customizable alerts
- **Transacting and Decisioning**—workflow tools, exception item handling, A/R Matching, Business Intelligence

Sophisticated Metrics Reporting

- Drill down on dials and graphs into reports for analysis of transactions, investigations, or accounts
- Analyze current (up to prior day) & historical metrics
- Benchmark statistics against static thresholds
- Filter by region, legal entity, country of account or legal entity, branch and account, time periods



Case Studies

S&P 500-constituent Newell Rubbermaid is a global marketer of leading consumer and commercial products with sales of around USD5.6 billion in 2009.

Challenges

- Following a series of mergers and acquisitions, Newell Rubbermaid maintained 190 accounts with 22 different banks
- This resulted in a large number of manual processes, few economies of scale and limited control.

Need

- Newell Rubbermaid issued a RFP with the objective of finding a single banking partner for payments and collections across 22 countries in EMEA
- One of the company's most important criteria for selecting a partner was the bank's capability to manage local collections, especially domestic instruments, and payments in each market
- "Accounts receivable were a key consideration because while Newell Rubbermaid can determine how it pays its suppliers, customers inevitably determine local collection methods," explains Jérôme Miara, European Treasurer.

Solution

- Citi's proposed that 126 Citibank accounts would be opened for Newell Rubbermaid's 54 different legal entities across EMEA.
- Payments would be made using Citi's state-of-the-art platform for file transmission and translation, Citi® File Xchange, and the web-based banking platform CitiDirect® Online Banking.
- Domestic solutions would be implemented in each country to support the local entities' requirements, including the use of instruments such as LCRs, RIBAs and Pagares. A pan-European lockbox for cheques would be established.

Results

- Newell Rubbermaid closed 148 legacy bank accounts and exited 17 non-strategic bank relationships
- Automated cash application of its accounts receivable balance
- Manual processes have been reduced and treasury staff have been redeployed to value added tasks
- The company has used the project as an opportunity to harmonise its banking processes, enabling the migration of accounts payable and receivable and general ledger processes to its European SSC
- "Increased visibility of its O2C-cycle processes has helped the company to improve decision-making, reduce credit risk and enhance working capital management." Jérôme Miara, European Treasurer

Case Study: EIPP for Air Cargo Industry

Since 2003, Citi's EIPP platform has transformed Air Freight invoicing, approval and bill payment processes.

A Proven Track Record ...

- Operational since 2003
- 2.8mm invoices and \$4.8bn of spend processed in 2008
- 99.99% system uptime in 2009
- Successfully serves over 1500 users on a daily basis

... Delivered Immediate, *Measurable* Benefits

- Reduced DSO by 10+ days
- Shrunk biller invoice presentment and collection costs by 18%
- Streamlined payer invoice review & approval process
- Cut dispute rates by 45%



The Value Delivered to the Air Cargo Industry is Applicable to Other B2B Industries

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In January 2007, Citi released a Climate Change Position Statement, the first US financial institution to do so. As a sustainability leader in the financial sector, Citi has taken concrete steps to address this important issue of climate change by: (a) targeting \$50 billion over 10 years to address global climate change: includes significant increases in investment and financing of alternative energy, clean technology, and other carbon-emission reduction activities; (b) committing to reduce GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (c) purchasing more than 52,000 MWh of green (carbon neutral) power for our operations in 2006; (d) creating Sustainable Development Investments (SDI) that makes private equity investments in renewable energy and clean technologies; (e) providing lending and investing services to clients for renewable energy development and projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.