

Beating The Credit Crunch: Unlocking Internal Liquidity

25 October 2007



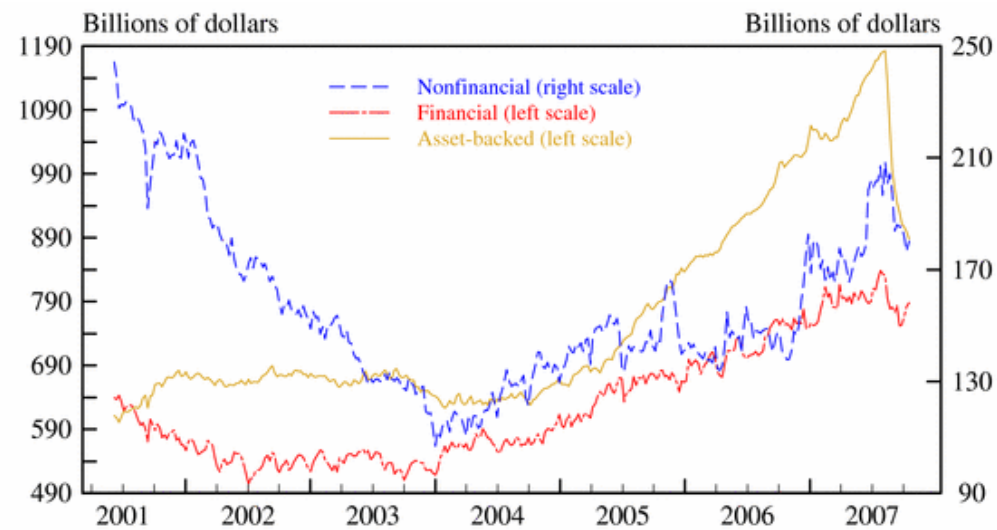
Agenda

- Where Did All The Cash Go?
- Where Can Funds Be Found?
- How Much Internal Cash Can Be Unlocked?
- What Can A Treasurer Do?
- Where Is The Cash Hiding?
- How Can A Treasurer Unlock This Capital?
- Q&A

Where Did All The Cash Go?

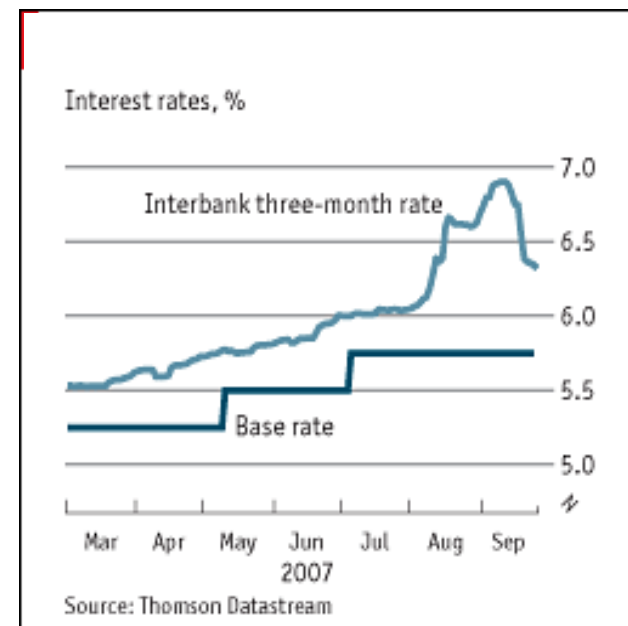
- After a sustained period of excess liquidity and cheap money, external sources of liquidity have either dried up or become more expensive

US Commercial Paper Outstandings



Source: Federal Reserve Bank

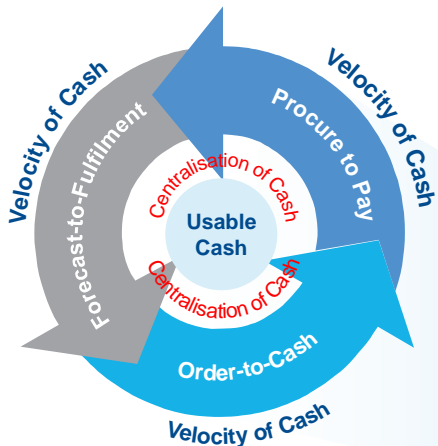
GBP 3 Month Interbank Rate



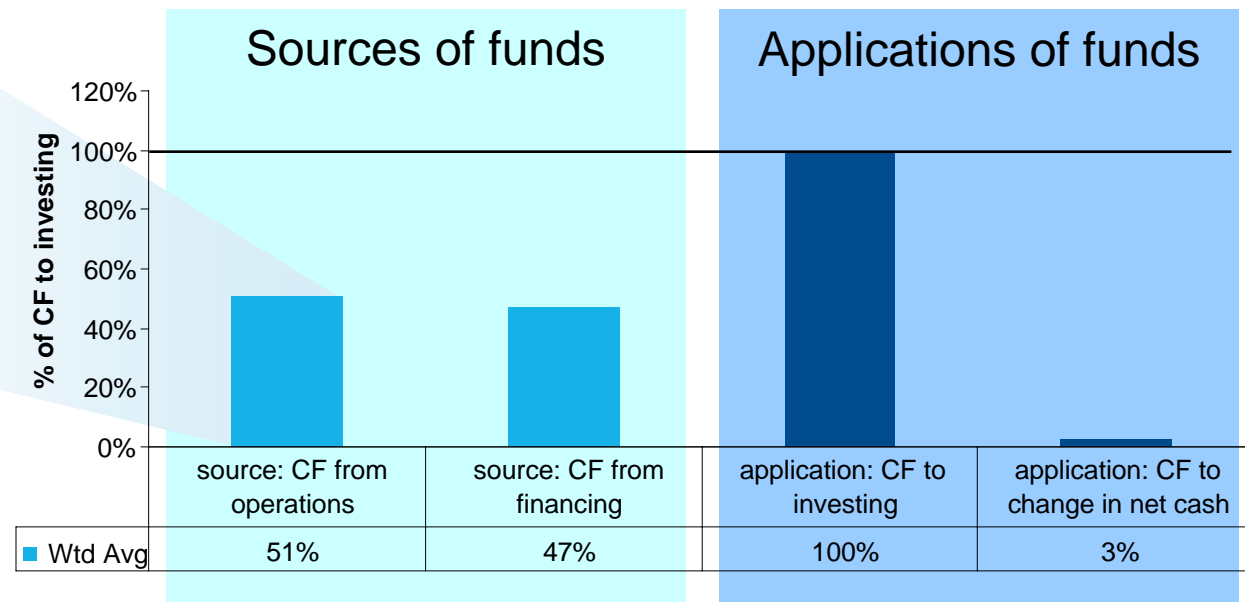
Source: Thomson Datastream

Where are the Sources of Cashflow?

- Cashflow for business investments & changes to net cash have historically been generated from operations & external financing
- The credit crunch's impact on external financing will focus companies on financial operational efficiency in order to meet business cash requirements



October 2007 Analysis of Cashflow Statements for Dow Jones30 Components Current Year 10K's



How Much Internal Cash Can Be Unlocked?

- USD 590bn among top 1,000 companies in the US
- EUR 580bn among top 1,000 companies in Europe

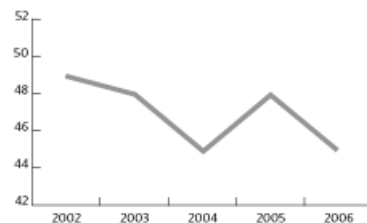
Source: REL Consultancy Group's 7th Annual US and European Working Capital Surveys

DIG A LITTLE DEEPER

Days working capital,
by country

	2006 DWC	CHANGE 2005-06
Austria	60	12%
Belgium	46	-25
Denmark	69	-9
Finland	67	-1
France	52	-5
Germany	69	-4
Ireland	37	-8
Italy	55	7
Luxembourg	45	25
Netherlands	58	0
Norway	49	19
Portugal	17	53
Spain	20	13
Sweden	75	-10
Switzerland	76	-2
UK	44	-3
Europe	52	-9%
US	43	-2
Europe, ex-auto	45	-7
US, ex-auto	39	0

Days working capital,
European average*



*excluding auto sector

Proportion of companies
with either
improving or deteriorating
days working capital

	2005	2006
Improving DWC	44%	60%
Average improvement	-39%	-11%
Deteriorating DWC	56%	40%
Average deterioration	17%	22%

Source: REL

BEST AND WORST

Changes in DWC (% by industry*)

Most Improved	
Hotels, restaurants, and leisure	-52%
Independent power producers and energy traders	-44
Construction and engineering	-22
Multiline retail	-13
Marine	-11
Air freight and logistics	-11%
Worst Deterioration	
Gas utilities	+64%
Oil, gas, and consumable fuels	+20
Diversified consumer services	+20
Food products	+14
Computers and peripherals	+13
Household products (nondur.)	+12%

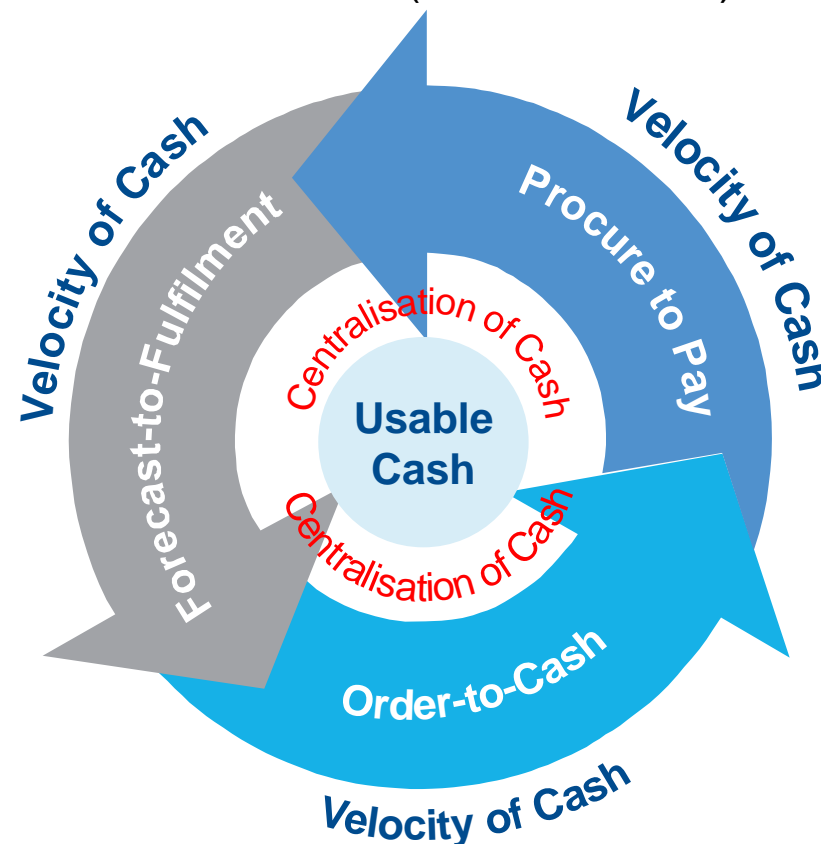
* Median

Source: REL

What Can A Treasurer Do?

Treasurers can reduce reliance on external funding by:

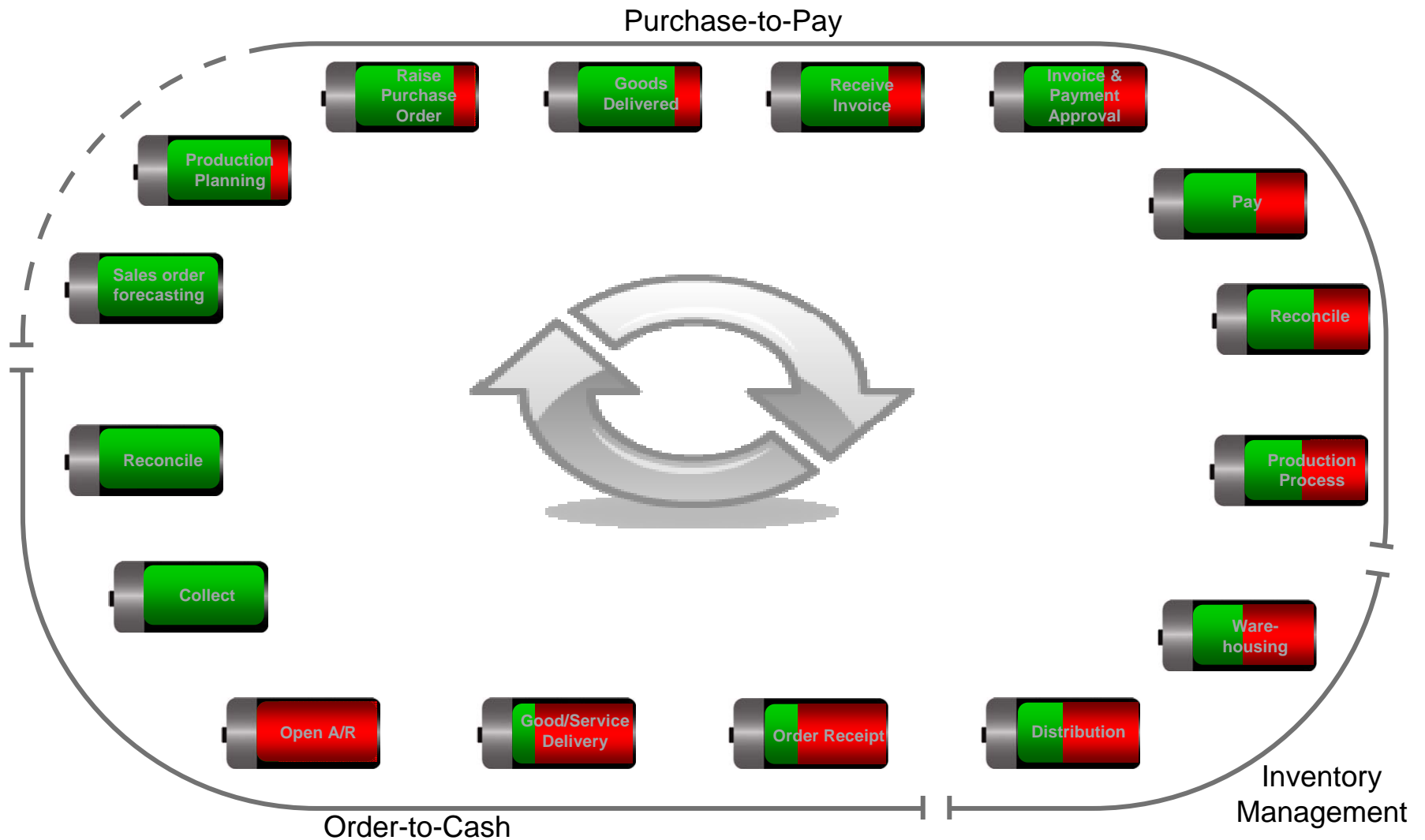
- Increasing the velocity of cash cycle (transactional)
- Increasing the centralisation of cash (balance sheet)



Survey

- Who has overall responsibility for driving working capital improvements in the organisation?
 - Treasurer/Assistant Treasurer/Treasury Manager
 - Cash Manager (A/P and A/R)
 - CFO
 - Other

Where Is The Cash Hiding?

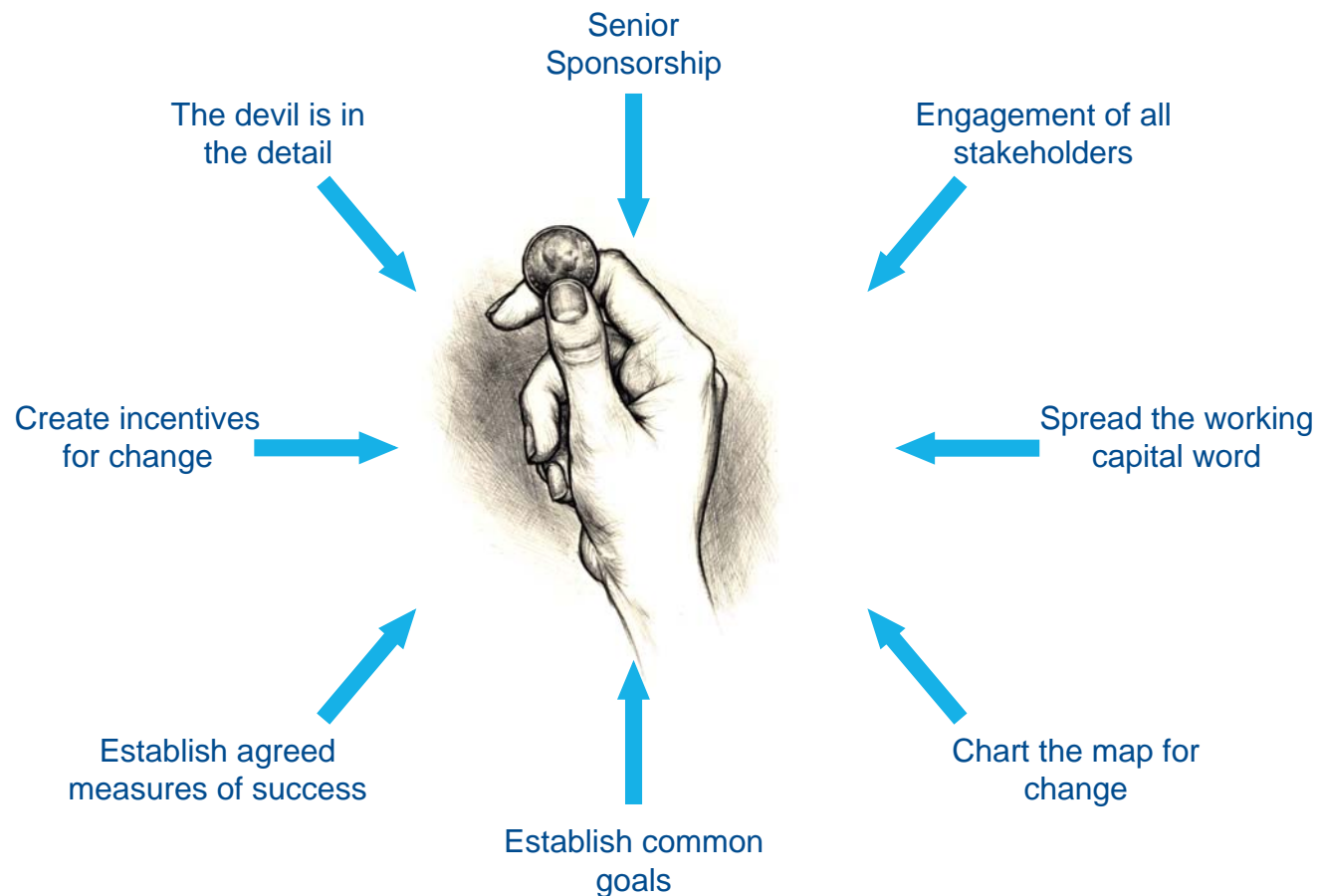


Survey

- Where is the working capital tied up in your company?
 - Debtors/Accounts Receivable (DSO)
 - Inventory (DIO)
 - Procurement/Payment (DPO) – *i.e. not fully utilising payment terms or taking advantage of early payment discounts*
 - Other

How Can A Treasurer Unlock This Capital?

- There is no magic formula, but there are certain essential ingredients....

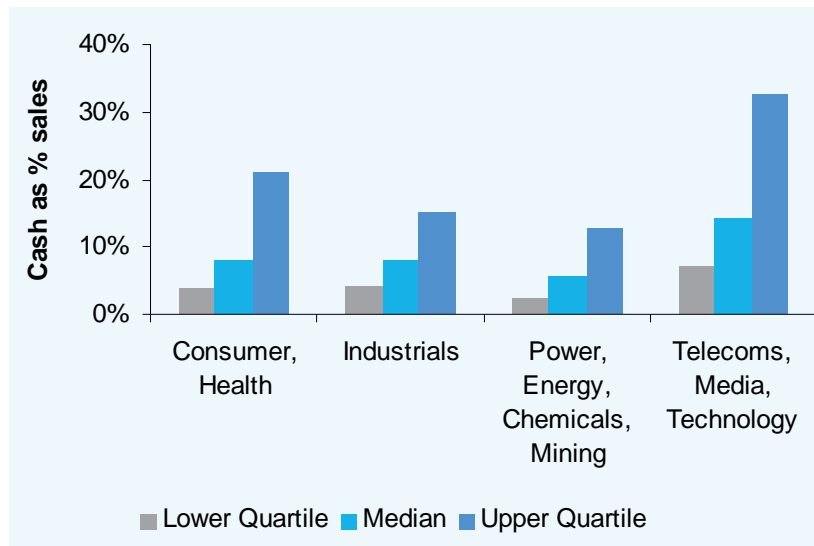


Cash Holdings & Cash Effectiveness Vary Widely

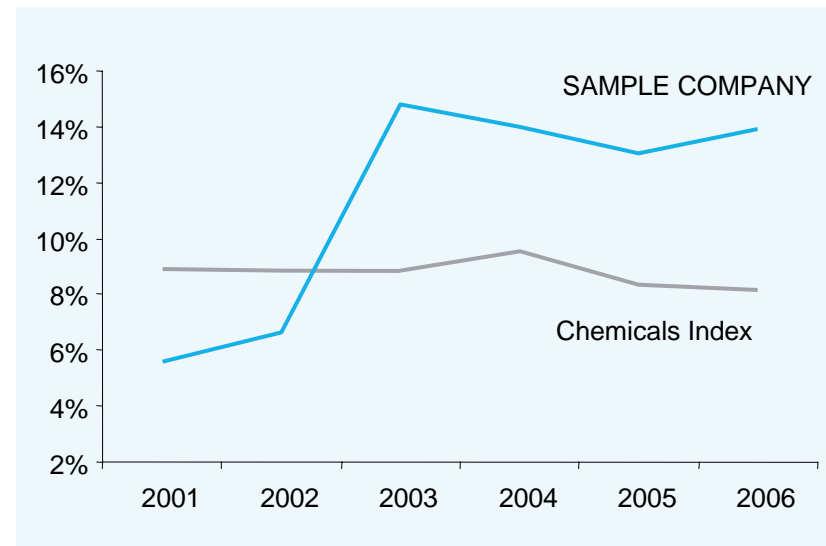


- Variations in cash holdings occur due to industry characteristics...
- ...but these are outweighed by variations within industries due to cash effectiveness
- Companies with greater Cash Effectiveness hold lower cash-to-sales ratios

Cash Holdings across / within Industry



Case study vs. Peers: 2001- 2006

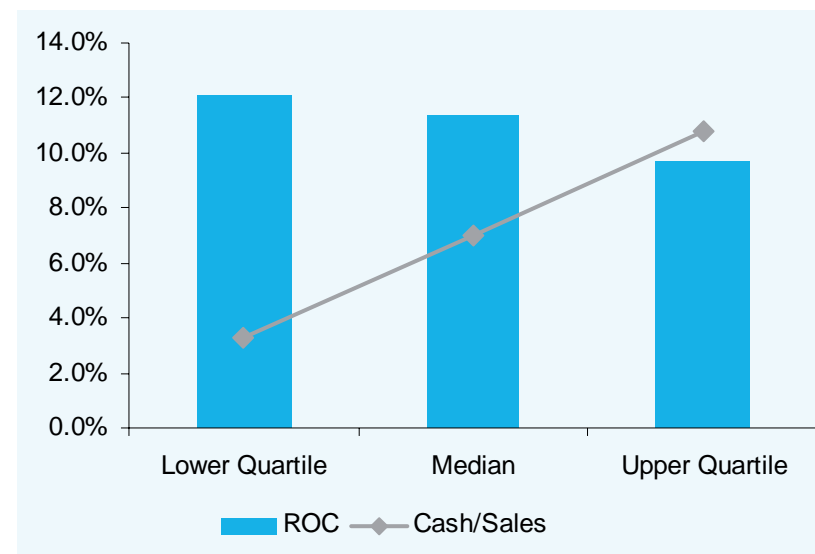


Source: Citi, DJ Stoxx Global 1800, Factset

Cash Effectiveness Can Impact Profitability

- Enhancing cash effectiveness (by reducing idle cash holdings) is associated with improved profitability
 - Returns on idle cash typically below ROC of operating business

Profitability (ROC) vs. Cash Holdings

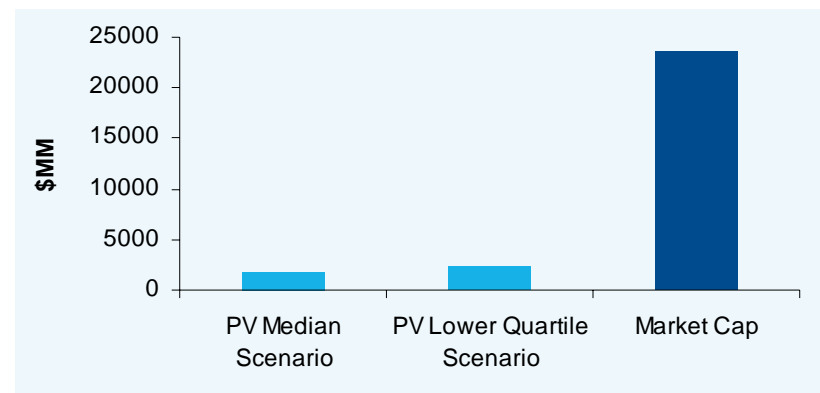


Source: Citi, DJ Stoxx Global 1800, Factset

Cash Effectiveness Can Impact Market Value

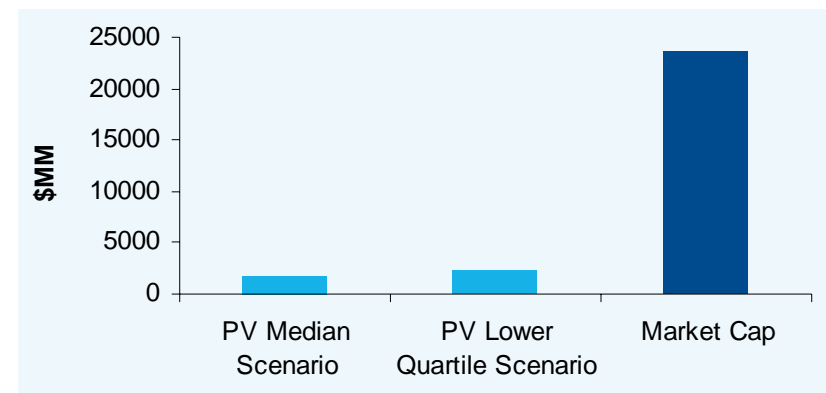
- Identifying & capitalising annual EVA impact of cash holdings allows estimates of associated potential impact on market capitalisation:
 - Growing Perpetuity
 - P/E Ratio
- CASH STUDY (CONTINUED): These indicate that the sample company's substantial cash war chest could be dragging market capitalisation by up to 10%, vs. peers with median or lower quartile cash holdings

PV of EVA Benefit – Perpetuity Method



- $PV(\text{EVA drag}) = \text{EVA} / (\text{Re} - g)$: Re defined previously, g = long term growth estimated at 5%

PV of EVA Benefit – P/E Method



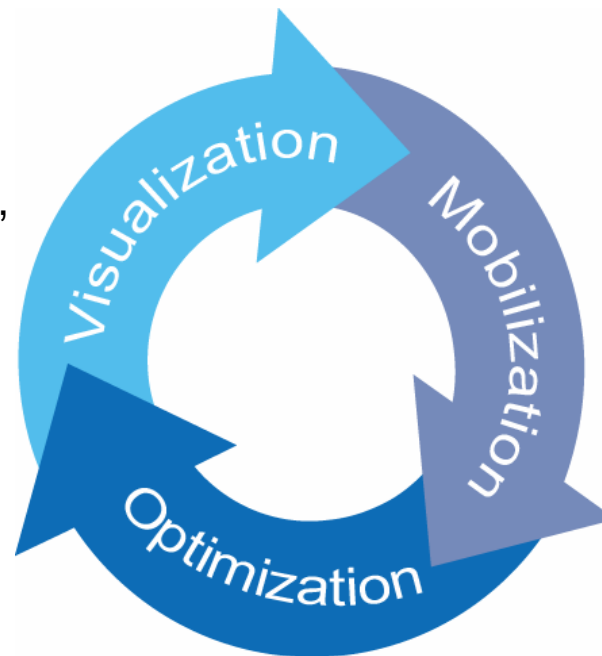
- $PV(\text{EVA drag}) = \text{EVA} * \text{P/E ratio}$. Sample company P/E= 16.5 @ 1/8/07

Source: Citi, DJ Stoxx Global 1800, Factset

How Can We Realise These Benefits?

- An End-to-End approach to globalised treasury addresses visibility, mobilisation, optimisation

- TMS, ERP, other systems
- Multi-bank, multi-assets, real time
- Forecasting, analytics



- Sweeping – intra-day, end-of-day
- Domestic, cross-border/regional
- Single vs. multi-bank

- Pooling, concentration
- Single vs. multi-currency
- Managing trapped liquidity
- Debt repayment, inter-co financing
- Investments

Impact of Liquidity Management – case studies & surveys



- Effective Liquidity management can deliver significant financial benefits
- **Financial benefits through interest offset self-funding**
- Increased liquidity through reduction of volatile cash

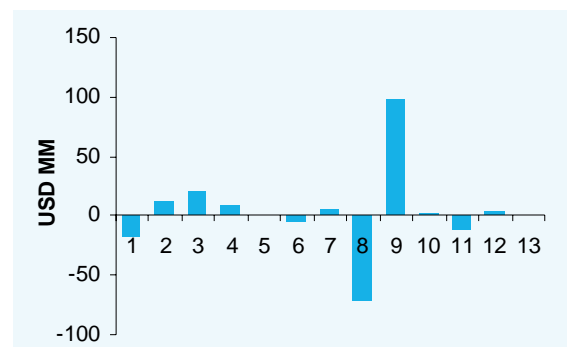
Case Study

- Standalone accounts earn / pay interest based on individual balances
- Pooling structures offer scope for interest saving through self-funding
- Self funding can also be achieved on a cross-currency basis

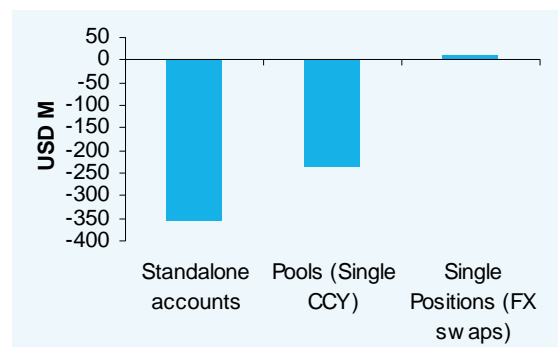
Survey

- Depending on the degree of offsetting balances, interest savings can be significant, exceeding 30%

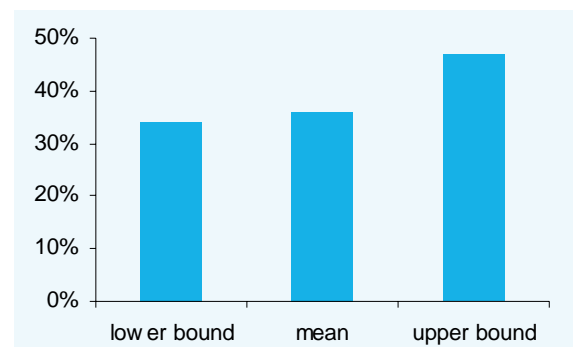
Case Study Balances



Interest Impact for Case Study



Range of Typical Interest Impacts



Source: citi analysis

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15

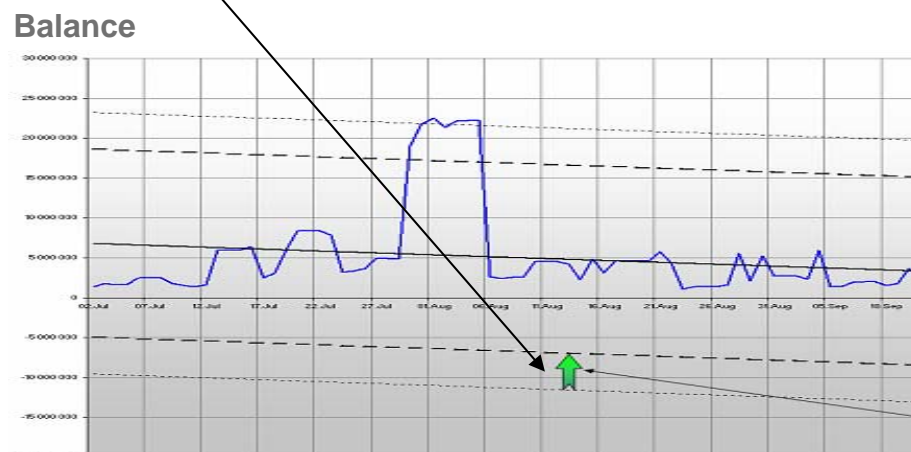
Impact of Liquidity Management – case studies & surveys



- Effective Liquidity management can deliver significant financial benefits
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- **Increased liquidity through reduction of volatile cash**

Case Study

- Volatile positions can not be deployed or invested with confidence
- Combining positions in a pool reduces aggregate volatility via diversification
- Pooling can free up cash for redeployment by reducing volatility



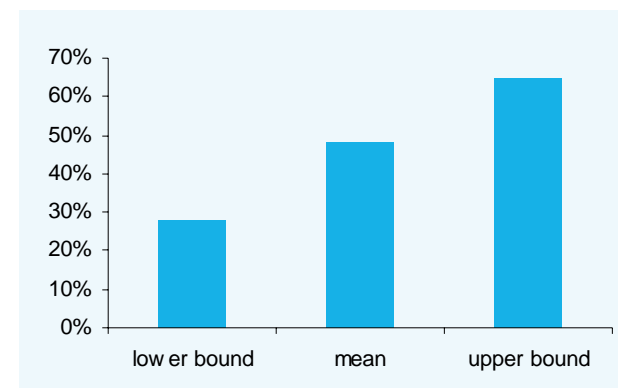
Source: citi analysis

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Survey

- Depending on the degree of offsetting balances, reduction of volatile cash can be significant, exceeding 30%

Typical range of volatile cash reduction





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