

BEST PRACTICES IN INTERNATIONAL CASH MANAGEMENT

June 10, 2011

This presentation was prepared exclusively for the benefit and internal use of the J.P. Morgan client to whom it is directly addressed and delivered including such client's subsidiaries, (the "Company") in order to assist the Company in evaluating, on a preliminary basis, certain products or services that may be provided by J.P. Morgan. This presentation is for discussion purposes only and is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by J.P. Morgan. It may not be copied, published or used, in whole or in part, for any purpose other than as expressly authorised by J.P. Morgan.

The statements in this presentation are confidential and proprietary to J.P. Morgan and are not intended to be legally binding. Neither J.P. Morgan nor any of its directors, officers, employees or agents shall incur any responsibility or liability to the Company or any other party with respect to the contents of this presentation or any matters referred to in, or discussed as a result of, this document. J.P. Morgan makes no representations as to the legal, regulatory, tax or accounting implications of the matters referred to in this presentation.

IRS Circular 230 Disclosure: JPMorgan Chase & Co. and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with JPMorgan Chase & Co. of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

J.P. Morgan is a marketing name for the treasury services businesses of JPMorgan Chase Bank, N.A. and its subsidiaries worldwide. In the United Kingdom, JPMorgan Chase Bank, N.A., London branch and J.P. Morgan Europe Limited are authorised and regulated by the Financial Services Authority

JPMorgan Chase is licensed under US patent numbers 5, 910,988, and 6, 032 and 137

©2006 JPMorgan Chase & Co. All rights reserved.

Agenda

	Page
Global Treasury - Market Trends in 2011	1
Business Environment and Market Reaction	5
Best Practices in Global Liquidity and Working Capital	15
Cash Management in China	24
Internationalization of RMB	29

What Leads To Best Practices?

Key Events

- Positive
 - Growing business
 - Overseas expansion
 - New business opportunities
 - Acquisitions
- Negative
 - Financial Crisis

What Leads To Best Practices?

What keeps Treasurers up at night?

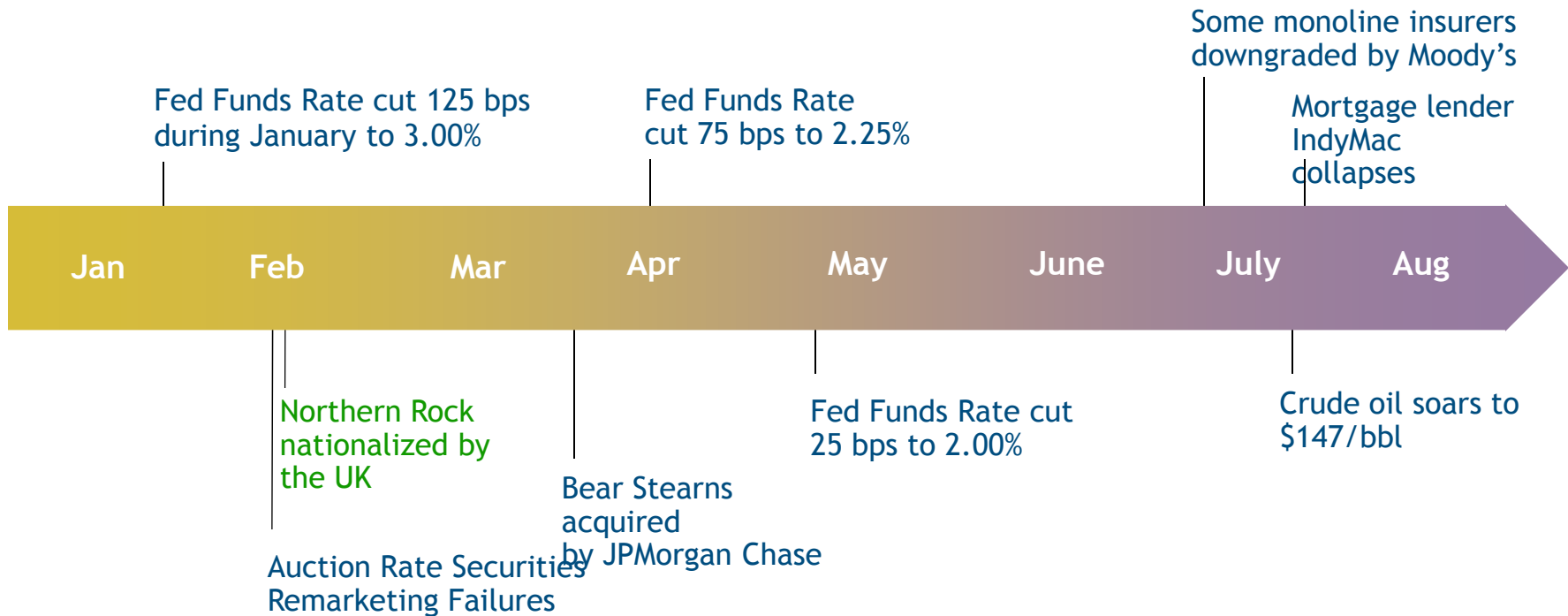
- Credit/FX Exposure
- Forecasting cash flow
- State of the economy



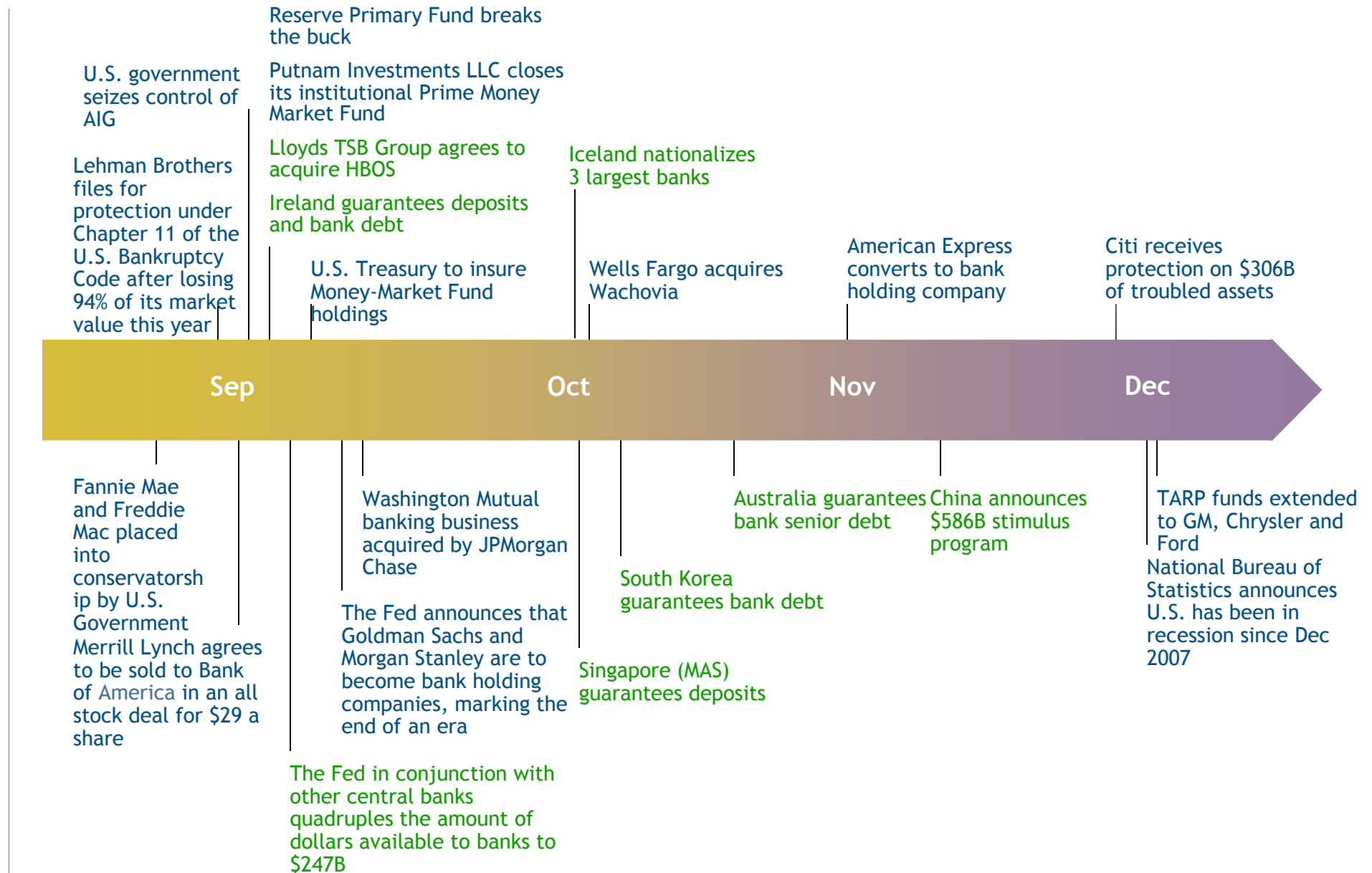
Agenda

	Page
Global Treasury - Market Trends in 2011	1
Business Environment and Market Reaction	5
■ What happened from 2008 to present	
■ Market Reaction/Trends	
Best Practices in Global Liquidity and Working Capital	15
Cash Management in China	25
Internationalization of RMB	29

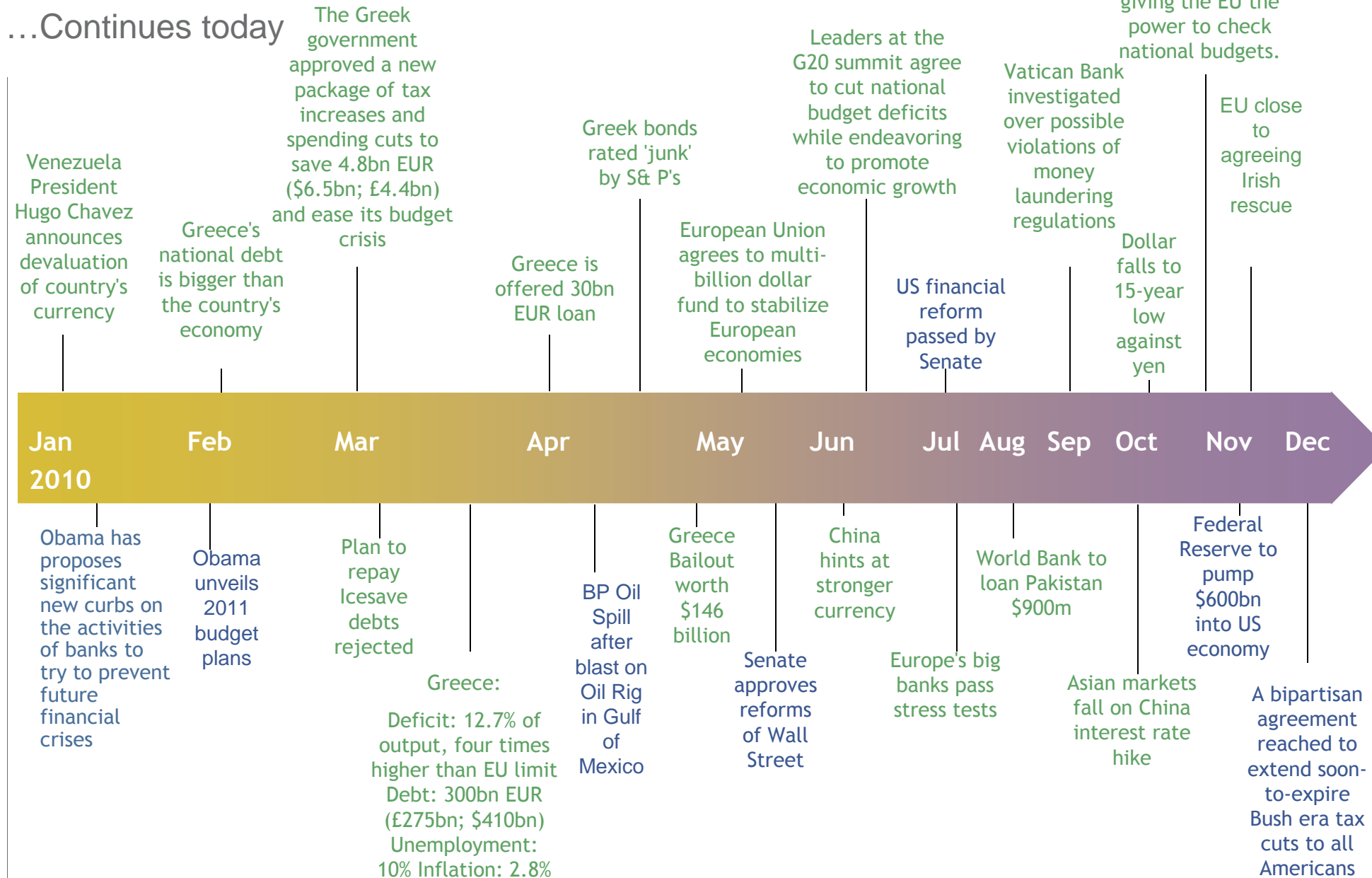
In 2008-Unprecedented Times on a Global Scale...



...and Change Happening at an Unprecedented Pace



...Continues today



How Corporations Reacted

- Placed greater importance on internal liquidity and working capital processes
- Engaged executive-level support for and involvement in working capital optimization
- Focused on managing working capital risk
- Greater focus on growth outside of US
- 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

Global Treasury - Market Trends in 2011

Centralization

- Migrating from a decentralized environment to more centralized

People

- Identifying, hiring, retention of strategic leaders
- Project management focus
- International background, knowledge

Process and Efficiency

- Continued migration from paper to electronic
- Development of long term strategic plans for Treasury, in sync with Corporate objectives
- Process improvements from transactional standpoint (i.e., STP)

Global Treasury - Market Trends in 2011

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 in 2011

Expanded Role of Treasury

- Control or Strong influence over all aspects of working capital
- Increased responsibilities and oversight for Risk 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 in 2011

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
- Monitor the health of banks and partners

Optimized Liquidity and Treasury Structures

- Pooling (physical and notional) 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
- Intercompany netting and loan administration

Global Treasury - Market Trends in 2011

Global Liquidity Trends

- Continued concerns around counter-party risk
- Overall banking relationships are growing to mitigate counter party risk, while at the same time being rationalized 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

Agenda

	Page
Global Treasury - Market Trends in 2011	1
Business Environment and Market Reaction	8
Best Practices in Global Liquidity and Working Capital	15
Cash Management in China	24
Internationalization of RMB	29

Understanding Cash Needs: Adopting a Consistent and Dynamic Framework

- Working capital is constantly changing, however, the factors that must be considered and understood should not
- Understand your need to hold cash:
 - Type:
 - Working capital / operating
 - Capital expenditure
 - Debt maturities
 - Repurchases / dividends
 - Acquisitions
 - Degrees or Urgency of Need:
 - Short-term vs. Medium-term
 - Expected vs. Unexpected
 - Discretionary vs. non-discretionary
 - Tactical vs. Strategic
- What is the appropriate level of cash? Balance trade-off between:
 - The known opportunity cost of holding cash
 - The cost to replenish cash reserves (under duress?)
 - The uncertain cost of not being able to meet cash needs
- To develop an appropriate framework:
 - Need to understand: typical, expected, probable and possible cash flows
 - Need to consider: timing, frequency, size, and degree of certainty

Best Practices on Global Liquidity and Working Capital

- Forecast and segment cash needs
- Establish appropriate investment guidelines
- Select investments appropriate for cash segments
- Maximize liquidity transparency and efficiency by centralizing Treasury management
- Optimize liquidity and working capital efficiencies

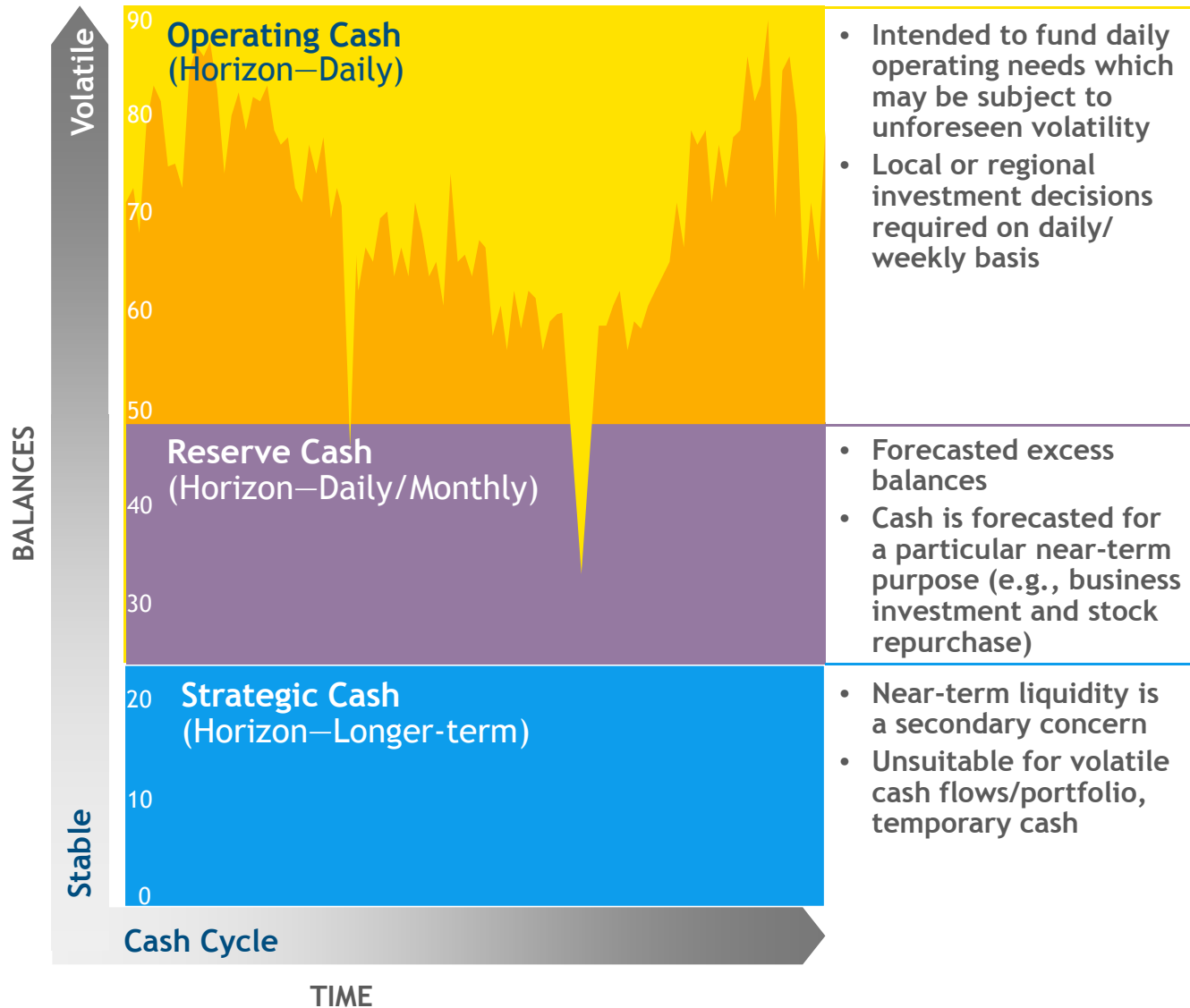
Forecast and Segment Liquidity Needs

Cash Forecasting

- Develop cash flow receipts and disbursements analytics
 - By significant legal entity and geography
 - Consider transfer limitations / differences arising from currencies, time zones, other local in-country processes (not excluding tax and regulatory rules)
- Time buckets 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
- Use historical balance reporting data to develop trend analytics

Segment Liquidity Needs

Segmenting Cash



- Intended to fund daily operating needs which may be subject to unforeseen volatility
- Local or regional investment decisions required on daily/weekly basis

- Forecasted excess balances
- Cash is forecasted for a particular near-term purpose (e.g., business investment and stock repurchase)

- Near-term liquidity is a secondary concern
- Unsuitable for volatile cash flows/portfolio, temporary cash

Restricted Cash Pools

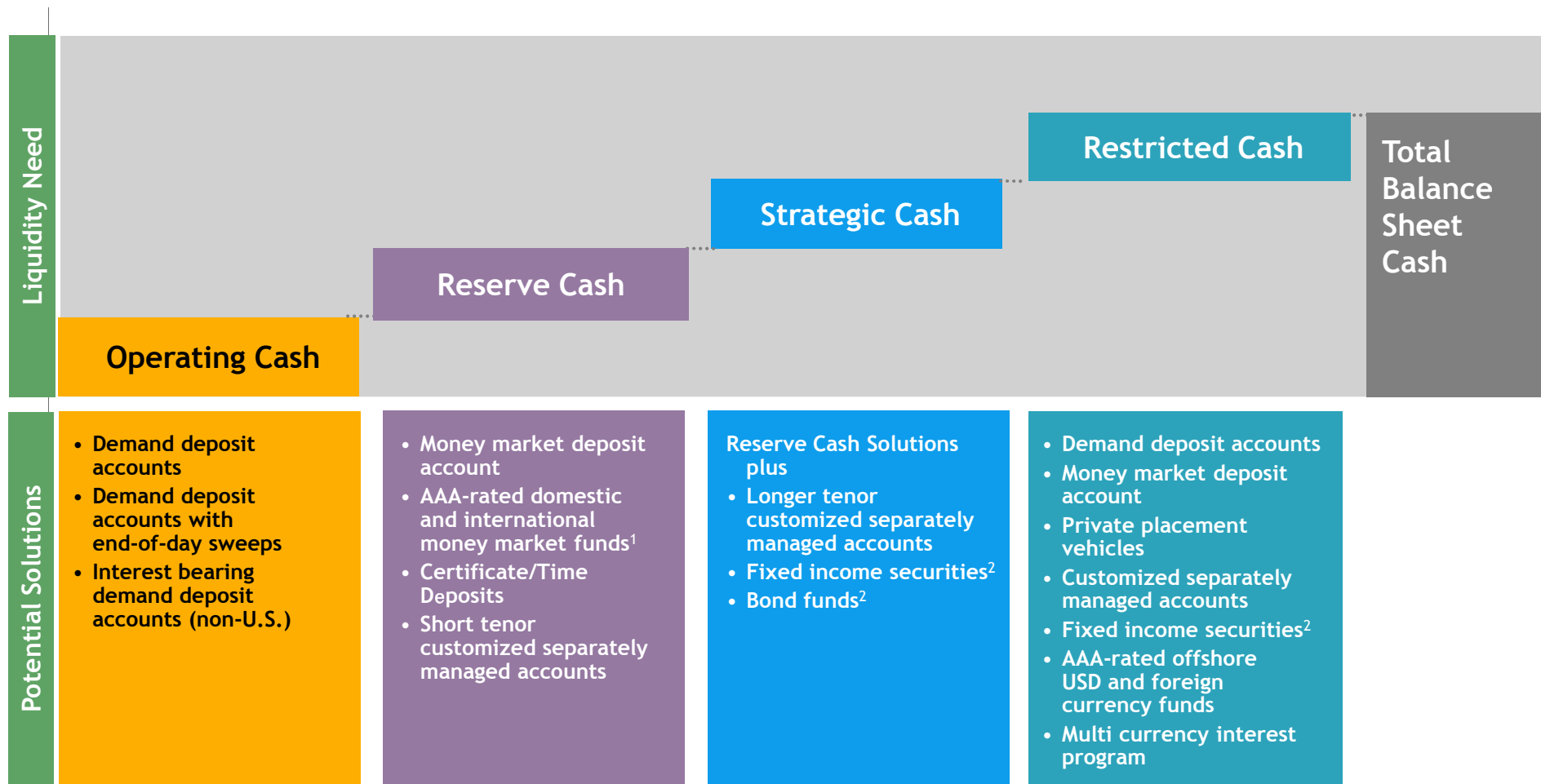
- Balances trapped in regulated jurisdictions
- Cash collateral
- Adverse tax consequences

Establish Appropriate Investment Guidelines

- State objectives
- 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



Select Investments for Each Cash Segment



¹ US registered J.P. Morgan Money Market Funds are distributed by J.P. Morgan Distribution Services, Inc. (“JPMSD”), which is an affiliate of JPMorgan Chase & Co. Affiliates of JPMorgan Chase & Co. receive fees for providing various services to the Funds. Treasury & Security Services and JPMorgan Asset Management activity may be offered by J.P. Morgan Institutional Investments, Inc. (“JPMII”) member FINRA/SIPC.

² Fixed income securities products are not FDIC-insured, are not deposits of or guaranteed by JPMorgan Chase Bank, N.A., or any affiliates, and are subject to investment risks, including the possible loss of the principal amount invested. Fixed income products are offered through J.P. Morgan Securities Inc. (“JPMSI”), member FINRA/SIPC, a separately incorporated subsidiary of JPMorgan Chase & Co. and an affiliate of JPMorgan Chase Bank, N.A. JPMSI and/or its affiliates may hold a position or act as market maker in the financial instruments mentioned herein (or related instruments) and may also act as underwriter, placement agent, advisor or lender to an issuer of such financial instruments. JPMSI and/or its affiliates may participate or be financially interested in a primary or secondary distribution in the instruments (or related instruments) purchased by you.

Maximize Liquidity Transparency and Efficiency by centralizing Treasury management

- Implement information reporting
 - better visibility and access to cash balances
 - Multi-bank reporting for up-streaming or investing cash
- Rationalize, analyze and consolidate accounts with global bank relationships, using regional and local providers only where necessary
- Develop centralized Treasury policies and procedures
 - Bank relationships:
 - Debt and Investments
 - FX risk management
 - Inter-company netting
 - Treasury Systems

Optimize Liquidity and Working Capital Efficiencies

- Leverage investment in ERP technology and Treasury systems to automate and integrate the accounting, receivables and payables processes
- Migrate paper disbursements to electronic
- Establish optimized Treasury structures:
 - Cash concentration / pooling
 - In-house banks
 - Global and regional treasury centers
 - Finance companies
 - Shared services centers & Payment factories
 - Inter-company netting

Agenda

	Page
Global Treasury - Market Trends in 2011	1
Business Environment and Market Reaction	5
Best Practices in Global Liquidity and Working Capital	15
Cash Management in China	24
Internationalization of RMB	29

Key treasury issues and challenges in China

Issues and challenges

- Account services
 - Accounts all seem to be designated for specific purposes
 - Cannot open certain accounts outside of my location of incorporation
- Payables
 - My vendors ask for a variety of payment methods, such as domestic wires, checks, bank drafts or cash
 - I am asked to present lengthy supporting documents for every single FCY payments
- Collections
 - My clients use a variety of payment methods, such as domestic wires, checks, bank drafts or cash
 - My clients insist on us opening bank accounts at their preferred locations and banks for paper instrument and cash deposits. I end up with too many bank accounts
 - I don't have visibility of account information and control of funds. I also have great difficulty reconciling incoming proceeds and A/R records
- Liquidity
 - Regulated interest rates. Deposit rates for RMB and FCY (below USD3MM equivalent) are capped. RMB lending rates have floors.
 - My cash rich subsidiaries cannot lend directly to my cash poor subsidiaries
 - I have limited investment options for RMB and onshore FCY
 - Tighter liquidity in the market in the foreseeable future

Regulators require that accounts be segregated by purpose

Basic Account



RMB

General Account



RMB

Capital Account



Foreign Currency

Current Account



Foreign Currency

Key account types in China

Because of banking regulations, accounts in China are purpose-specific. The table below describes the four most common account types held by foreign corporations in China.

Account	Currency	Purpose	Inflow	Outflow	Regulatory requirements
Basic account	RMB	For all transactions, including cash withdrawals and payroll disbursements	RMB collection via local wire, checks, credit notes and cash	RMB payment via local wire, checks, credit notes and cash	One account per legal entity in city of incorporation. PBOC approval required to open
General account	RMB	Serves same purpose as basic account with exception of cash withdrawals and payroll	RMB collection via local wires, checks and credit notes	RMB payment via local wires, checks and credit notes	Multiple accounts can be held, but not in the same bank branch as basic account
Capital account	Foreign currency	Receive capital investments from overseas parent and for paying expenses & fixed asset purchases	Approved capital injections	Approved transactions	Account must reside in city where legal entity is incorporated. SAFE approval required for most account transaction activities
Current account ¹	Foreign currency	Settle cross-border payments for normal business activities (e.g., imports, exports)	Receipts from current account transactions (e.g. export of goods & services)	Payments for current account transactions (e.g. import of goods & services)	Supporting documents of underlying transaction required (e.g., invoice, customs clearance form) before processing

¹ Under China's Foreign Exchange Control Regulations, ERVA (Export Revenue Verification Account) must be opened with a current account if the account holder has incoming receipt related to merchandise export. Any FCY fund received will be credited to the ERVA first, then transferred to client's current account only after compliance check.

Agenda

	Page
Global Treasury - Market Trends in 2011	1
Business Environment and Market Reaction	5
Best Practices in Global Liquidity and Working Capital	15
Cash Management in China	25
Internationalization of RMB	30

Background on RMB Internationalization

- On April 8, 2009, the State Council announced the trial phase of the RMB International Trade Settlement program, a significant step in the government's goals of:
 - Promoting RMB as an alternative to the US dollar as a primary trade currency in Asia
 - Helping corporates in China to mitigate FX risk.
- **Official launch of the Trial Phase:** July 6, 2009.
- **Participants:** 400 government-approved corporates in China.
- **Trade locations:** Cross-border trade between Hong Kong, Macau and ASEAN countries and five mainland China cities:
 - Shanghai
 - Guangzhou
 - Shenzhen
 - Zhuhai
 - Dongguan.
- **Eligible payment types:** L/C, DA/DP, open account.

Expanded RMB International Trade Settlement Scheme

Geographic Coverage of RMB International Trade Settlement Scheme (effective June 22, 2010)



- RMB International Settlement Trial Cities/Provinces
- J.P.Morgan Branches in China

- Companies located in the following 20 trial cities / provinces can participate in RMB international trade settlement:
- Municipalities: Beijing, Tianjin, Shanghai & Chongqing
 - Provinces: Inner Mongolia, Liaoning, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Guangxi, Hainan, Sichuan, Yunnan, Jilin, Heilongjiang, Tibet and Xinjiang
- No restrictions on corporations outside of China. Any overseas corporation can settle cross border trade in RMB with qualified companies in China.

Eligible Transactions (from overseas perspective)

- Exports to China
 - Merchandise trade
 - Service trade
- Other current account transactions
- Imports from China
 - Merchandise trade with approximately 67,400 Chinese exporters on the government-approved list
 - Service trade
- Other current account transactions

Offshore RMB Accounts in Hong Kong

- What is an Offshore RMB Account?
 - RMB account opened by a corporation with a participating bank in Hong Kong
 - Two types of Offshore RMB Accounts:
 - RMB DDA: for transactions within Hong Kong
 - RMB Cross Border Trade Settlement DDA: for settlement of trade with Mainland China
- Who can open an Offshore RMB Account?
 - Any corporation (no residency requirement)
- What services are available under an Offshore RMB Account?
 - RMB payments and collections related to eligible cross border transactions with China (using RMB Cross Border Trade Settlement DDA)
 - Interest bearing
 - Foreign exchange conversion allowed
 - Transfer to and from RMB NRA with same ownership
 - Transfer to and from other Offshore RMB Accounts with same or different ownership

China's New Loan Regulations & Credit Tightening Measures

- Loans are subject to different regulations depending on the purpose of the loan
- Working Capital Loan Regulations
 - Working capital need assessment and due diligence
 - Use of proceeds
 - Monitoring of loan draw-downs and disbursements
 - Loan account
- Fixed Asset Loan Regulations
 - Due diligence and loan monitoring
 - Requirements for draw-downs
 - Methods of disbursements
 - Required amortization
- Other Credit Tightening Measures
 - Required Reserve Ratio increases
 - RMB benchmark interest rate hikes
 - RMB loan quotas

Global Treasury – Best Practices

- Staff with international expertise, knowledge and the ability to act strategically
- Process improvements including migration from paper to electronic channels and incorporating new industry standards, i.e. SEPA
- Increased integration with banking partners for higher levels of automation both for collections and payments
- Rationalizing global banking relationships to key providers for a streamlined view/structure
- Introduction global standards on visibility and control
- Treasury goals aligned with those of corporate
- Development and execution of risk mitigation strategies for foreign exchange, trade and other areas under an expanded role in the corporation
- Implementation of global treasury centers, payment factories, and shared service centers, pooling structures

Questions

