Special Issue
August 2011

SPECIAL ISSUE TREASURY, PART 2

INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

IAFEI Quarterly

Special Issue Treasury

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(International Association of Financial Executives Institutes)

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Letter of the Editor **August 17, 2011**

Dear Financial Executive,

You receive the **IAFEI Quarterly**, **Special Issue**, **Treasury**.

This is another issue of the electronic professional journal of IAFEI, the International Association of Financial Executives Institutes. This journal, other than the IAFEI Website, is the internal ongoing information tool of our association, destined to reach the desk of each financial executive, or reach him, her otherwise, at the discretion of the national IAFEI member institutes.

The corporate treasury function has been, and is being, directly and immediately impacted by the ongoing worldwide financial crisis with its many diverse facets.

This present **Special Issue Treasury** provides you with a number of case studies of successful specific core activities of corporate treasury operations. The case studies are from famous corporations from several countries. Some of these corporations are represented through membership in IAFEI member institutes.

All case studies are self explanatory and reflect the high state of professional art in corporate treasury functions in the business world.

All case studies have been presented at the ACT Annual Conference, May 10 – 11, 2011, in Liverpool, United Kingdom, organised by **ACT, the Association of Corporate Treasurers, United Kingdom**. To this association, several IAFEI member institutes maintain good relationships, and through these IAFEI has got access to these case studies.

IAFEI is thankful for having received permission from the Association of Corporate Treasurers as well as from all individual corporate presenters of case studies, to include these case studies in the original form in this

Special Issue Treasury.

Once again, I repeat our ongoing invitation to IAFEI member institutes, and to their members, to send us articles for inclusion in future IAFEI Quarterlies, and to also send to us your suggestions for improvements.

This **IAFEI Quarterly**, like its predecessors, offers a variety of subjects. Enjoy reading them.

With best personal regards

Helmut Schnabel

Helmut Schnabel

Corporate Treasury
Daniel Robrechts

Deutsche Post DHL

Risk as key driver towards treasury centralisation

Agenda

1. DP DHL Group overview
2. Liquidity risk management
3. Counterparty credit risk management
4. Foreign currency balance sheet risk management
5. Foreign currency cash flow risk management

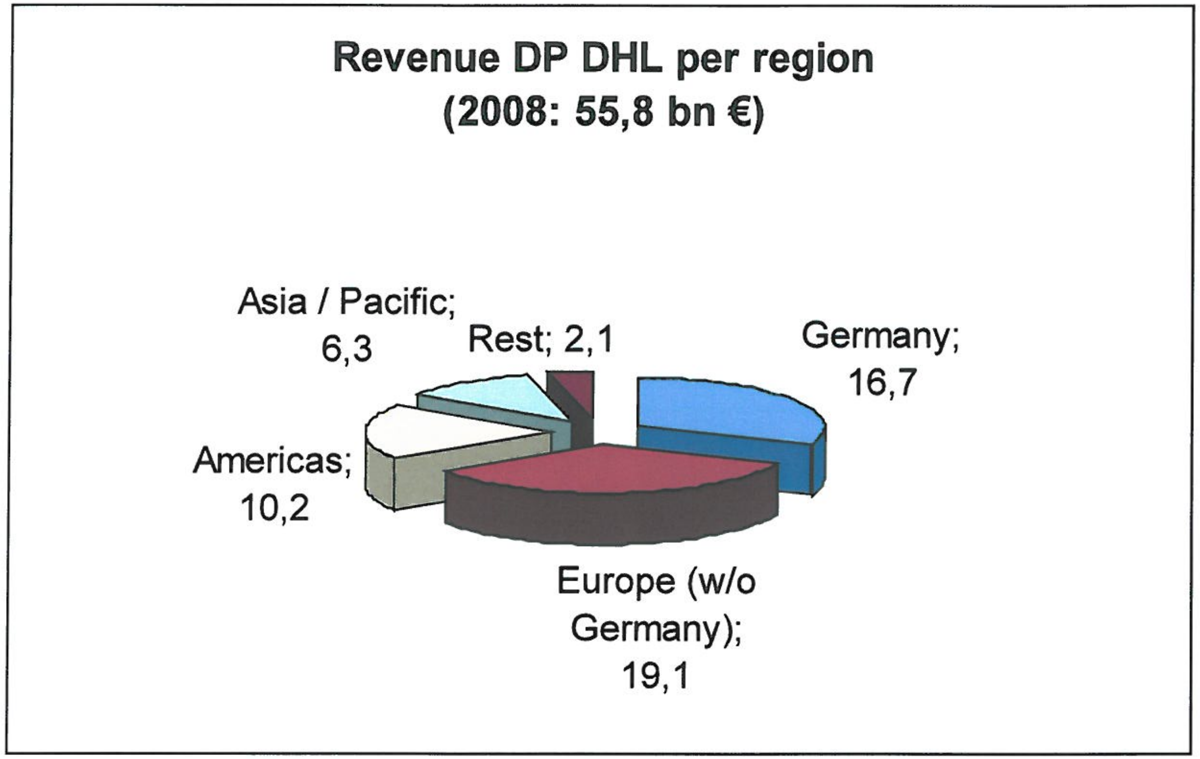
DP DHL Group overview

Deutsche Post DHL

Deutsche Post	DHL	DHL	DHL
Mail	**Express**	**Forwarding**	**Supply Chain**
Mail Germany and Global Mail Internat.	Worldwide Transportation time sensitive products	Air and Ocean freight services Overland freight services	Warehousing, Distribution and value added services

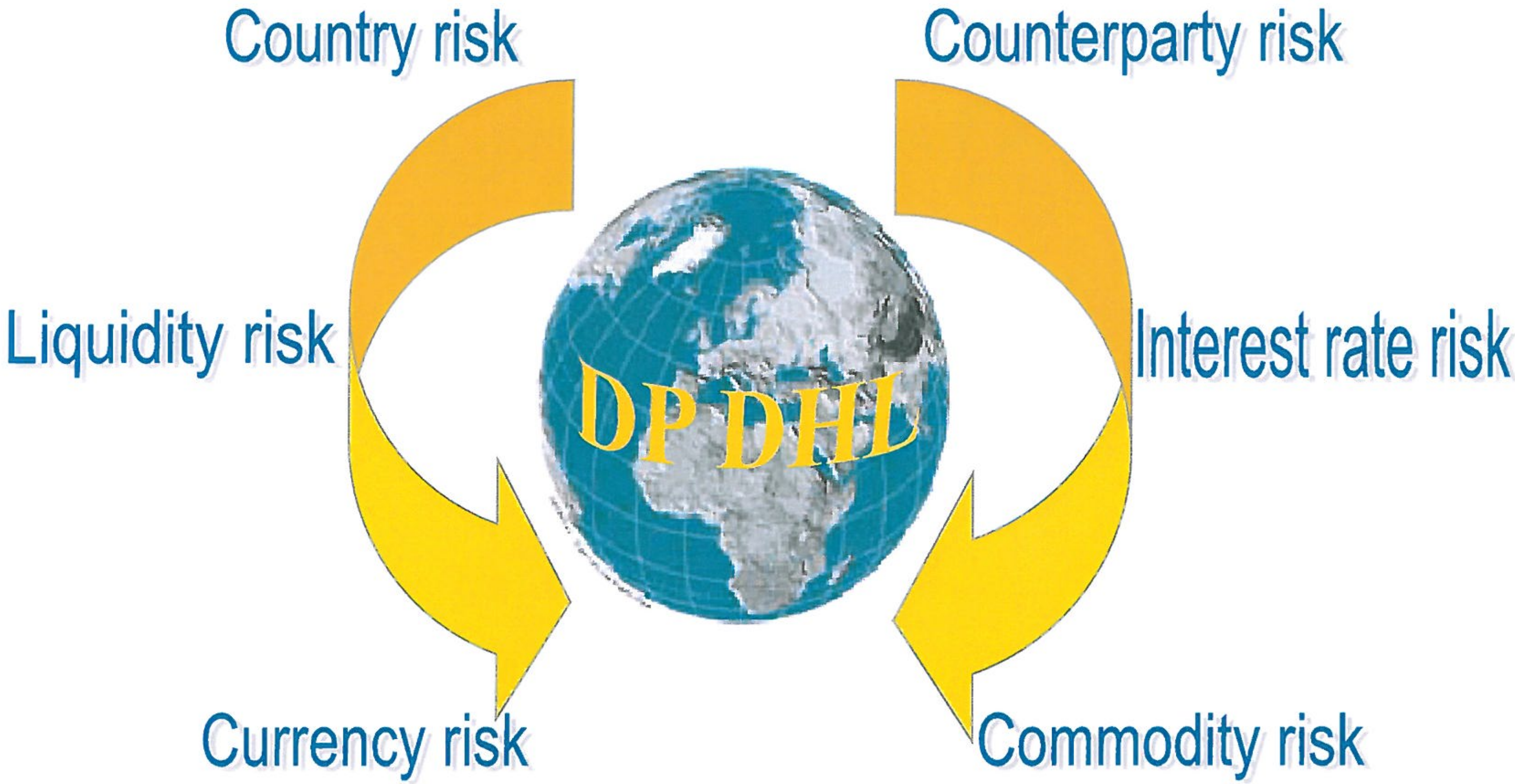
Total revenue : > 50 bn €

DP DHL Group overview



- **Over 1.300 legal entities**
- **Over 220 countries and territories**
- **513.000 employees**

Financial risk in DP DHL



- **DP – DHL group is exposed to all types of financial risks.**
- **Financial Crisis: a warning signal that these risks are a treat**

Liquidity risk management

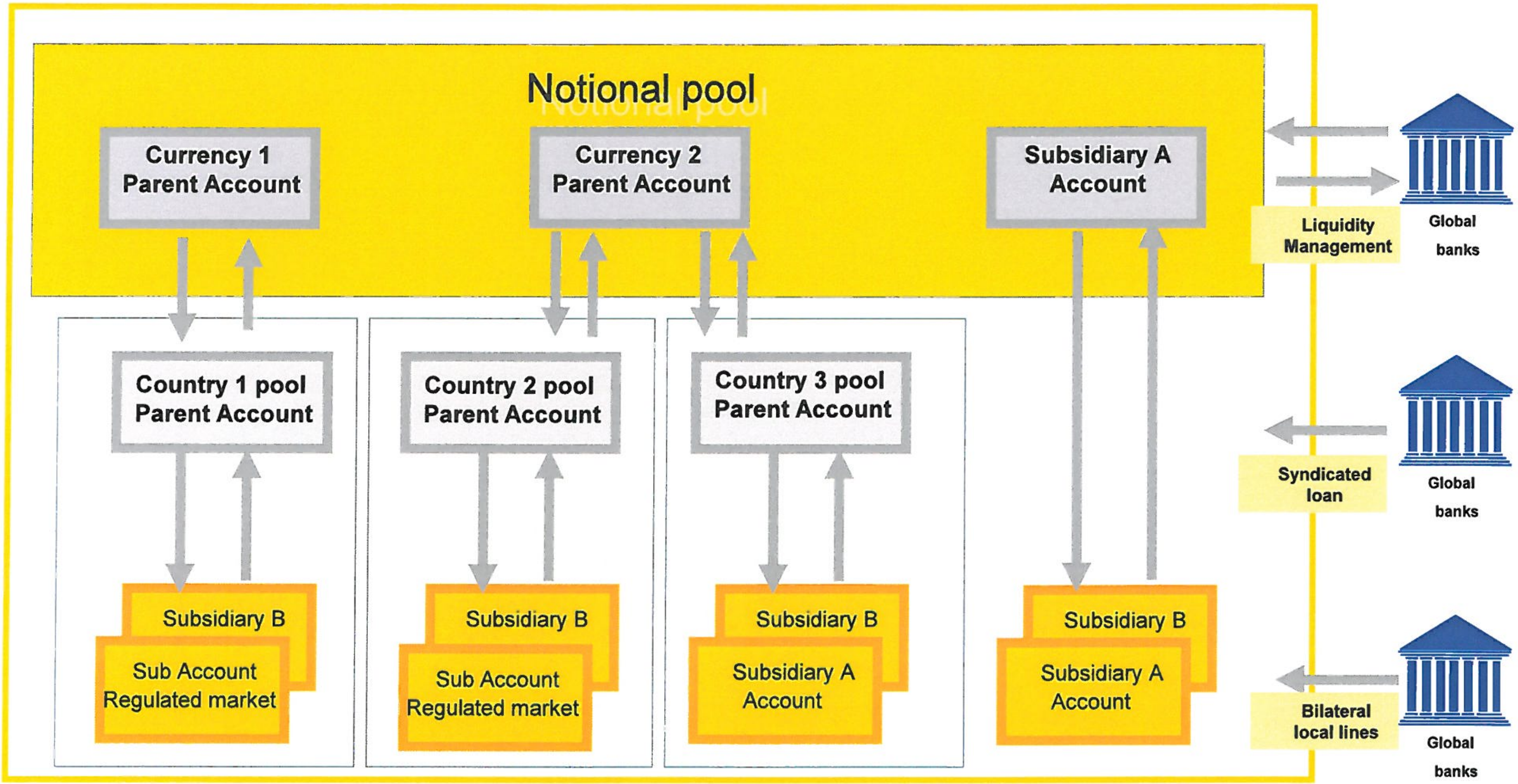
Risk definition

Risk that the group will not have sufficient liquidity and/or credit lines to meet its current of future financial obligations due to unexpected changes in market conditions.

Risk management strategy

- Concentration of available group liquidity at central level through:
  - Zero balancing cash pooling for regulated markets
  - Refocus on intercompany financing
  - Notional pooling for non regulated markets
- Availability and diversification of local bilateral credit lines with key banking partners for overdrafts/loans and contingent liabilities.
- Availability of central committed credit lines with key bank relationships and maintenance of liquidity buffer

Liquidity concentration



- 80% of all worldwide revenues are daily concentrated via cash pools
- Company maintains 51 cash pools in 19 currencies (1400 bank accounts)

Counterparty credit risk management

Risk definition

Risk that DP – DHL's financial counterparts (banks mainly) are not able to honour their financial commitments to the group in terms of settling derivatives, repaying investments and cash balances.

Risk management strategy

- Group wide concentration of banking business on key (strong) relationship banks.
- Concentration of dealing and depositing activities on key relationship banks.
- Clear guidelines on local investments in terms of amounts, periods and counterparts.
- Active monitoring of bank portfolio in terms of risk development and limit monitoring.

Counterparty credit risk matrix

Name of Bank	Rating	1Y Credit Default Swap	Credit risk limit for market value of derivatives in EUR	Risk limit utilization %	Credit risk limit for Money Market and Cashpools in EUR	Risk limit utilization %
Bank A	Aa2	53	75,000,000		300,000,000	
Bank B	A+	77	55,000,000		220,000,000	
Bank C	A-	140	40,000,000		160,000,000	
Bank D	A	24	50,000,000	9	200,000,000	
Bank E	BB+	1586	20,000,000		80,000,000	
Bank F	AA-	51	60,000,000	15	240,000,000	
Bank G	A1	99	55,000,000		220,000,000	85
Bank H	AA	156	75,000,000		300,000,000	
Bank I	AA	34	75,000,000		300,000,000	33
Bank J	A+	30	55,000,000	7	220,000,000	86
Bank K	A	74	50,000,000		200,000,000	
Bank L	A	30	50,000,000		200,000,000	
Bank M	A+	21	55,000,000	72	220,000,000	
Bank N	A+	73	55,000,000	1	220,000,000	
Bank O	B-	n/a	0		0	
Bank P	AA	27	75,000,000		300,000,000	
Bank Q	A+	38	55,000,000	1	220,000,000	99
Bank R	AA-	13	60,000,000		240,000,000	
Bank S	A	97	50,000,000	9	200,000,000	

Foreign currency balance sheet risk management

Risk definition

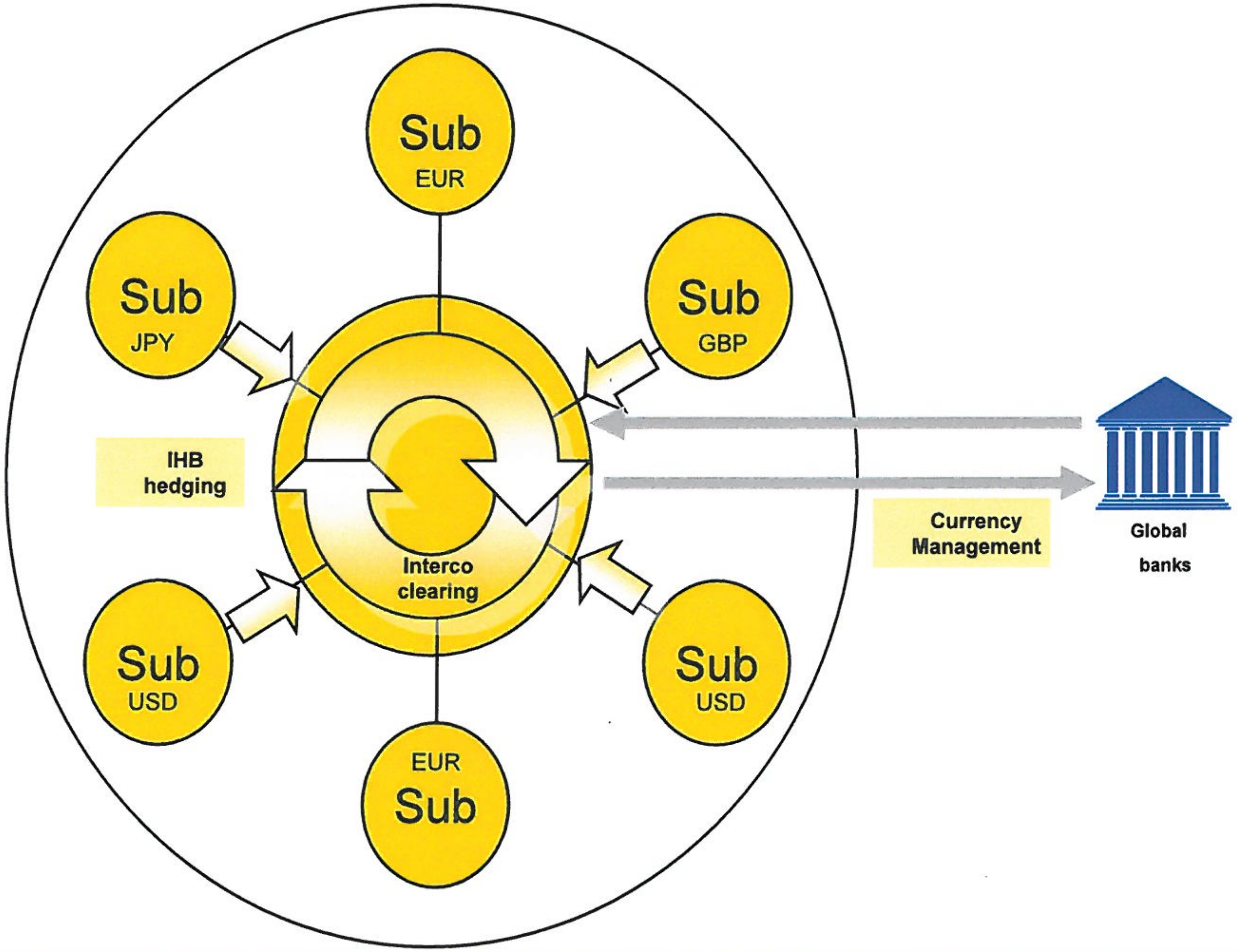
FX rate fluctuations on foreign currency denominated balance sheet positions lead to exchange gains/losses and create unplanned earnings volatility.

Risk management strategy

- Mitigation of FX risks through operational measures to the degree possible
- Group-wide centralisation of the residual FX balance sheet risks to parent company through

  - Group wide intra month clearing
  - Group wide internal IHB hedging
  - Funding in local currency
- Active management of centralised FX risk at central level:
  - Position netting
  - Currency correlation approach
  - VaR methodology

Foreign currency balance sheet risk management



- 552 subsidiaries participate in monthly intercompany clearing. Yearly settlements volume exceeds 250K
- 127 subsidiaries participate in IHB hedging process

Foreign currency cash flow risk management

Risk definition

FX rate fluctuations on planned foreign currency earnings/cash flows cause

- medium-term volatility of earnings over the years and
- short-term deviations of earnings/cash-flow from planned numbers

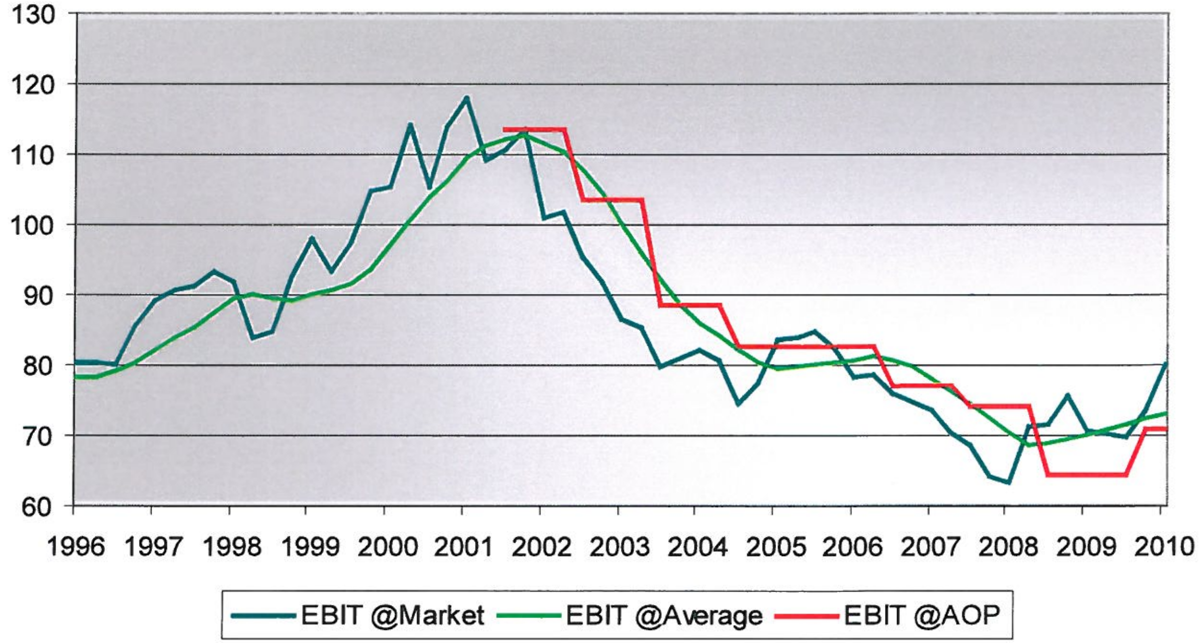
Risk management strategy

- Mitigation of planned currency risks through operational measures to the degree possible.
- Group-wide identification and quantification of all residual planned currency risks.
- Centralised risk management of these currency risks to:
  - reduce short term FX deviations from plan at Group level
  - Smooth-out medium-term earnings volatility induced by FX fluctuations at Group level

Volatility reduction in a volatile currency environment

DP-DHL historically protected its foreign currency earnings at budget rate and thus avoided deviations of earnings versus plan.

DP-DHL is now considering to also smoothen earnings volatility over time by locking in exchange rates over a 2 year rolling layer hedging program.



- Over a 15 year time horizon the valuation for a USD 100 mio exposure varied between EUR 118 mio and EUR 63 mio.
- Hedging at budget rates does reduce exchange volatility over the course of the year but does not prevent sizable year on year hits.
- Layer hedging smoothens out the volatility over a 3 year time frame and buys the business more time to adjust their business models

Summary and conclusions

DP – DHL used the financial crisis as a driver to revisit its financial risk management approach and to strengthen its grip on financial risk.

- Activities are concentrated with key relationship partners and relationship partner stability is actively monitored
- Bank independent funding mechanisms were introduced and bank dependant funding was streamlined and diversified over key relationship banks
- Identification and centralisation of currency risk was reinforced and risk management approach was revisited.
- Centralisation of available liquidity was boosted and liquidity was concentrated with key relationship banks.

Ladbrokes PLC

ACT conference
Liverpool
10 May 2011

Ladbrokes history

Conglomerate with interests in:

Betting and Gaming – Ladbrokes

Hotels – Hilton International

Retail – Texas Homecare, Laskys

Commercial property developer

Casinos, Bingo

Holiday parks, retirement homes

Movies, newspaper publishing

Ladbrokes PLC

Ladbrokes now: focus on Betting & Gaming

Betting shops in UK, Ireland, Belgium and Spain

International online betting and gaming provider

Key products:

Sports betting including bet in play

Gaming machines in shops

Online gaming – Casino, bingo, poker,

Ladbrokes PLC

Ladbrokes financials – 31 Dec 2010

Net revenue - £977m

Operating profit - £207m

EBITDA - £261m

Net debt - £492m

Net debt / EBITDA – 1.9 x

Rated - Ba2/ BB/ BB+

Why capital markets

Diversify source of funding

Large investor base with reverse enquiry potential

Term out debt beyond normal bank maturity (> 5 years)

Coming to market

Which advisor /advisors

Ratings

What market – Investment grade, high yield, European, US, public, private

Which currency / what maturity

Level of investor demand

Price indications / issuance fees

Documentation

Paying agent / Trustee

Any competing issuers coming to market

Execution risks (internal and external)

Ratings process

To get a rating or not?

- Brand name, frequency / amount of issuance

If yes, appoint a ratings advisor (most Investment banks have one)

- Beware of optimistic rating indications

Credit ratios adjust for pensions, operating leases, contingent liabilities

Updates – annual review meetings, updates before material events / announcements

Costs – issuance and annual maintenance fees

High yield market

European or US?

European:

Strong demand from investors, demand growing stronger

- But not always available – shut most of 2008/ 2009

Covenants – get stronger as you fall down the rating curve

Detailed prospectus required

Ladbrokes PLC

Typical high yield covenants

Debt incurrence test – linked to fixed charge cover ratio

Restricted payments – dividends

Limitation on:

- Asset sales
- Mergers & Acquisitions

No liens

Change of control – put at 101%

Covenant fall away provision

Ladbrokes PLC

Ladbrokes £225m 7.625% March 2017

Cross over credit – interest from both investment and non-investment grade investors

Initial size guidance £150m, upsized following strong demand (£858m, 117 orders)

3 day roadshow – London & Edinburgh

7 year non-call life

Covenants:

- Negative pledge
- Limitation on debt (fixed charge cover of 2.75x)
- Sale of substantially all assets

Ladbrokes PLC

Benefits for Ladbrokes

Termed out £225 million for 7 years

Known name in bond markets, should aid future bond issuance

Reduced size of bank group

- Easier to allocate scarce ancillary business

Banks keep their powder dry for potential future bridge finance