Enhanced Global Liquidity through Notional Pooling and Payment Netting

Greet van der Steen
Managing Director
Bank Mendes Gans
Amsterdam
The Netherlands

Jim Keller
Assistant Treasurer
Federal-Mogul Corp.
Southfield, MI
Federal-Mogul at a Glance

Year Founded: 1899

Sales and Headcount: (12/31/12)

<table>
<thead>
<tr>
<th>Region</th>
<th>Employees</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>45,100</td>
<td>$6.6 B</td>
</tr>
<tr>
<td>North America</td>
<td>37%</td>
<td>46%</td>
</tr>
<tr>
<td>Europe</td>
<td>38%</td>
<td>42%</td>
</tr>
<tr>
<td>ROW</td>
<td>25%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Global Locations: 95 Manufacturing and 17 distribution sites worldwide in 22 countries

Research & Development: 24 Globally-networked technology centers in North America, Europe and Asia

Key Industries: Automotive, aerospace, energy, heavy-duty, industrial, marine, power generation, railway

Ticker Symbol: FDML – NASDAQ Global Select Market
Federal-Mogul Treasury Fundamentals

- **Centralized Control**
  - Strategic Direction
  - Visibility, Availability, Flexibility & Mobility

- **Decentralized Execution**
  - Regional & Country
  - Effective control environment

- **Objectives**
  - Maximize resources
  - Ease of administration
  - Control Costs
  - Tax Compliance
  - Acceptable Accounting Treatment
  - Subsidiary Buy-In

It is not your cash, it is the corporation’s cash!

**Solution:** Global Multi-Currency Notional Cash Pool
Bank Mendes Gans at a Glance

- BMG, a 100% member of ING Bank N.V.
- Founded in 1883
- Banking license since 1911, supervision by Dutch Central Bank
- Niche player in global liquidity management solutions
  - Multi-currency Multi-entity Notional Cash Pool
  - Multilateral Netting
- Operates outsourced in-house bank solutions for 250+ multinationals
Different Flavors of Cash Pooling

• Notional (multi-entity) cash pooling
  – Single currency
  – Multi-currency

• Zero balance (single entity) cash pooling (physical or actual)
  – Single currency
  – Multi-currency
  – Reference accounts

• Hybrid (multi-currency) Cash Pool
  – Combination of notional & zero balance
Notional Cash Pooling

- Group companies open bank accounts in their own name in local currency at the pooling center
  - No inter-company loans are created

- Group companies with credit balances at BMG are deemed bank deposits and group companies with debit balances at BMG are deemed bank overdrafts

- All account balances – both credit and debit – are treated on a net basis

- Interest is bank interest

- Interest rates applied are based on the net position per currency in the cash pool (not traditional bank BID/ASK spreads)

- Treasury can choose interest margins to create revenues for Finance company/Treasury
Zero Balance Cash Pooling

- The Finance company (or other group company) opens accounts in their name at pooling center.
- Group companies can put cash on deposit with the finance company or borrow from the finance company.
- Inter-company loans are created.
- Inter-company loans need to be administered.
- Interest is inter-company interest.
True Multi-Currency Multi-Entity Notional Pool

• Enables multiple group companies in numerous geographical regions to retain local accounts at local banks; “overlay”
• Consolidation is achieved by transferring local balances (both debit and credit) to accounts held by the individual group companies at the pooling center. There is no change of ownership of funds, and no question of inter-company loans
• Offset is accomplished without physical concentration/conversion (FX).

Also:
• One interest rate per currency (no spread between overdrafts and deposits)
• Permits not only concentration of excess cash, but allows overdrafts within the pool
• Full offset capabilities (risk and accounting) for both client and bank
• Operational in multiple time-zones.
Cash Pool in Overview

Overlay Cash Pool

1. accounting translation using ECB published rates

2. net value + 200

3. Cash Pool Investment by Treasury

Automatic or manual

- ABC Japan
  - JPY
- ABC ZAO
  - RUB
- ABC Ltd.
  - GBP
- ABC SA/CV
  - MXN
- ABC Fin Co
  - EUR

- ING Russia
  - ABC ZAO
  - RUB
- HSBC
  - ABC Ltd.
  - GBP
- Banamex
  - ABC SA/CV
  - MXN

your best-in-class local banks

Overlay Cash Pool

- Mizuho
  - ABC Japan
  - JPY
- ING Russia
  - ABC ZAO
  - RUB
- HSBC
  - ABC Ltd.
  - GBP
- Banamex
  - ABC SA/CV
  - MXN
Pooling Global Balances: Follow the Sun

<table>
<thead>
<tr>
<th>Cash Pool Balance (4)</th>
<th>Treasury Funding (3)</th>
<th>Cash Pool balance (2)</th>
<th>Centralize local group companies’ account balances (1)</th>
</tr>
</thead>
</table>

- USD
- EUR
- MXN
- RUB
- JPY
- AUD

AFP® Annual Conference
Notional Cash Pool & Key Tax Points

Bank Pledge versus Cross Guarantee
• Notional Cash Pool is based on Pledging of Balances to the bank. Normally cash pools are based on Cross Guarantees which is an unlimited joint resulting in liabilities between related group companies.

Interest
• Interest is classified as bank interest (credit and debit). All Cash Pool balances are cash on deposit or a current account overdraft.

Transfer pricing
• The bank executes the daily investments and borrowings of the group companies and applies arms length interest rates. Tax can insert interest margins as needed

Interest withholding tax
• BMG is domiciled in the Netherlands resulting in no WHT on credit interest paid. In some cases WHT is applicable on interest charged

Thin cap rules
• The Cash Pool borrowings are deemed loans/overdrafts from the bank. Thin cap rules are sometimes more flexible regarding bank overdrafts.
## Federal-Mogul Treasury Fundamentals

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Maximize resources</td>
<td>- Reconciliation and settlement of I/C balances</td>
</tr>
<tr>
<td>- Control Costs</td>
<td>- Timing, number and value of cash transfers</td>
</tr>
<tr>
<td>- Tax Compliance</td>
<td>- FX exposure management</td>
</tr>
<tr>
<td>- Acceptable Accounting Treatment</td>
<td>- Coordinate with liquidity management</td>
</tr>
<tr>
<td>- Subsidiary Buy-In</td>
<td></td>
</tr>
</tbody>
</table>

*It is not your cash, it is the corporation’s cash!*

**Solution:** Global I/C Netting
Flows without Netting
Flows with Netting

- USA
- Japan
- Australia
- Belgium
- Singapore
- Norwegian vendor
- UK
- NOK
- JPY
- AUD
- SGD
- USD
- GBP
- EUR

AFP® Annual Conference
What is Netting?

A process which reduces transfers of funds between Subsidiaries or separate companies to one net amount.

What are the benefits of Netting?

- Consolidates and off-sets payables against receivables between multiple group companies on a global and multi-currency basis
- Reduces the number of inter-company funds transfers
- Minimizes costs of associated foreign exchange
- Avoids the need for group companies to make multiple transfers and execute opposite foreign exchange transactions
The Netting Cycle

**Customer:**
- day X-4: Federal-Mogul participants
- day X-2: Federal-Mogul participants
- day X: Federal-Mogul participants

**Netting provider:**
- Invoices to be paid
- Preliminary results
- Payments from participants
- Federal-Mogul participants
- Federal-Mogul participants
- Final results
- Payments to participants
- processing & checking
- calculations
- settlements

Netting provider:
Why Implement Netting?

- **Less administrative workload**
  - Netting center can be viewed as corporate treasury back-office

- **Continuity of operational tasks**
  - Funds will be paid/collected with proper/same value date
  - Settlement over existing local bank accounts; no accounts at netting bank are required

- **Increased visibility and control**
  - All netting input and output stored in one database

- **Centralization of FX**
  - Consolidates FX positions
  - Improves FX spread
  - Ability to include FX hedge transactions

- **Flexibility**
  - Settlement can be in any currency required by affiliate
  - Additional run on an ad-hoc basis; quarter end, year end
Questions & Answers