AFP® Annual Conference

OCTOBER 27–30, 2013 | LAS VEGAS

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Leading the Way in China: An Asia Regional Treasurer's Perspective

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Regional Treasurer, Asia

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Agenda

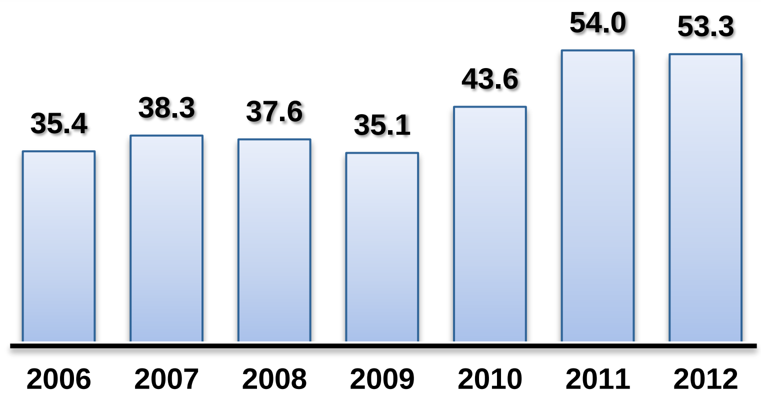
- Intel Corporation Overview & Geographic Coverage
- Intel's Journey in China
- SAFE Policy Evolution
- What's next for Intel?

Intel Corporation Overview

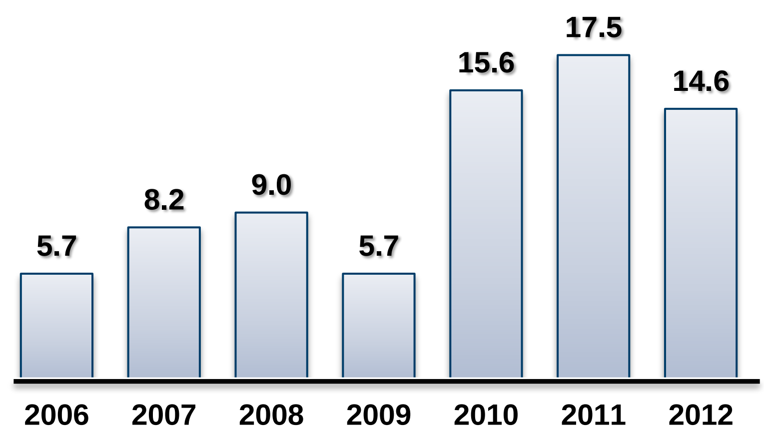
Intel Corporation

- Leading Manufacturer of Computer, Networking & Communications Products
- 167 Sites and 572 Buildings in 63 Countries
- $54B in Annual Revenues from Customers Worldwide
- 25+ Consecutive Years of Positive Net Income
- Over 105,000 Employees
- 81,000 technical roles, 10,400 Masters in Science, 5,300 PhD’s, 4,000 MBA’s
- One of the Top Ten Most Valuable Brands in the World for 12 Consecutive Years
- Ranked #68 on Fortune’s 100 Best Companies to Work For List
- Invests $100 Million Each Year in Education Across More than 70 Countries
- Largest Voluntary Purchaser of Green Power in the United States
- >5M Hours of Volunteer Service in Our Communities in the Past 5 Years

Net Revenue ($ Bil)



Operating Profit ($ Bil)



Intel Corporation Overview

Building a Continuum of Personal Computing Experiences

Desktops

Intelligent Systems

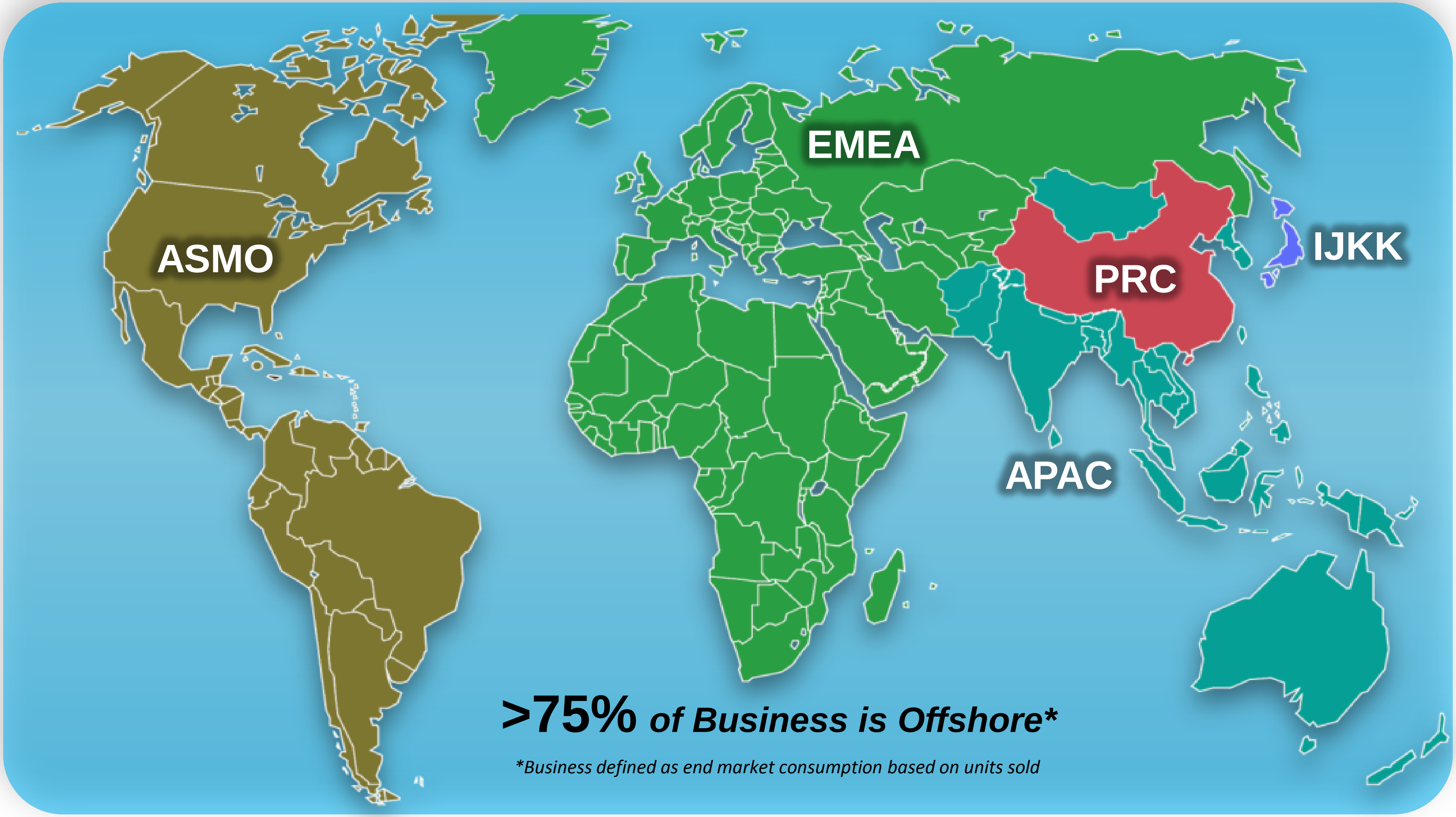
Laptops

Smartphones

Ultrabook™

Tablets

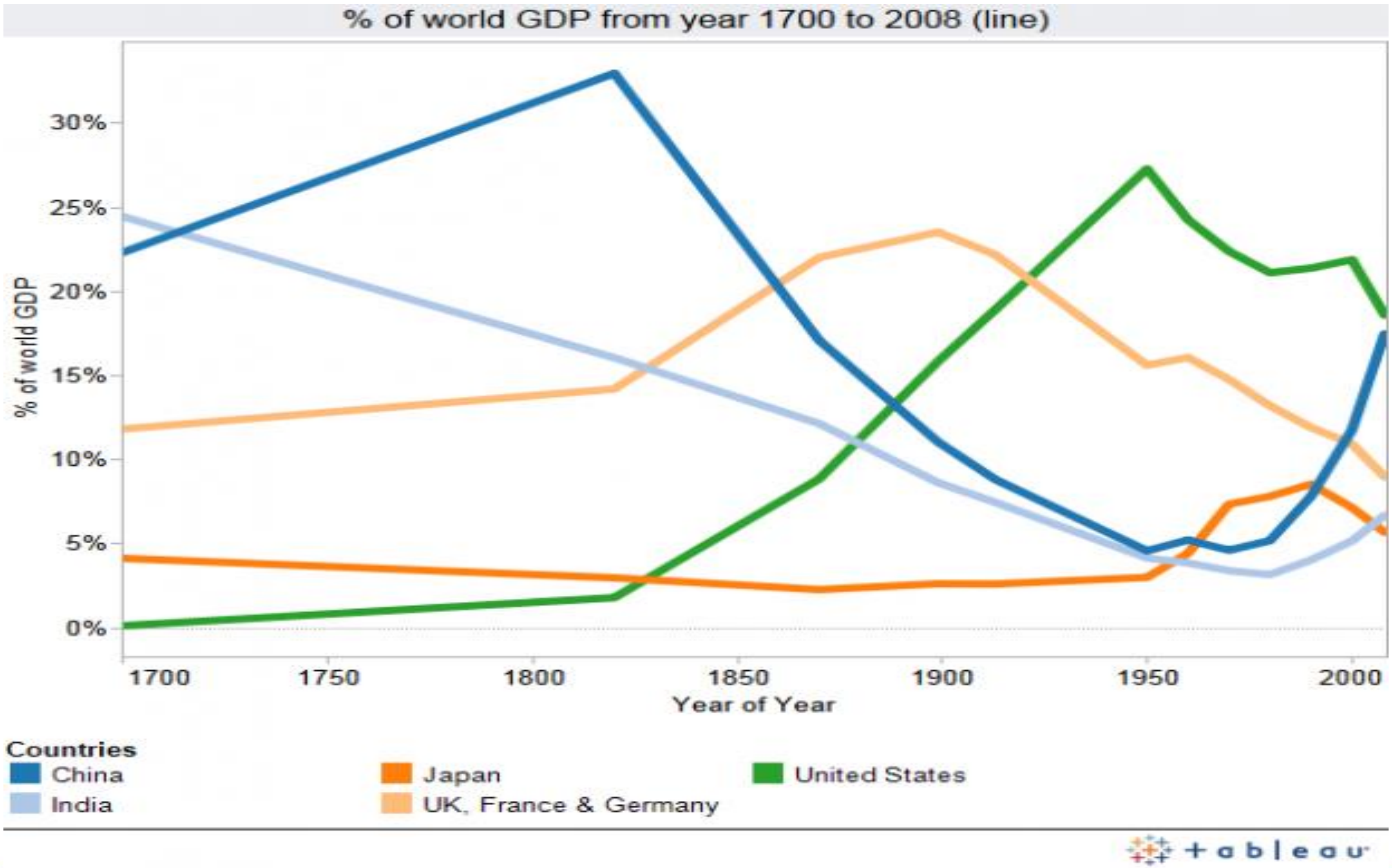
Geographies



>75% ***of Business is Offshore****

**Business defined as end market consumption based on units sold*

Share of World GDP from 1700



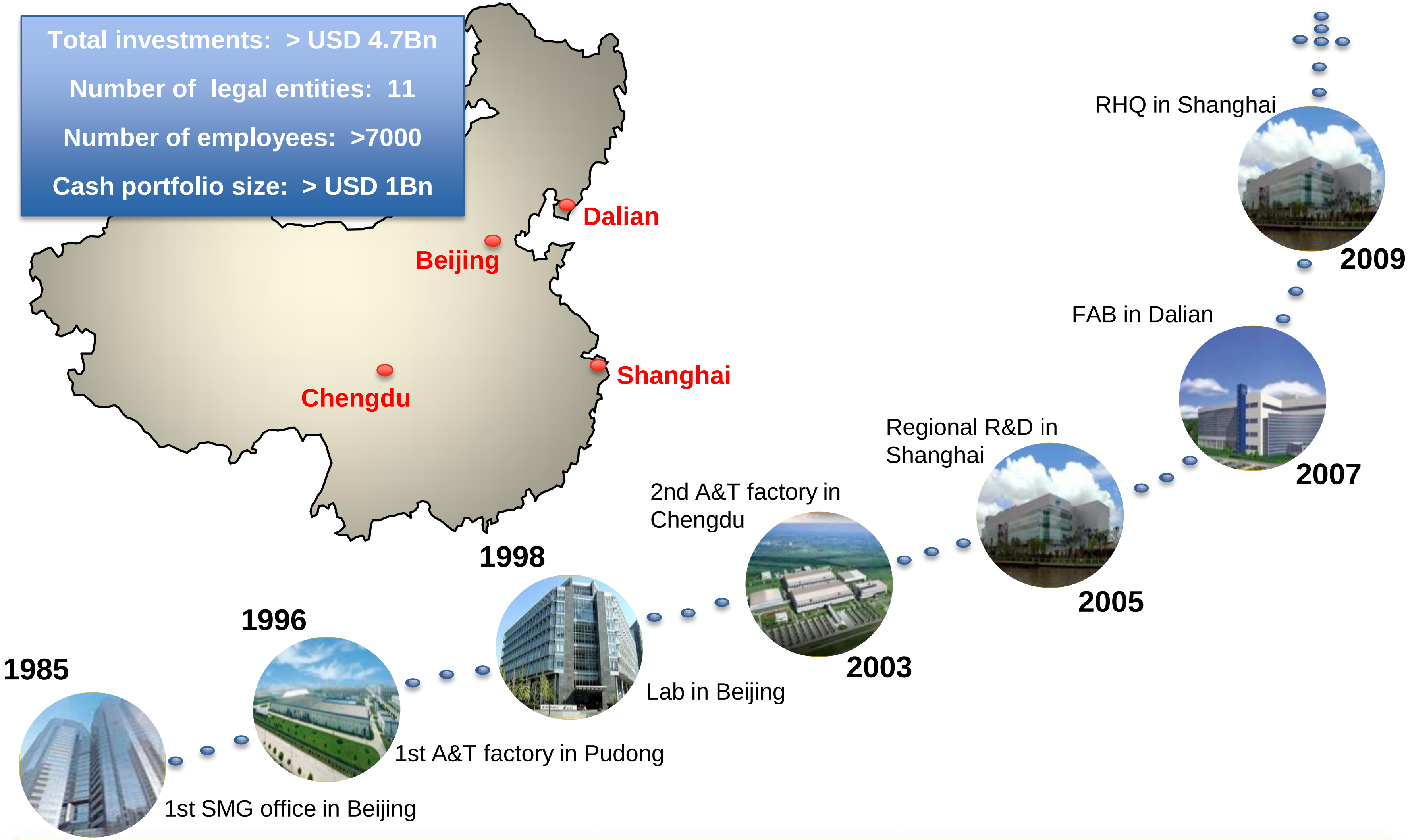
Intel's Journey in China

Total investments: > USD 4.7Bn

Number of legal entities: 11

Number of employees: >7000

Cash portfolio size: > USD 1Bn



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Challenges

- Policies from central vs. state bodies sometimes inconsistent
- Regulators' intent often misunderstood
- Patience is a virtue, literally
- Taleb's theory of anti-fragile: things that gain from disorder

SAFE Policy Evolution

2004
Rule #104 was issued allowing domestic USD Cash Pooling and Single Way Cross border Lending for "RHQ MNC structure"

2005
Intel started China legal entity restructuring for the "RHQ MNC structure"

Early 2007
Intel's 1st Single Way cross-border Lending transaction approved

2009
Intel approved for Domestic USD Cash Pooling structure

Nov 2009
Rule #49 replaced #104 and Cross border Lending got suspended

June 2012
Intel China got invited as the 1st batch of pilot program for USD Cross border cash pooling

Dec 2012
SAFE Shanghai approved our pilot application and implementation started Jan. 2013

China Agrees RMB Accord with Singapore- FT

China, Taiwan Sign Yuan-Clearing Deal- WSJ

London Gets Nod as International Center for RMB Trading- China Briefing

China Names ICBC Singapore Clearing Bank to Boost Yuan Role- Bloomberg News

Yuan among top 10 active currencies, turnover triples- BIS survey

SAFE Pilot Scope

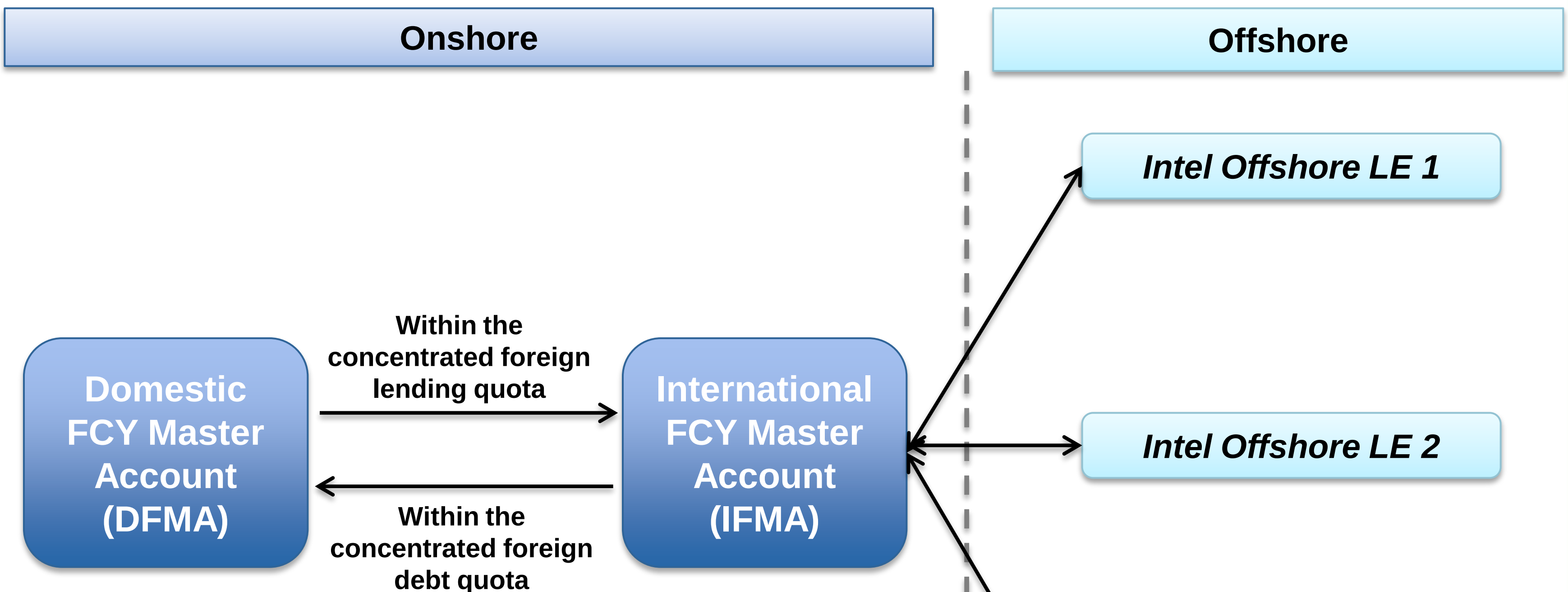
✓ **Cross-border FCY cash sweeping :**

- International FCY Master Account (IFMA): open at onshore bank to concentrate cash across the border. Cross-border fund flows to/from the IFMA is not restricted, but BOP reporting is required.
- Domestic FCY Master Account (DFMA): open at the same onshore bank to concentrate and share FCY as well as foreign debt/lending quotas of domestic subsidiaries.
- Foreign debt/lending quota: to control the sweeping amounts between DFMA and IFMA linking domestic and overseas cash pools.

➢ **Centralized FCY payments and collections :**

- Processing: centrally by China HQ/SSC/Finance Company;
- Model: Pay/Receive On Behalf Of ("POBO/ROBO"), cross-border netting scheme;
- Reporting: Less reporting from companies, but banks are required to reflect the individual transactions in the BOP reporting

Cross-border sweeping structure



- Domestic FCY cash concentration
- Cross-border FCY transactions in POBO/ROBO, gross-in/gross-out or netting
- Purchasing FCY with LCY to repay offshore FCY loans

- Cross-border fund flows to/from the IFMA unrestricted
- Long-term foreign debt/lending quota pools

Implementation & resources

- Requires close coordination with legal, accounting, tax
- Partnership with a bank that understands your needs
- Preferably a dedicated headcount on the ground

Benefits and Challenges

Benefits:

- ✓ Efficiency and better returns in managing liquidity worldwide
- ✓ Effective platform to address “trapped” cash
- ✓ Control and visibility from one master account are enhanced

Challenges:

- Resource implications
  - Pre implementation: Applications and communications (6 months)
  - Post implementation: Monthly reporting, F2F feedback sessions
- Tax implications- Consult your tax department
- Scalability of the pilot program

“Crossing the River by Feeling the Stones” – Deng Xiao Ping

What’s next for Intel?

Liberalization creates new opportunities…

- **POBO/ROBO- centralized payment and collection**
- **Cross-border netting of trade receivables/payables**
- **RTC in China**
- **Development of capital markets**
- **Shanghai FTZ- Is this the ‘sandbox’ of FX liberalization?**

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China: Opportunities & Best practices

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The Regulatory Framework

Key Regulators	• **PBOC** – The central bank of China, sets monetary policy • **CBRC** – regulatory body governing banking and financial institutions (but not insurance or securities houses) • **SAFE** – responsible for balance or payments and all matters involving FX • **MOFCOM** - formulating policy on foreign trade, export and import regulations, foreign direct investments, consumer protection, market competition and negotiating bilateral and multilateral trade agreements

Currency Controls	• RMB not yet fully convertible
	• Controlled by People's Bank of China (PBOC) and the State Administrations of Foreign Exchange (SAFE)
	• PBOC maintains the currency in a managed float with reference to a basket of currencies
	• FCY conversion to be approved based on supporting documents:
	  • For general expenses and trade settlement: SAFE approval delegated to banks
	  • For other operations: strictly controlled by SAFE

RMB Cross-border Settlement	• By Aug 2011, RMB trade settlement scheme rolled out to national wide • Foreign companies' investment into China could be conducted in RMB with proper approvals • **FIE** (foreign invested enterprises) **including WOFEs and JVs** are allowed to borrower in RMB from offshore lenders including overseas shareholders, affiliated companies and overseas financial institutions • Offshore borrowing can be used for CapEx or working capital purpose matching with tenors as indicated in the loan agreement

Recent events from regulators

Liberalisation has accelerated…

PBOC – Moving toward further opening up

Driving RMB Internationalization

Simplified operational workflow	July 2013	Simplification International utilisation
Offshoring RMB via intra-group lending	July 2013	

New Liberalisation

Widening the RMB FX trading range Removed the loan interest rate controls	Apr 2012 July 2013	Exchange and interest rate liberalization

SAFE – Transforming the administrative controls

Current Account

Reform on the goods trade	Aug 2012	
Reform on the services trade (draft)	Sep 2013	Convenience

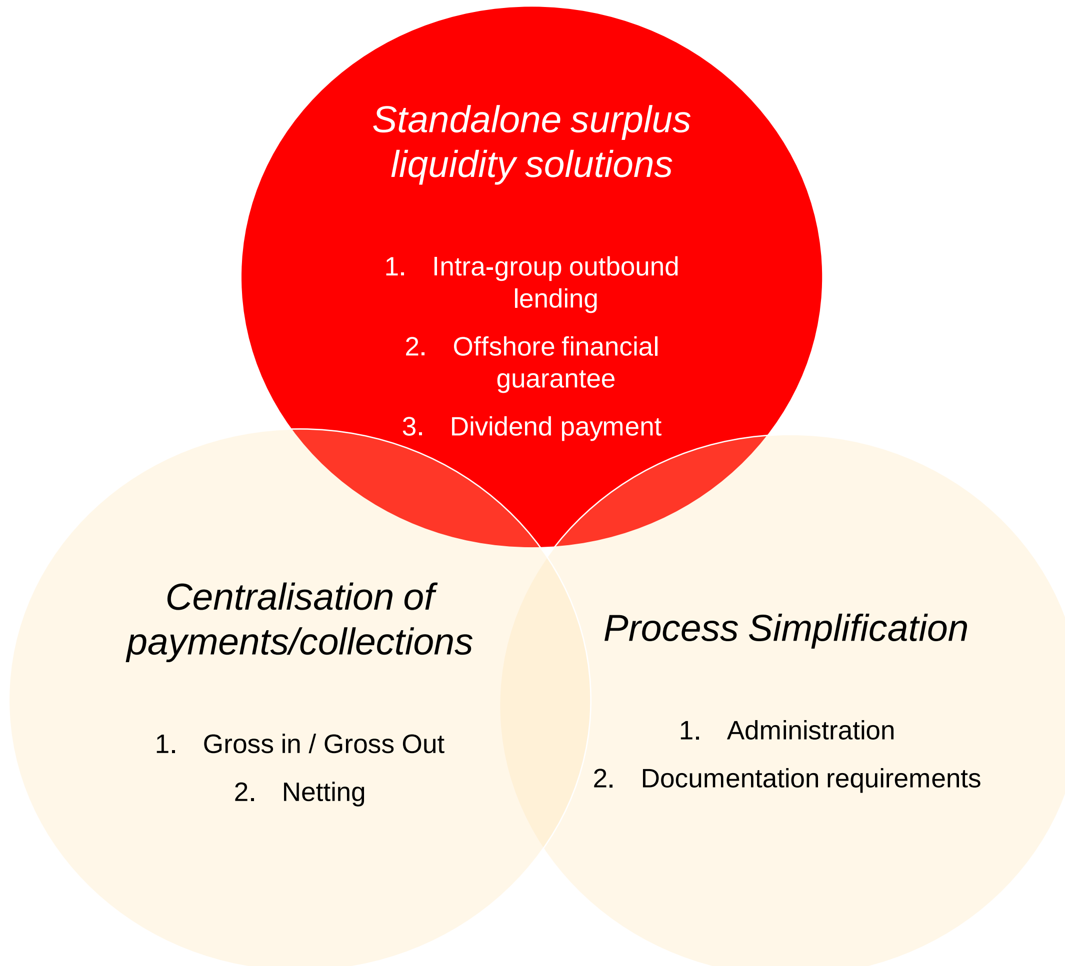
Capital Account

		Transparency
New rules governing FDI / Capital a/c	Dec 2012	Consistence
New rules governing Foreign Debt	May 2013	

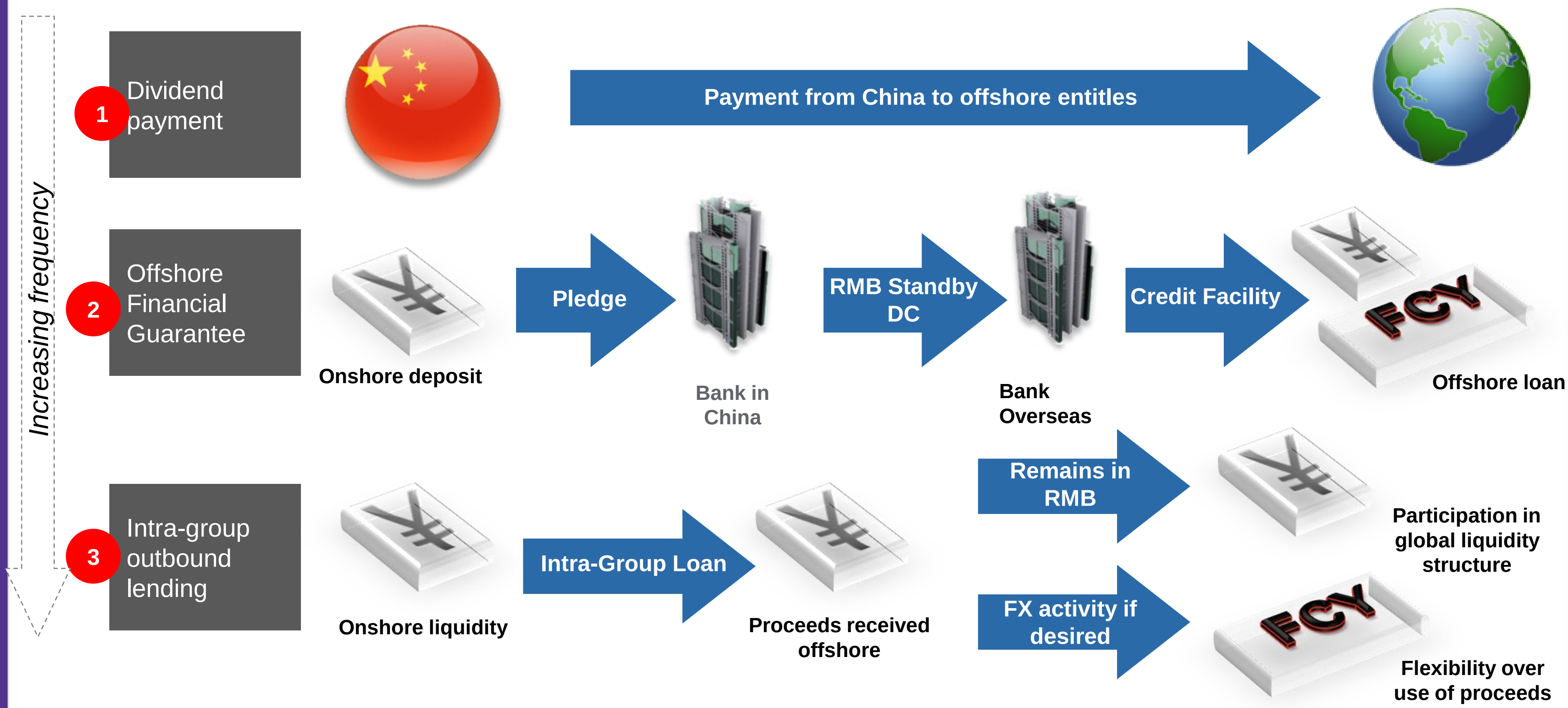
Entering a new stage of market liberalisation

Changing regulatory climate creating new opportunities

- RMB internationalisation and further relaxation on regulations create **opportunities for multinational corporates to centralise and simplify their processes**
- **Cross-border mobilisation of surplus cash is becoming more accessible**
- You need a global provider that offers **comprehensive range of solutions** to integrate the domestic liquidity pool with the international markets



Surplus liquidity onshore



Increasing flexibility for Chinese business

- Dividend payment and offshore financial guarantee have been the existing choices for dealing with surplus onshore liquidity, however these have been subject to restrictions over frequency of payment and require planning to account for tax implications [1]
- Following the recent regulatory relaxation, the range of options is now expanded with intragroup lending as an more accessible alternative

[1] Dividend payments are subject to withholding tax, the rate for which varies from country to country. For precise implication please consult your tax advisor

Key take-aways

- **Fast-moving and exciting:** creating new opportunities for companies of all types
- **Complex and sometimes opaque:** grey areas, market change and practical details
- **Dialogue is key:** jointly explore with your bankers and partners
- **A joined-up approach is best:** treasury, sourcing, strategy, sales
- **An International Bank with the right presence, matters..** 150+ branches in China

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