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

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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

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Revenue ($ Bil)</th>
<th>Operating Profit ($ Bil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>35.4</td>
<td>5.7</td>
</tr>
<tr>
<td>2007</td>
<td>38.3</td>
<td>8.2</td>
</tr>
<tr>
<td>2008</td>
<td>37.6</td>
<td>9.0</td>
</tr>
<tr>
<td>2009</td>
<td>35.1</td>
<td>5.7</td>
</tr>
<tr>
<td>2010</td>
<td>43.6</td>
<td>15.6</td>
</tr>
<tr>
<td>2011</td>
<td>54.0</td>
<td>17.5</td>
</tr>
<tr>
<td>2012</td>
<td>53.3</td>
<td>14.6</td>
</tr>
</tbody>
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Intel Corporation Overview

Building a Continuum of Personal Computing Experiences
Geographies

>75% of Business is Offshore*

*Business defined as end market consumption based on units sold
Intel’s Journey in China

Total investments: > USD 4.7Bn
Number of legal entities: 11
Number of employees: >7000
Cash portfolio size: > USD 1Bn

- 1st SMG office in Beijing (1985)
- 1st A&T factory in Pudong (1996)
- Lab in Beijing (1998)
- 2nd A&T factory in Chengdu (2003)
- Regional R&D in Shanghai (2005)
- FAB in Dalian (2009)
- RHQ in Shanghai (2009)
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”
- **Early 2007**: Intel’s 1st Single Way cross-border Lending transaction approved
- **Nov 2009**: Rule #49 replaced #104 and Cross border Lending got suspended
- **Dec 2012**: SAFE Shanghai approved our pilot application and implementation started Jan. 2013
- **2005**: Intel started China legal entity restructuring for the “RHQ MNC structure”
- **2009**: Intel approved for Domestic USD Cash Pooling structure
- **June 2012**: Intel China got invited as the 1st batch of pilot program for USD Cross border cash pooling
London Gets Nod as International Center for RMB Trading - China Briefing

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

China Agrees RMB Accord with Singapore - FT

China, Taiwan Sign Yuan-Clearing Deal - WSJ

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

Onshore

Domestic FCY Master Account (DFMA)
- 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

Within the concentrated foreign lending quota

International FCY Master Account (IFMA)
- Cross-border fund flows to/from the IFMA unrestricted
- Long-term foreign debt/lending quota pools

Within the concentrated foreign debt quota

Offshore

Intel Offshore LE 1

Intel Offshore LE 2

Intel Offshore LE 3

Domestic Onshore Offshore

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?

PUBLIC
China: Opportunities & Best practices

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Regional Sales Head - Multinationals - Southeast Asia
Global Payments & Cash Management
HSBC
## 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 borrow 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

- Offshoring RMB via intra-group lending
  - July 2013

### New Liberalisation

- Widening the RMB FX trading range
  - Apr 2012

- Removed the loan interest rate controls
  - July 2013

### SAFE – Transforming the administrative controls

#### Current Account

- Reform on the goods trade
  - Aug 2012

- Reform on the services trade (draft)
  - Sep 2013

#### Capital Account

- New rules governing FDI / Capital a/c
  - Dec 2012

- 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

**Standalone surplus liquidity solutions**

1. Intra-group outbound lending
2. Offshore financial guarantee
3. Dividend payment

**Centralisation of payments/collections**

1. Gross in / Gross Out
2. Netting

**Process Simplification**

1. Administration
2. Documentation requirements
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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