



# **CNPC Treasury FX Risk and Cash Management**

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# CNPC Treasury: FX Risk and Cash Management



## Agenda

- 1. About CNPC**
- 2. CNPC Treasury & CPF Overview**
- 3. FX Risk & Cash Management**
- 4. Q & A**

# CNPC—One of the Largest Oil & Gas Companies in the World



## CNPC Overview

- ✓ China National Petroleum Corporation(CNPC), a leading integrated energy company, established in 1998, originated from the Ministry of Petroleum Industry.
- ✓ Businesses cover oil and gas E & P, refining & chemicals, marketing & international trade, natural gas & pipeline, technical services, engineering & construction, equipment manufacturing, finance, etc.



CNPC  
No.4 (2014)

Fortune magazine

PETROLEUM INTELLIGENCE WEEKLY

CNPC  
No.3 in the world's 50 largest oil  
companies (2014)

Petroleum Intelligence Weekly

Forbes

PetroChina  
No. 8 in the World's Biggest  
Public Companies (2015)

Forbes magazine



PetroChina  
No.7 in top 250 global  
energy companies (2014)

Platts

# CNPC—One of the Largest Oil & Gas Companies in the World



## CNPC Key Business

### Oil and Gas Business



#### (Listed, PetroChina)

- Exploration & Production
- Refining & Chemicals
- Marketing & International Trade
- Natural Gas & Pipeline

### Oil Field Services



#### (Unlisted)

- Technical Services
- Engineering and Construction
- Equipment Manufacturing

### Finance and Others



#### (Unlisted)

- Finance & Fund Management
- Investment and Asset Management
- Finance and Insurance
- Other Oilfield Community Services

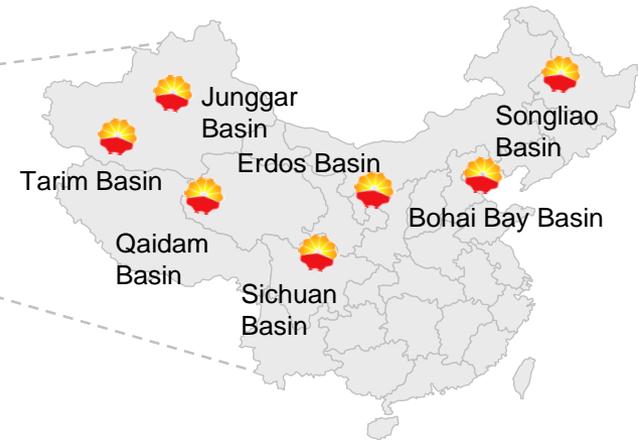
# CNPC—One of the Largest Oil & Gas Companies in the World



## CNPC's Main Global E & P Regions



## Key Domestic E & P Regions



- ✓ **CNPC has invested in more than 80 oil and gas projects in over 30 countries with total crude oil and gas output of 1.88 billion boe in 2014.**
- ✓ **CNPC takes 54.2% of the oil market and 74.8% of the gas market in China in 2014.**

# CNPC—One of the Largest Oil & Gas Companies in the World



## Downstream Business



 Overseas operating refining factories

 Domestic refineries and chemical enterprises

- ✓ CNPC has 28 domestic refining and chemicals companies and 9 refineries overseas
- ✓ In 2014, CNPC processed nearly 200 mm tons of crude oil and produced over 131 mm tons of oil products
- ✓ CNPC also trades crude and refined oil with over 40 countries and regions with a trade volume of USD 265 billion
- ✓ CNPC has over 20,000 sales terminals, storage tanks, and refined oil depots in China, and sold 117 mm tons of refined oil and 119.5 bcm of gas in 2014



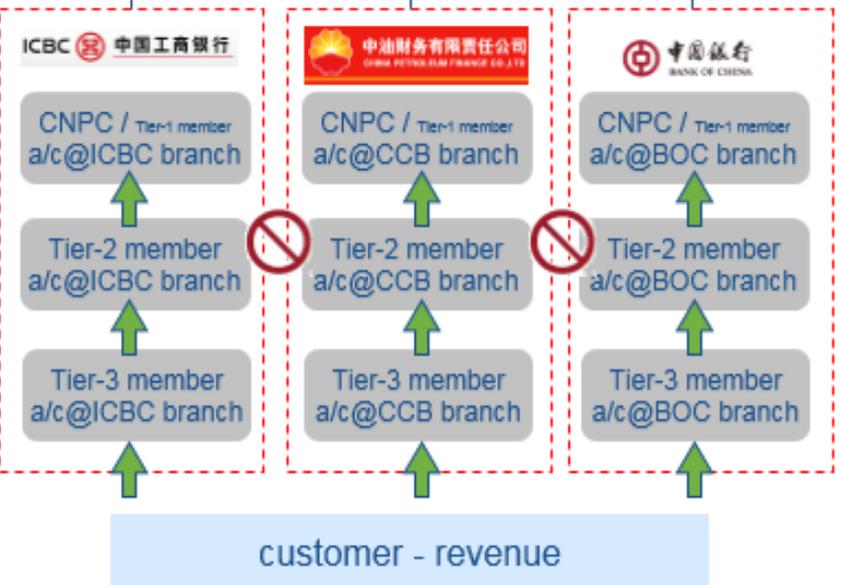


## Development of CNPC Treasury

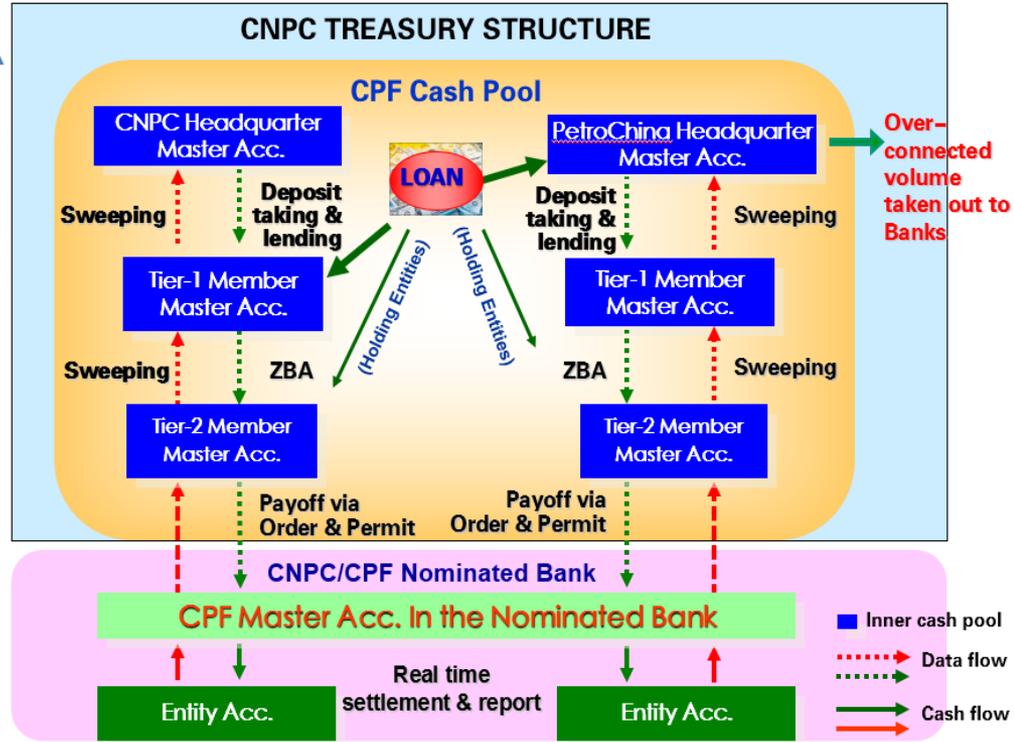
- ✓ CNPC started to centralize cash management since 1994 via few regional settlement centers and CPF. As CPF was strictly regulated by the authorities as a non-bank financial institution, its TREASURY function performed unsatisfactorily (though it was the biggest GROUP's cash pool and IHB domestically).
- ✓ CNPC decided to establish an integrated TREASURY system in 2009, through CPF, the sole platform, in order to increase efficiency, standardization and transparency, to upgrade risk management. The structure and system should be reformed, and all the function should be realized by STP automatically.

### Before...

CNPC Cash Pool



### After...



.....Realized by STP

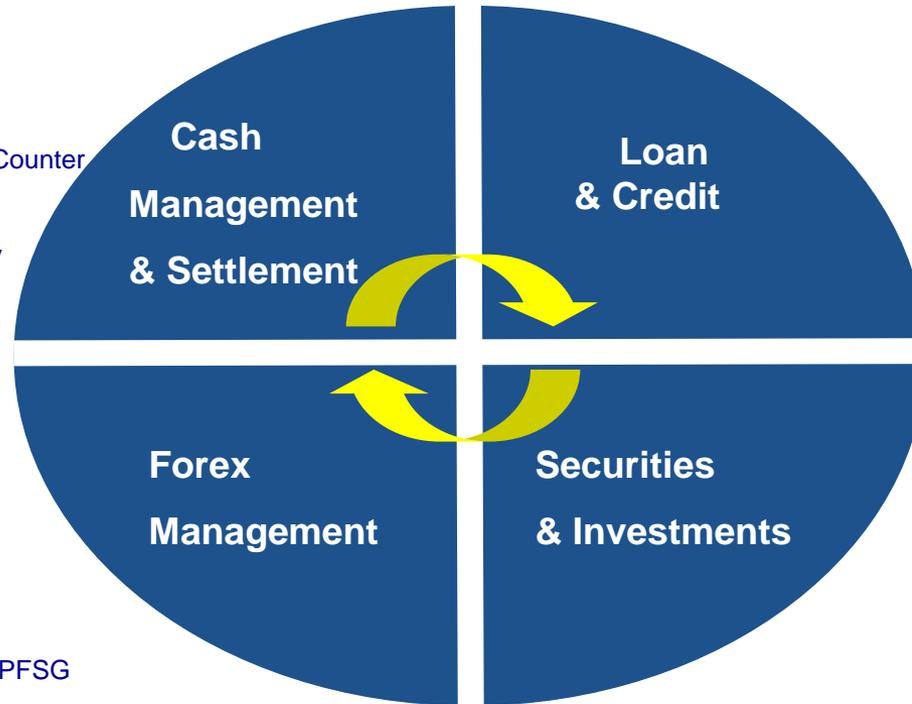


# CNPC Treasury & CPF Overview



- ❖ **CPF, established in 1995, as the In-House-Bank of CNPC Group, regulated by the authorities such as CBRC, PBOC, SAFE, as well as SASAC**
- ❖ **CPF serves CNPC as the centralized treasury platform, cash pool, settlement center, funds distribution & supervision center and financial services center**

- ✓ Cash Management
  - ✓ Intra-city and Inter-city settlement
  - ✓ Demand deposit and term deposit
  - ✓ Contracted deposit
  - ✓ Fund Management
  - ✓ Online Banking Settlement
  - ✓ Service Through online Banking, Counter
  - ✓ Acceptance, Door-door and Fax
  - ✓ Managed 4,185 accts., settlement amount RMB 24.6 trillion annually
- 
- ✓ Account Management
  - ✓ International settlement and Cash Management
  - ✓ Forex Loan
  - ✓ Forex Investment
  - ✓ Forex Settlement
  - ✓ Forex trading and hedging
  - ✓ 3 entities: CPFHK, CPFDubai & CPFSG



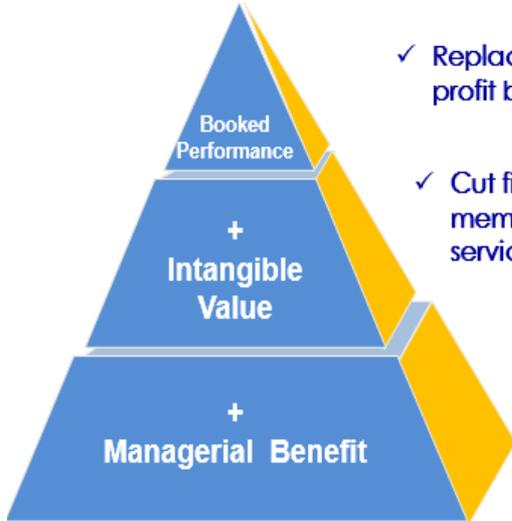
- ✓ Working capital loan
  - ✓ Fixed asset loan
  - ✓ Revolving loan
  - ✓ A/R agency
  - ✓ Bill Acceptance and discount
  - ✓ Comprehensive credit granting
  - ✓ Entrusted loan
  - ✓ Credit confirmation
  - ✓ Letter of guarantee
  - ✓ Interest rate much lower than the market level to cut cost for CNPC subsidiaries
- 
- ✓ Entrusted Security Investment
  - ✓ Security issue & underwriting
  - ✓ Bond transaction
  - ✓ Repo
  - ✓ Liquidity management
  - ✓ Investment consulting



# CNPC Treasury & CPF Overview



## Create Benefit in 2014

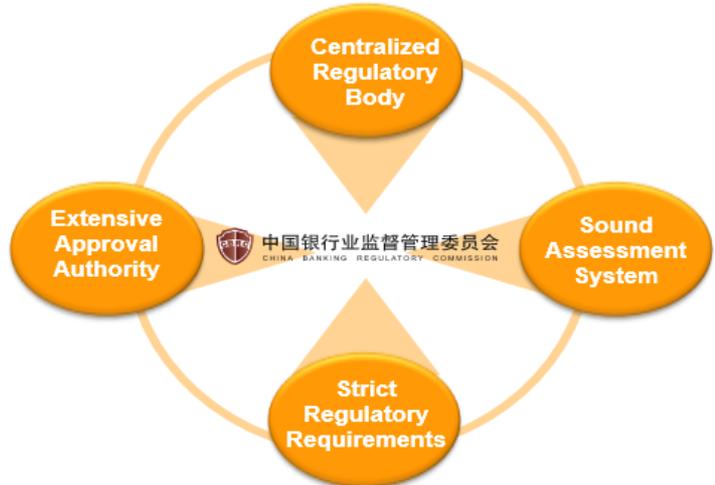


- ✓ Replace the out financial institution, get the inner profit by inner financial service as to RMB 6.65 billion
- ✓ Cut financial cost with RMB 3.57 billion for the Group members via preferential price and fees in various services such as credit, settlement and FX
  - ✓ Reduction in complexity, fewer bank accounts, streamlined banking relationships
  - ✓ Increased visibility ,leveraging currency positions more effectively
  - ✓ Better use of In-House Bank and cost savings
  - ✓ FX fees and transaction cost reduction
  - ✓ Greater control and risk management

## Prudent Risk Management

Ratio	CPF (2014)	CBRC Requirements
Capital Adequacy Ratio(Basel III)	12.53%	≥10.5%
Non-performing Asset Ratio	0.00%	≤4%
Loan Loss Reserve Adequacy Ratio	282.33%	≥100%
Loan Provision Ratio (Basel III, 2018)	4.42%	~2.5%
Liquidity Ratio	50.33%	≥25%
ROE	14.7%	---

## Strict regulatory Framework



## Bond Rating

	S&P	Moody's	Fitch
China	AA-	Aa3	A+
CNPC	AA-	Aa3	A+
CPF(HK)	A+	A1	A+
US Bond	A+	A1	A+
Offshore CNY Bond	A+	A1	AA-
CP	A1/P1	P1	A1

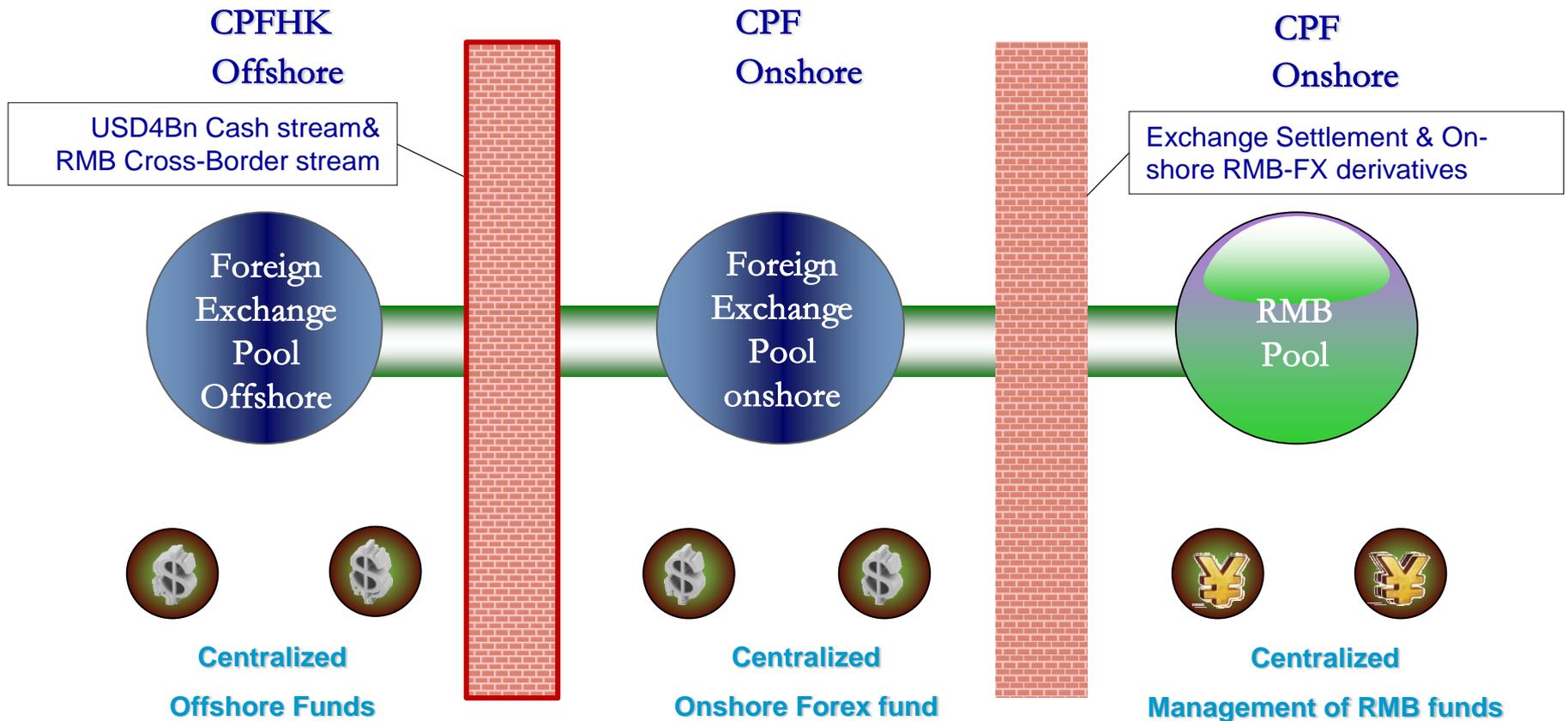




# FX Risk & Cash Management



- ❖ **CNPC centralized global FX by 4 cash pools in HK, SG, Dubai and Beijing via CPF and the subsidiaries.**
- ❖ **CPFHK plays the role of CNPC's offshore treasury center(ITC) and wholly-owned the other offshore subsidiaries.**





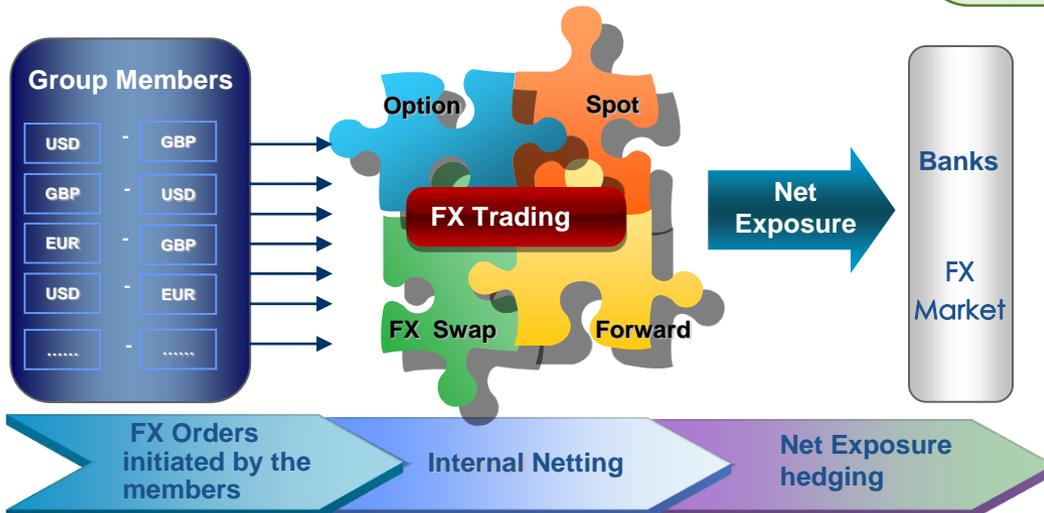
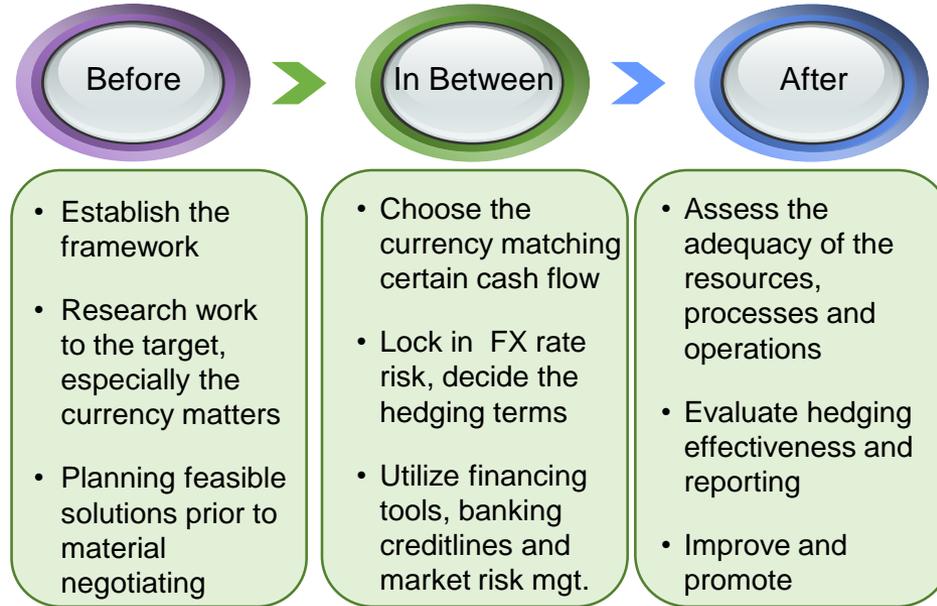
## FX Risk Management Principles

### Regular

- **Know your clients:** all the members' operating, performance and risk status
- **Know your business:** hedging FX risk in the right time, right price(cost) with the right vehicles and counterparties
- **Know your risk:** market risk, credit risk, liquidity risk and operating risk

### Project oriented

- **Attend earlier** into the project(such as the negotiation phase) if necessary
- **Design FX trading strategies and plans, and carefully refine it**
- **Executing** the plan, ensuring confidently trading, delivering and clearing



✓ **CNPC authorizes CPF&CPFHK to centralize FX trading for all the domestic and overseas entities, hedging against FX risks on one single platform.**

✓ **16 international banks identified as trading counter-parties**

# FX Risk & Cash Management: Case study



In recent years, CPFHK has provided risk management solutions for group members to hedge from FX risks on M&A projects, involving currencies such as USD, CAD and AUD, which helped them to save costs.

Take the Australian Arrow CBM M&A as an example...

 ✓ 2010, Australia M&A, (Forward & Swap)	 ✓ 2009, Singapore SPC Acquisition ( Forward & Spot)	 ✓ 2010, Canada project(Forward & Swap)	 ✓ 2011, Canada equity purchase (Forward)
 ✓ 2011, USD interest-rate ( swap )	 ✓ 2012, Canada Project, (Spot)	 ✓ 2012, Australian equity acquisition (Spot)	 ✓ 2012, Canada Project (Forward)

## Arrow CBM in Australia (AUD/USD)



■ **Trading volume: AUD2.6 bn**

■ **Executed rate: 0.8688**

Compared with the following rates, our trading saved costs:

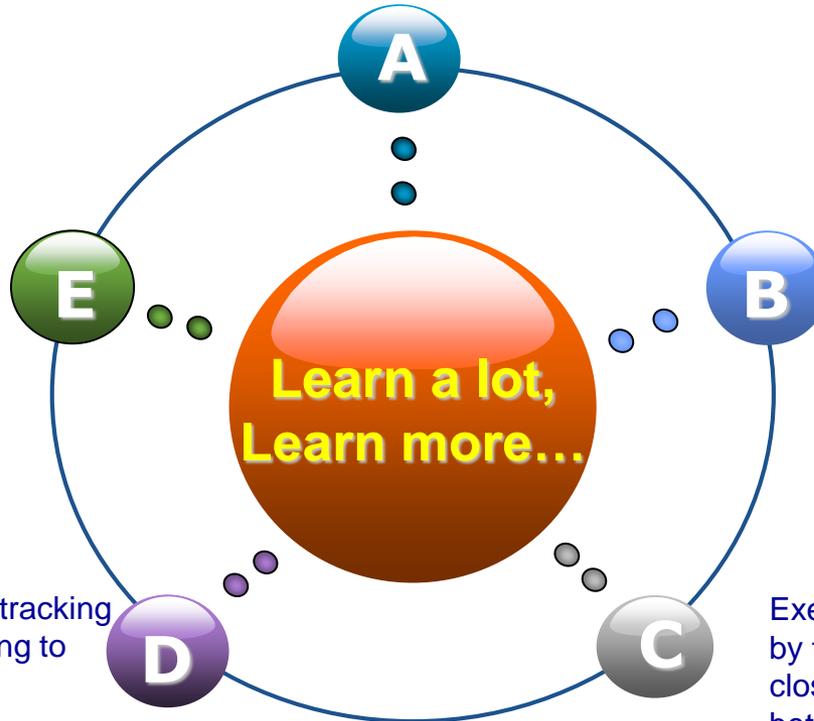
- ✓ FX rate @ decision made 0.9344 saved USD171million
- ✓ FX rate @ execution completed 0.8937 saved USD65million
- ✓ FX rate @ settlement 0.9130 saved USD115million



## ❖ Treasury should take responsibility and ownership of all processes

Fully engage in the project or process, know the objective and strategy, due diligence, organize the information and data, establish FX risk strategy

Communicate often with other internal team-members and external stakeholders- counterparties, banks or traders, to assess the plan, the strategy & policy more efficiently, which is also key to success and continuous improvement



Link FX risk strategy to global corporate FX risk policy, create a plan and checklist, make sure the plan should be executed: active or passive hedging, FX trade volume/frequency/ gain/loss limit, selections of derivatives- forwards, options, swaps or combinations

Establish consistent method of tracking FX trading performance according to the proceeding, reporting and accounting is needed

Execute the plan carefully and seriously by the designated team, watch the market closely, keep trading flexibility and get better results



**Q&A**

**Thank You !**