



# **Discovering Hidden Value**

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**CIPFA Scottish Treasury Management Forum**

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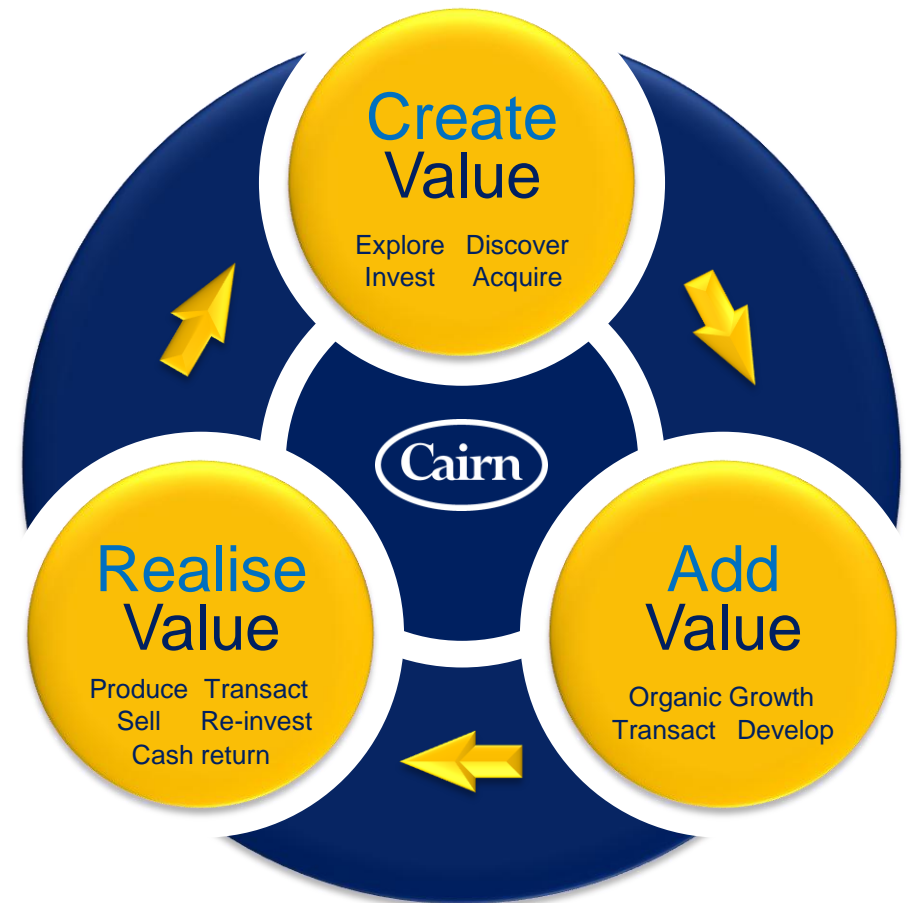
Private Sector Challenges

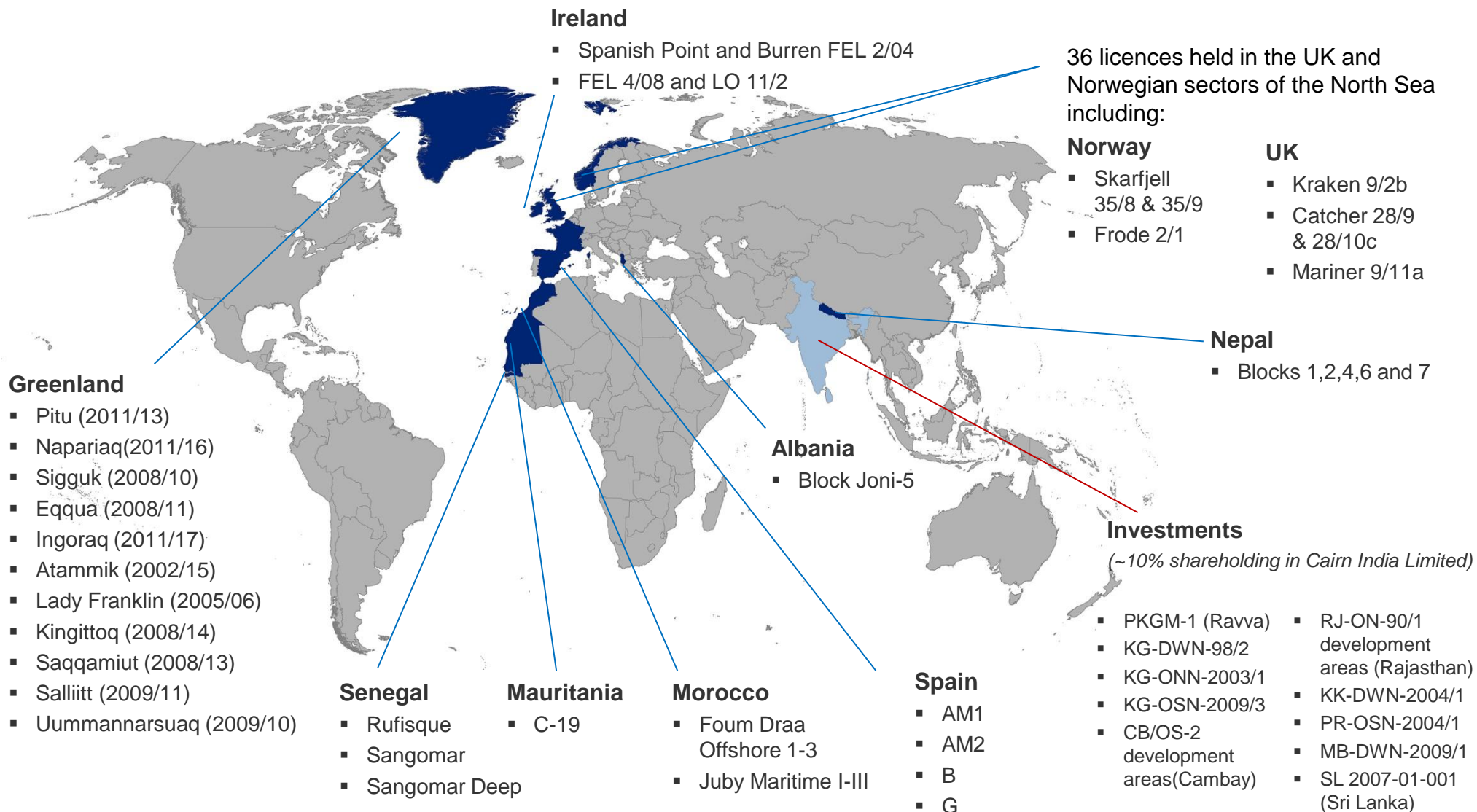
These materials contain forward-looking statements regarding Cairn, our corporate plans, future financial condition, future results of operations, future business plans and strategies. All such forward-looking statements are based on our management's assumptions and beliefs in the light of information available to them at this time.

These forward-looking statements are, by their nature, subject to significant risks and uncertainties and actual results, performance and achievements may be materially different from those expressed in such statements. Factors that may cause actual results, performance or achievements to differ from expectations include, but are not limited to, regulatory changes, future levels of industry product supply, demand and pricing, weather and weather related impacts, wars and acts of terrorism, development and use of technology, acts of competitors and other changes to business conditions.

Cairn undertakes no obligation to revise any such forward-looking statements to reflect any changes in Cairn's expectations with regard thereto or any change in circumstances or events after the date hereof.

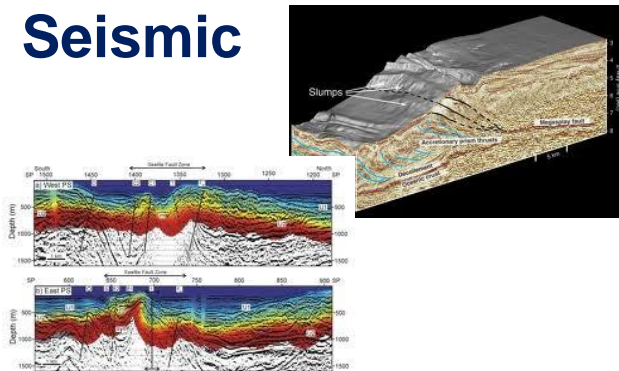
- Experienced exploration and production (E&P) operator
- FTSE 250 London listed Company (CNE) post \$4.5billion sale of majority stake in Indian business
- Business model
  - Continue to create value and opportunities through exploration-led growth
  - Exposure to transformational exploration potential in frontier basins
  - Full cycle capabilities to deliver value from well balanced exploration, appraisal and development portfolio of assets – enhanced by recent acquisitions
  - Strong balance sheet from which to allocate capital to growth opportunities
  - Delivery of safe and efficient operations





- Focus are large multi-year capital projects
- International multi-currency

## Seismic



## Drilling



## Development / Production



## People and Corporate Responsibility

- Cash forecasting
  - Essential to always understand our short and medium term cash needs
    - Drives investment portfolio decisions
    - Drives funding decisions (debt/equity etc)
  - 2014 E&A and Development spend ~\$500m
  - Expected forward development spend ~\$1bn
  - Cash on hand \$1.2bn and listed shares of \$1bn
- Funding
  - Raising debt – specific oil & gas related products available
  - Equity
  - Performance guarantee and letter of credit facilities (~\$175m)

- Risk management
  - FX, interest rate and commodity risk
  - Minimal but expanding hedging programme related to North Sea activities where significant non USD exposures
- International settlements
  - Focus on RTGS payments
    - Low volume/high value – instant receipt by beneficiary
    - Payments can often be time critical
    - Accuracy, reliability and knowledge of international routing/payment methods is key
  - Minimal collections
  - Minimal ACH (e.g. BACS), high volume/low value payments

- International cash management
  - Ensuring full sight and use of cash around the world
  - Exchange restrictions and withholding taxes
  - Inter/intra funding
  - Pooling structures are very important to us
    - Moving to Multi Currency Notional Pooling shortly
- Relationship Management
  - Important to have strong relationships to:
    - Provide choice and competition
    - Aid quick resolution to issues
    - Provide a source of knowledge, experience, information and to aid entry into new areas
  - Currently working with around 30 banks – takes time!



- Regulation
  - EMIR!
- Investment Portfolio Management – next
- Efficiency and straight through processing – next



# **Investment Portfolio Management**



- Cairn portfolio:
  - US dollar focused business (mostly US\$ functional and US\$ reporting)
  - Currently US\$1.25bn on investment (has ranged US\$0.5bn-\$5bn)
  - Currently ~50 counterparties (AAA to A) with an average ticket size of \$30m (>95% USD)
  - Additional ~US\$1bn in listed shares
  
- Challenges
  - Prolonged low interest rates, particularly US\$
  - Counterparty risk
  - Volatile CDS
  - Money Market funds('MMFs') yields
  - Regulatory changes
  - Bank and fund back offices and payment system delays

# Do Not Forget The Rules!

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Capital Preservation

Rule 1 – Never lose money!  
Rule 2 – Never forget rule 1

Seek higher yields but  
not at the expense of  
credit quality

Enhancing  
Post Tax Yield

Ensuring Liquidity

- Increase maturity
  - Depending on the shape of the curve longer maturities can increase yield
    - gambling on future rates and reduced flexibility
    - Rarely invest beyond 3ms and only at AA or above
  - Need to be especially happy with credit quality on longer maturities
  
- Relationship bank deposits
  - get competitive quotes across your relationship banks. 360T or similar tools can make this easier. Avoid simply rolling over.
  - If a rate looks poor – call the desk and ask them to improve it
  - Ask them if they can improve the rate from another branch
    - e.g. Singapore rather than London can add 50-100% to yield but same entity and ratings

- Use Brokers for deposits or CDs – Tradition/ICAP/RP Martin
  - Banks rates depends on their need for funding in a particular currency which changes every day
  - More choice increases chance of a better rate
  - A good broker can also give good market intelligence and flag good deals
  
- Money Market Funds
  - A lag so can be higher or lower return than deposits
  - Provides visibility of underlying investments
  - Avoids being an unsecured bank creditor – have comfort of a share of underlying assets
  - Can negotiate management fee discounts
  - Useful for instant access cash at all times

# Where to Find Yield

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- Evergreen deposits and notice accounts
  - Being offered by relationship banks e.g. HSBC
  - Enhanced rate until give notice – good for sticky cash
- Swap currency
  - Sometimes can gain if swap to another currency and lend
  - Brokers are great for watching these for you
- Dual Currency Deposits
  - Enhanced return for accepting the risk that at a trigger FX rate would mature in the dual currency
  - Only works if you need the second currency
- Make trapped cash work – using pooling structures e.g. Notional pools or zero balancing

# Where to Find Yield

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- Tripartite repos ([ACT Paper on Tripartite Repo](#))
  - Secured deposit at a better yield
  - Receive collateral (any is better than being an unsecured creditor)
  - Routes in:
    - Direct – large setup effort required
    - Via a portal e.g. 360T/Clearstream or My Treasury
      - Much quicker and easier setup
    - Used a fund where primary investments are in repo



# Investment Portfolio Management Approach

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- Diversification – small investments/larger no. of counterparties
- Shorter maturity – unless significant rate yield improvement – retain flexibility
- Increase choice and competition
- Prudence – are a few bps worth the risk
- Do due diligence prior to investment

## Remember:

- You do not get something for nothing - invest as if your own cash
- With a little effort we can improve yield from 5bps to 30-35bps (USD) with same credit quality
- Seek higher yields but not at the expense of credit quality (remember rule 1!)



## **Efficiency – Straight Through Processing**



# Efficiency – Straight Through Processing

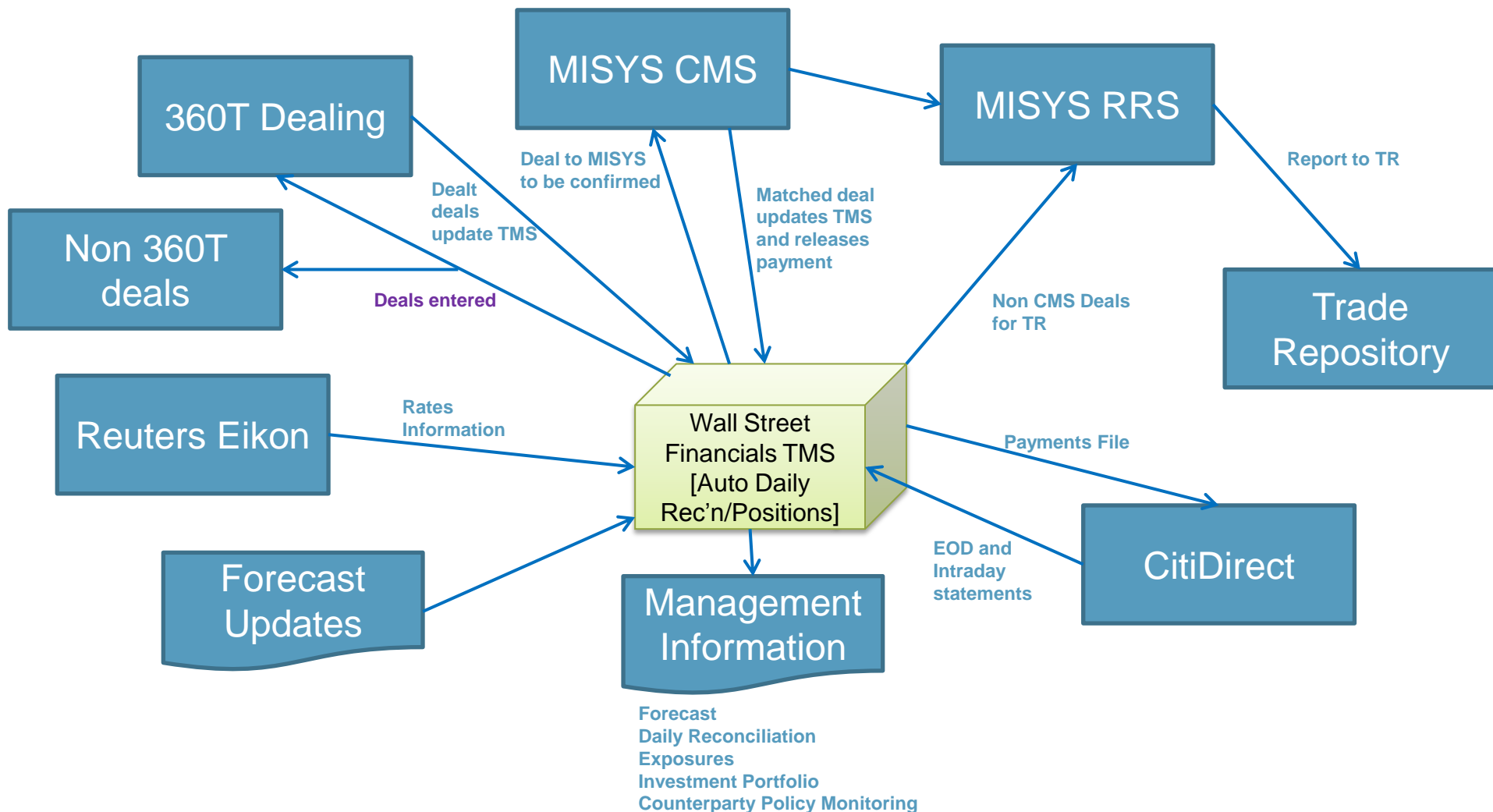
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- Challenge: minimal treasury resource – 1 front office person and share of 1 back office person
- Objective:
  - Single version of the truth
  - Automated feeds
  - 100% accuracy
  - Always available view of Group cash and positions
  - Risks identified and managed
- Tools:
  - TMS (Wall Street Financials or similar)
  - Dealing (360T or similar)
  - Confirmations (MISYS CMS or similar)
  - Market feeds (Reuters Eikon or similar)
  - Trade Repository Reporting (MISYS RRS or similar)
  - Payments (Bank front end system)

# Process Architecture

Blue - Automatic or with user click

Purple - Manual





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