



The Word

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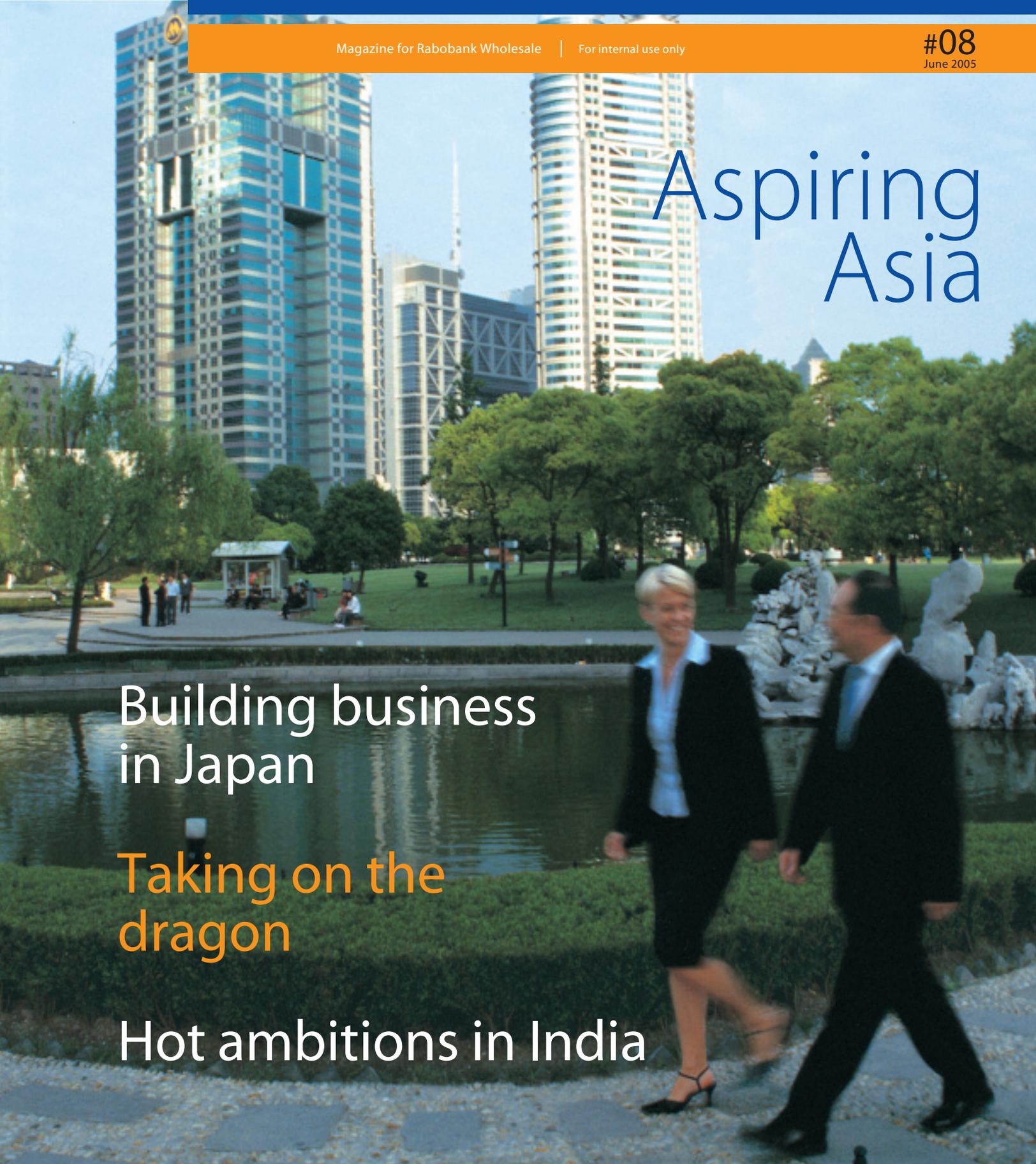
#08
June 2005

Aspiring Asia

Building business
in Japan

Taking on the
dragon

Hot ambitions in India



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Editorial Staff:

Editor in Chief & Coordination **Arjan Veraart**

Project Manager **Judith Olde Rikkert**

Managing Editor **Kirsten Spry (The Write Company)**

On cover **Marjon Wind and Orlando Wang**

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Editorial Address:

Rabobank Nederland Communications Department

P.O. Box 17100, 3500 HG Utrecht, the Netherlands

Telephone: +31 30 216 1854

Telefax: +31 30 216 1916

Email: j.olderikkert@rn.rabobank.nl

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kevin.nl, photograffiti.ca,

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Market approach



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Dear colleagues,

The Asian economy's initially turbulent boom has undergone something of a coming of age: double-digit growth has been replaced by fast-paced even growth. Now is the time to consolidate our resources and expertise in the region.

In these pages you'll find a behind-the-scenes look at Rabobank's approach to developments in Asian markets and the sector and product opportunities present in India, Japan, China and the region as a whole. These are exciting times for Rabobank in Asia, presenting opportunities for our international clients to work with us in Asia as well.

The knowledge that half the world has yet to make a telephone call, as pointed out on page 21 in our Telecom, Media & Internet update, 'Opportunity calls', reflects the mixed messages we experience from global markets: on the one hand a burgeoning demand, and on the other a potential instability. This reality epitomises the need to seek sustainable financial relationships. Our participation in the World Business Council for Sustainable Development's Young Manager's Team and the Rabobank Development Program are part of our commitment to creating sustainable relationships in the development of markets. Naturally in our core market, F&A, we need to react swiftly to market developments. The recent 'F&A Days', also covered in this issue, is key in this respect.

Read all about it in this issue of The Word.

Rik van Slingelandt
Chairman, RI Managing Board



Incoming mail

Expect to find a reader survey for this magazine in your inbox this month. We are always looking to improve The Word, so thank you in advance, your feedback is valuable.



Aspiring Asia

Fergus Murphy

Strategy Asia Team Inc. is a team effort spanning countries, resources, products and services to consolidate Rabobank's Asian presence to take advantage of the market potential the region offers. The Word talks to Fergus Murphy, Regional Head of Asia, Rajesh Srivastava, Regional Head of F&A Asia and Gilbert Ee, Regional Head of GFM Asia for their insight into the region, its potential for Rabobank and the road map for Asia for the next three years.

The problem is an envious one: quality people, exceptional market potential and products. 'Only, no man is an island,' says the Irish Fergus Murphy. 'Each of our footholds has been built judiciously; the challenge now is to create more synergy between our individual offices in the region, to create more critical mass and business flow. With the further development of an Asia coverage model we can pool our resources, sector knowledge, systems, client base and risk management. By pooling our resources, not only can we realise the potential each country offers, but we can also efficiently access the potential the region offers with cross-border business.'

Missing critical mass

The problem can be likened to a manufacturing company in which the capacity utilisation is too low. Rajesh Srivastava, Team Leader of the Strategy Asia Team (SAT) project explains, 'We have the premises, the equipment, the input and the manpower, only the utilisation is somehow blocked. It all boils down to critical mass. You need an efficient use of resources, not only by Product or Sector Specialists and Relationship Managers but also in support functions to be able to effectively scale the business.'

Lost leverage

Business opportunities around the region needed to be originated and followed with more of a 'one-team' approach. Srivastava continues, 'It's partly context as well, in Asia we have not historically pursued cross-border business for a couple of reasons, including cultural and ethnic. Professionally speaking, why should someone from China call someone in India to share a deal when the structure is not fully in place to recognise and reward such cross-border effort? SAT looked into this blockage and found the mechanisms to recognise such sharing of cross-border business, and also to establish a system within offices so that Relationship Managers and Product Specialists are also willing to promote other products.'

Stage of development also played a role. Gilbert Ee: 'Certainly for Global Financial Markets (GFM) there was less leverage across locations in terms of client relationships or deal information. This is largely because GFM was only consolidated as a department as of 2004. Prior to that Singapore and Tokyo had Group Treasury businesses with Singapore having a separate Rabobank International (RI) Capital Markets and Hong Kong, India and

Indonesia having a RI Treasury Markets. Hence the region was fragmented in terms of Financial Markets activity.'

In-house capabilities

The SAT team conducted 113 interviews to determine what in-house capacities each of the countries had before developing the strategy. A total of 33 papers were written on the issues that surfaced from these interviews. Gilbert Ee explains, 'These helped to build a picture of our positioning, front office, business development, support, enablers, new initiatives, Human Resource Management, IT, etc. Many thought it was too comprehensive, but it was essential to have a picture of the whole to build a strategy for the whole.' In May, the team met with 60 managers across the region to share its findings.

Rajesh Srivastava

'one-team'
approach

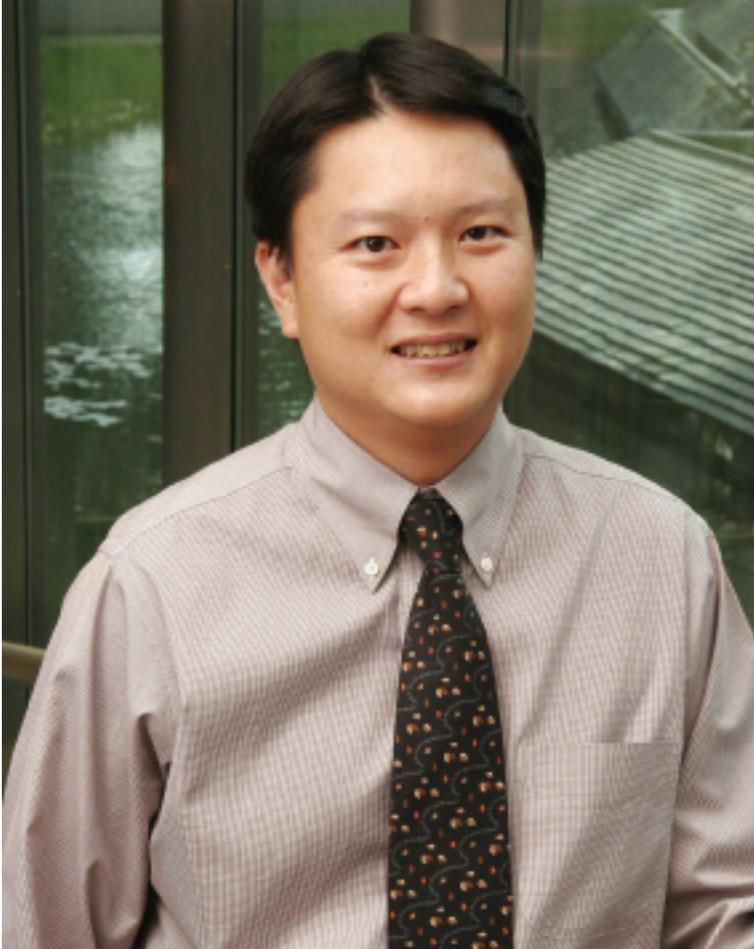


Green light

The new initiatives presented to the Managing Board in April were plentiful. SAT got the green light to further explore the potential of Islamic banking (see side-bar page 8). Vietnam was also highlighted as a market in which Rabobank needs to have a presence. A 'Country Banking' strategy was approved for China, and Indonesia is to be explored as a possibility as well. Asia as a region also got a new focus sector, life sciences, while the core sectors in the region will remain Food and Agribusiness (F&A) and Telecom, Media & Internet (TMI). The region also got the green light to deal with other sectors on a case by case basis provided the two core sectors contribute to at least 55% of Asia's gross revenue.

China-India pilot

'We also got the go ahead to develop a China-India corridor,' says Srivastava. 'We need to capture trade flows between these two countries, conservatively estimated to reach US\$60 billion by 2010. A lot of the trade is actually happening in the sectors in which we are already active in India, such as life sciences and F&A. The China-India corridor will be a pilot model between the two countries. If it is successful we will replicate it across other countries and sectors. We didn't only come up with the idea; we created a methodical approach, set up targets and established a working group between these offices and a budget. Strategy is all very well, but it needs to be linked to steps of implementation, and SAT covers implementation as well.'



Gilbert Ee

green light for China India corridor

Linkages

SAT isn't only defining new business initiatives, regional consolidation and implementation. It is also about people issues such as encouraging teamwork and cooperation to achieve the needs of our partners and clients. Gilbert Ee explains, 'For instance, in SAT we made sure we have the right Management Information System process that will encourage linkages across departments. Also, throughout the project GFM and other departments followed SAT developments closely, to see what we could do to support the planned growth in activities such as efficiency in funding costs or in terms of new product capabilities for delivery to clients. This ensured we had a holistic approach to the planned growth.'

Indian Private Equity Fund

Another new initiative is the Private Equity Fund for India. This is an F&A

private equity fund partnership between Rabobank and a local well-respected partner. The fund will be run independently by a professional team investing in capital-hungry Indian companies with a proven track record. Murphy: 'We bring to the table our F&A expertise and research and our origination skills as bankers in India where we have a primary position. The other party brings significant private equity skills to the equation. It's a good symbiotic relationship.'

Srivastava, who is responsible for overseeing the Fund continues, 'There are two things happening in F&A in India: one is that F&A businesses are building up economies of scale and the other is the development of brands. Until now, processed foods has been a very small, unorganised market. Now with the

demographic (including lifestyle) changes, and interest of the international food companies, the processed food industry is poised for a big boom. Companies are building up brands, not only for India, but also for export markets, where equity is required. There is also a lot of consolidation in the sector so that firms can enjoy economies of scale, but consolidation requires substantial equity as well.'

Risk Management connectivity

Risk Management was also targeted in SAT. Says Ee, 'In the past, GFM looked at local currency or Asian market risk independently in each of the countries. We can now look at the portfolio of total Asian risk to get a more consolidated picture and allow us to manage or diversify this risk more efficiently.'

Murphy continues, 'We have developed a pilot project for enterprise risk management. We have appointed a Project Leader for the region and the General Managers in each country will also act as Chief Country Risk Officer. This approach gives us a more holistic approach to risk. Each country has credit risk, market risk, operational risk, legal risk, reputation risk, and we all have people managing them, but we need someone looking at the connectivities between all these risks to make sure something doesn't slip between the cracks.'

Key results

By the end of 2007 the team hopes to have doubled revenues to US\$272 million. Progress will also be monitored at intervals. 'So now the really hard work begins.' Murphy does not seem phased: 'We also detailed the implementation, and that is key. Further, nothing has been cast in stone, we work in evolving markets with evolving capabilities and the strategy and its implementation have to be flexible to this reality. Through this process I've seen the potential of the people we have and I am very confident.'



Antonio Costa

Spotlight on Indonesia

Notwithstanding devastating events in recent years, Indonesia's market demand is strong, leading to many opportunities for Rabobank's office in the country to further enhance profitability and core activities in F&A and TMI, as well as implement the many new initiatives stemming from SAT inc.

The prospect is exciting to Antonio Costa, General Manager of the Jakarta office. 'We see a lot of opportunity in TMI. Currently penetration rates are only at 10% so the market is still growing rapidly and the margins for telecom operators are still high. In F&A we are taking advantage of the market perception as specialists in F&A, as there are significant trade flows as Indonesia is a major exporter of palm oil, coffee, pepper, cacao, and major importers of wheat, soya and sugar,' he says.

Indonesia will also look into life sciences as a possible sector. Costa sees many similarities between the Indian market, where the pilot has been very successful, and the Indonesian market. 'In Indonesia there are a lot of small players, with no one market player with a significant market share. There is definitely room for consolidation and growth and we feel we can offer the necessary financing and advice.'

Islamic banking will also be a prospective new initiative, with research currently being conducted in Indonesia and Malaysia to determine how to proceed.

Although today, in terms of assets, Islamic banking only represents about 2% of banking assets, the sector is growing at over 30% per year.



Building business in Japan

Fifteen years ago, Japan's economy took a nosedive and has been struggling ever since. But at long last there are signs of recovery. So what has changed and what are the opportunities for Rabobank? The Word talks to Willem Wagner, General Manager of Rabobank Tokyo, and finds that shifting regional trends provide the key to success.



Willem Wagner

a notable player in the Japanese market

Faced with the country's economic stagnation, most major Japanese companies have been getting their houses in order in recent years. They've been taking the losses associated with decreasing asset values, making processes more efficient and developing overseas markets,' explains Wagner. As a result, the economy is becoming more and more efficient as companies follow the lead of the big corporations.

Building block

Rabobank made its first foray into the Japanese market five years ago by setting up Global Financial Markets (GFM) trading, which has been consistently profitable since day one. 'We're a notable player in the Japanese market even though we only have a small team of people,' says Wagner proudly. 'All the things we do in corporate banking are interesting from a strategic point of view, but we couldn't do it without GFM. It's the building block for everything we do.'

Researching the market

With GFM up and running successfully, it was felt that it might be time to enter the corporate banking arena. So two years ago, Food and Agribusiness Research (FAR) conducted several studies

into the Japanese market. At first glance the signs were not very promising. 'While quite a few foreign banks are involved in onshore corporate banking in Japan,' says Wagner, 'very few of them make money.' So why should Rabobank be any different? 'We already had the infrastructure in place to support GFM. If you add corporate banking to that the marginal cost is actually very low.'

A much more compelling reason to expand into corporate banking was the state of Japan's food industry which is very large and sophisticated. 'Japan does not produce enough to feed itself,' Wagner continues. 'It has to import over 60% of its food from places like the United States, Europe, China, Australia and Indonesia.' Another important factor was local trends. Japan used to be the only major buyer of food in the region with easy access to supplies. Increasing competition from China and India, political tension between Asian countries and the threat of diseases like avian flu have changed all that.

Guaranteeing access to food

All of these factors mean that access to sufficient food supplies has become a strategic issue for Japanese food buyers.

To guarantee access, Japanese companies have to either form a strategic alliance or secure an interest in one or more food suppliers. Which is where Rabobank comes in. 'We came to the conclusion there was a need for the services we offer,' says Wagner.

One of Japan's leading bakery companies demonstrates the kind of benefits that Rabobank Tokyo can deliver. 'At first they weren't interested in talking to us,' Wagner admits. 'Their operations were restricted to Japan and they didn't feel they needed help from a foreign bank.' A year later though, the company came back with an entirely different attitude. They needed flour as a basic ingredient, and they had been sourcing it from a government agency at prices determined by the government rather than market forces. After the World Trade Organization put a stop to this practice, the bakery company knew it would have to buy ingredients from the world market. With little idea how to do this, the company turned to Rabobank for help.

Centralised banking relationships

Japanese companies working abroad have a centralised approach to banking relationships. This can work in Rabobank's favour as well. Yakult is a Japanese company that makes a milk-based product that aids digestion. Since Australia is an important market, the company has an office in Melbourne. Before Rabobank Tokyo could approach the Melbourne office though, it first had to develop a relationship with the head office in Japan. Meetings with Yakult in Australia ultimately led nowhere, but then a Dutch Relationship Manager started talking to the Yakult office in Almere, the Netherlands. Thanks to the groundwork done by Rabobank Tokyo, the Manager in Almere got a foot in the door. 'Our strategy is to make contact with the head offices of target companies and communicate this to our network,' says Wagner.

Building on these early successes obviously depends on the stability of Japan's recovery, but Wagner and his team are fully prepared for whatever the future may bring. 'We've made a very thorough and detailed analysis of how the Japanese economy could develop in the future,' he explains. This analysis has produced a number of possible scenarios which will enable Rabobank Tokyo to spot early warning signs and adjust its strategy accordingly. 'We're not dependent on the continuing success of the Japanese economy.'

Franchise value

Given this uncertainty, how will Rabobank Tokyo measure success? For Wagner the bottom line is not the only benchmark. In terms of F&A, revenue may not be generated in Japan but in the countries where it sources food. 'We will measure success in terms of how much business has been created with Japanese companies that didn't exist before,' he explains. 'We're creating a franchise. Something lasting, based on solid, long-term relationships.'

Active interests

Robeco and De Lage Landen are also taking advantage of Japan's changing fortunes. Both subsidiaries are set to open offices there before the end of the year.

In contrast to Europe, asset management and retail funds are rapidly growing markets in Japan. That's why Robeco has already built up a successful franchise there. It now wants to consolidate that success by setting up its own office to sell standard and tailor-made products through brokerage companies, securities firms and other distributors.

De Lage Landen has never been active in Japan until now, but it has sufficient numbers of clients interested in the Japanese market. De Lage Landen's Japanese office is part of a wider Asian strategy which includes branches in Singapore, China and Korea. De Lage Landen Japan will not be going it alone though. It will be operating as part of a strategic alliance with SMBC leasing, a subsidiary of the Sumitomo Mitsui Banking Corporation.



Strategic choice

In April, Rabobank participated in a trade mission to Egypt, and was able to offer its experience in the form of assisting with the implementation of a reorganisation with the Principle Bank for Development and Agricultural Credit (PBDAC). Rabobank has previous experience with PBDAC through Rabo International Advisory Services (RIAS) which, among others, has advised on IT systems, developed new products and offered training to PBDAC employees in granting loans. In the first year of its involvement, RIAS indicated strategic choices would need to be made in order to make the bank successful into the future. At that point PBDAC, together with Rabobank, drew up a reorganisation plan to bring the bank from a government-funded bank to a privatised retail bank with improved access to financial services in rural areas. If the bank is successfully reorganised and privatised, the Rabobank Development Program (RDP) may consider a stake in the bank.

Completing the circle

The Rabobank Development Program triad of activities offers a complete circle of development support. From supporting developing cooperatives through the Rabobank Foundation to channelling financial experience and technology to cooperatives and banks in emerging countries with Rabo International Advisory Services, the program is complete with consultancy and equity participation at a later stage of development through the Rabobank Development Program.

Creative journey

Many Rabobankers are familiar with the activities of the Rabobank Foundation and RIAS and how they assist cooperatives and banks internationally. Rarely, however, do you get to see an artistic portrayal of the impact Rabobank's contributions have made to a business or to a community, family, or individual. The bookazine, entitled, 'The World in Your Own Hands' tells the stories of RDP-assisted people in India, Honduras, Egypt, China and Tanzania through the eyes of artists. Writers, photographers and artists were sent to these countries to experience the daily lives of these people and to be inspired by what they have made for themselves with Rabobank's assistance. The bookazine is written in Dutch with some paragraphs in English and will be launched at the Annual General Meeting in June.



Share4more

In an outpouring of sympathy at the beginning of this year, Rabobank employees and the Managing Board together contributed over €1.9 million for emergency relief in tsunami- struck areas. 'The day after the tsunami, we contacted Rabobank Foundation's long-standing partners to see if they needed emergency relief and we were able to distribute money immediately. Recently, we have asked for their plans for rebuilding. We are still waiting for replies from Aceh, and have kept some funds for when they contact us,' says Charles Ruys, Manager of the Rabobank Foundation. Since the disaster, Share4more has returned to its original plan to operate as an employee fund in which employees can donate directly from their salary every month. So far, the amounts are too small to donate. 'It's difficult. Many people donated a substantial amount to the tsunami relief because it was so devastating. Now we are asking for money on a continuous basis for rebuilding in Asia as well as other development projects internationally, such as an orphanage in Kenya. Many people have given as much as they can for the year, but there will be next year. I am sure that as more people know it is a permanent fund, they will contribute,' says Ruys.

From rhetoric to reality



Tanja Kliphuis

It's an ambitious mandate: in the course of one year make quantifiable progress in sustainable development within distinct international business sectors. The Word talks to Rabobank's representative on the Young Manager's Team of the World Business Council for Sustainable Development.

'We were committed to pushing sustainable development out of the realm of discussion and into the realm of action – creating sustainable connections between people in industry is the first stage,' says Tanja Kliphuis, Product Manager at Rabobank Nederland Private Banking, who represented the Rabobank Group in the Young Manager's Team (YMT) 2004. 'I am proud to be Rabobank's representative, it is further evidence that Rabobank makes the rhetoric a reality by investing its people.'

A group of 30 young managers, the YMT represents a wide variety of industrial sectors with different functions and cultural backgrounds. This team is an offshoot of the World Business Council for Sustainable Development, representing a coalition of international companies committed to sustainable development.

The team undertook three projects: a learning module on sustainable development in China, forestry sustainability in Brazil, and a way to

encourage financial analysts to value sustainable development decisions made by their firms.

Rabobank's participation in YMT 2004 reflects Rabobank's corporate strategies which implement corporate responsibility and value sustainability decisions worldwide.

Learning sustainability

With 16 of the 20 most polluted cities in the world, and having very rapidly risen to the position of the second largest economy globally, 'there is no sustainable world without a sustainable China' says Kliphuis.

China has the legislation, the infrastructure, and the quality of personnel to implement sustainability. After a preparatory visit to China and research, it was concluded that sustainable education was the key to the puzzle. Kliphuis explains, 'We decided to develop a learning module on sustainable development in the Chinese context which can be used by Chinese and multinational companies as well as universities and business schools. Train-the-trainer delivery of the package took place in the spring in Beijing and Hong Kong. For an electronic copy of the learning module, please contact Tanja Kliphuis.'

Making sense

The challenge for the financial sector team was to find ways for CEOs and young financial analysts to value firms that prioritise sustainability. Without the means to value such priorities, 'Short-term gain drives out long-term good sense, so we need to find the tools to reverse that,' explains Kliphuis. Interviews were conducted with financial analysts and a workshop was held in New York in March 2005.

Bio-Brazil

The key finding of the Brazil project was that communication is essential to sustainable development. YMT quickly realised that communication was lacking and that relationships between government and industry must be initiated for sustainability to advance. Kliphuis continues, 'Each of these groups face similar challenges in protecting essential forest biodiversity, improving the lives of local people, and making a profit.' The YMT group set the ball rolling with a conference attended by all interest groups to set the precedent for sustainable discussions and relations into the future.

Triple action

Taking

Right now, China is probably the world's most eye-catching market. Although Rabobank International has been active there since 1996, it has only recently been granted the local currency and derivative trading licences required to operate as a full-service branch within the country. Consequently, RI is now targeting significant growth of its own within China.



on the dragon

Opened in 1996, Rabobank International's (RI's) representative office in Beijing manages the bank's relationship with the Chinese government, Chinese financial institutions and large, semi-governmental institutions, such as the International Financial Corporation and the Asian Development Bank. In 1998, RI opened a subsidiary office, called Rabo China Ltd., in Shanghai, which was initially restricted to a single lending limit of US\$5 million per client. At the beginning of 2004, however, the Shanghai office fully converted into an RI branch office, with no single lending limit, and it obtained an Renminbi (RMB), local currency licence in the third quarter of 2004. This means that it is able to serve both foreign companies active in China and local companies in their own currency. Chinese banks currently enjoy a 90-95% market share of local-currency transactions and the Shanghai branch's RMB licence is currently restricted to 18 cities in China, but it is due to be extended nationwide by the end of 2006. In addition, the branch obtained a derivative trading licence during the first quarter of 2005, enabling it

to conduct Global Financial Management (GFM) business in China.

Market forces

'People see China as a massive, growing market, which of course it is,' says Jeroen Nijsen, RI's General Manager for Greater China and South Korea. 'In reality, however, the country's strongest economic growth is in the manufacturing industry, whereas the largest proportion of the Chinese labour force is still employed in the agricultural sector. Industry provides the foundation for economic growth, but everybody needs to eat and drink and, unless this new-found prosperity spreads to the agricultural sector, it will be impossible to sustain current growth levels.'

Natural extension

Orlando Wang, General Manager of the RI Shanghai branch, sees the Chinese market as a natural extension of RI's global network. 'China has become a very important market in recent years and the main reason for our presence here is to support our existing network clients. Some

of them are investing heavily in China and we can provide them with local support as and when they need it.'

Products and services

The other main reason for RI's presence is to establish business relationships with leading Chinese companies and introduce its business lines within the Chinese market. 'On the commercial side, we are focusing on providing corporate banking, advisory and Mergers & Acquisition (M&A) solutions to companies involved in the Food & Agribusiness (F&A) sector, as well as selected blue-chip companies in other industries,' Wang explains. 'In addition to traditional lending products, such as short-term and fixed-asset loans, we also offer GFM products to manage our clients' interest-rate and currency exposure, as well as their liquidity positions.'

Another important business line we are pursuing is Structured Trade and Commodity Finance (STCF). We are in the process of establishing an STCF platform in Shanghai, under the umbrella of STCF Hong Kong and with the support of the Singapore office. Meanwhile, an important part of our Food & Agribusiness Research (FAR) programme is conducting research on

the Chinese F&A market, which we use both internally and to provide advisory services to external clients.'

'On the advisory and investment banking side,' Wang continues, 'we have both FAR and M&A teams that provide advice and execution services to clients on market entry strategy, industry analysis, investment and divestment. The M&A team is also expanding its capability to include IPO advice to Chinese customers seeking a listing on either the Hong Kong or Singapore stock exchange.'

Last but not least, the 'Country Banking' initiative is in the start-up phase in China and Rabobank is close to completing the equity investment into its first Chinese rural cooperative bank, which will act as a blueprint for similar initiatives in other provinces.

Long-term aims

RI's ultimate aim is to become China's leading foreign bank in the F&A sector. 'This will involve a lot of hard work over the coming years,' says Wang. 'We are focusing on around 30 sub-sectors within the F&A sector, ranging from grain producers, dairy and livestock farmers to beverage producers and food retailers. Supported by FAR coverage for every sub-sector, our goal is to approach the leading three or four players in each sub-sector, giving us a potential client pool of over 100 names to work with.'

Gauging the business climate

Conducting business in or with China is by no means plain sailing, however, and several important factors need to be taken into account. 'The regulatory environment is crucial and there are still quite a few restrictions on currency flowing in and out of the country,' says Marjon Wind, Deputy General Manager of RI's Shanghai branch. 'The legal framework is also still in its infancy and very often supposedly legally binding documents fail to stand up in court. The government is making progress in this respect, but it won't happen overnight,' she warns.

'The current business climate in China is favourable towards manufacturing companies,' Wind continues. 'The government provides plenty of incentives to employ local labour and manufacturing costs are only 5-10% of those in more developed markets, such as the US and Europe. Philips, for example, employs around 20,000 people in China, representing around 25% of the company's total production capacity, and this is due to increase to 40% over the coming years. Around 70% of this is exported, however, and the real test comes when companies try to build up a business within China. At the moment, they have to balance the risks involved against the incentives of cheaper labour and manufacturing costs, and getting ahead of the competition. China is



Jeroen Nijssen

our target is
to double
our income



Orlando Wang and Marjon Wind

expanding client pool

catching up with western economies much faster than most people think, however, and I envisage more and more companies entering the market over the coming years,' says Wind.

Clear focus

In Jeroen Nijsen's view, 'Lots of companies and banks feel that they should be involved in China, but many of them don't know exactly how. By concentrating on the F&A sector, we have a clear focus on what we want to achieve in the Chinese market and can differentiate ourselves from the competition. Our in-house expertise enables us to provide the full spectrum of services to clients, ranging from advisory products (e.g. market research, M&A, hedging strategies) to financing and GFM products. Our competitors are concentrating on a relatively small pool of large industrial concerns, mainly outside our focus sectors, paradoxically creating an 'overbanked' market in that segment,' he says.

A good example of the type of innovative trade finance solutions that RI offers concerns a Chinese frozen fish processor. Nijsen: 'The company transports Alaskan Pollock to a bonded warehouse in China, where it is stored before processing. We provide dynamic financing against the stock, establishing warehouse control through a third-party warehouse operator. As a result of our initial creativity and commitment, we are now talking to the client regarding a syndicated loan, a credit line for their newly acquired operation in Japan and a possible listing of their upstream activities on the Singapore stock exchange.'

The bottom line

'Based on our current projections,' Nijsen concludes, 'our target is to double our income from the Greater China region to US\$65 million by the end of 2007. The Hong Kong branch will continue to account for most of this, as it is the region's product hub. Nevertheless, our Chinese operations are expected to contribute around US\$8.5 million virtually from scratch and, whether directly or indirectly, China will become the main driver of the bank's performance, both in North East Asia and well beyond. It is a market in which Rabobank needs to be present and, guided by our ambition to be the world's number-one F&A bank, we anticipate a great future.'

A man in a white shirt is standing on a balcony, talking on a mobile phone. He is looking out over a cityscape with a river and buildings. The scene is captured in a cinematic style with soft lighting.

Every day, people all over the world communicate with each other. That's why Rabobank International's global Telecom, Media & Internet Group takes a holistic approach to its clients.

Opportunity
calling

‘The most amazing fact I’ve come across since joining the Telecom, Media & Internet (TMI) Group is that half the population of the world has yet to make a phone call,’ says Ed Smith, who became Global Head of the TMI Group in autumn 2004. ‘This assurance of future demand and growth in emerging markets, like India and China, is what makes the sector so exciting.’

Unlike most other RI business units, which operate on a predominantly regional basis, the TMI Group is centrally managed, to support coordinated portfolio management and global risk monitoring. The Utrecht office covers Benelux, Central, Southern and Eastern Europe and also provides head office functions, such as control and research coordination. The remainder of the group is managed via regional hubs in Chicago (covering North America), London (UK and Scandinavia) and Hong Kong (Asia).

‘Our expertise is concentrated within a small group of relationship managers, spread across a broad network of locations,’ says Smith. ‘This enables us to introduce our clients to new markets and business opportunities that they might, otherwise, have overlooked.’

Global overview

The TMI Group studies national markets individually, in order to understand their unique characteristics and evolutionary positions. ‘We also take account of international trends, cost dynamics and consumer preferences,’ says Smith. ‘I need to know that China is the world’s factory

for cheap mobile handsets and that Hong Kong customers upgrade their handsets every three months.’

Market developments

A central theme within the TMI sector is the convergence of fixed-line telephony services, mobile services and the internet. ‘Mobile and internet service providers have pushed the industry into previously unimaginable areas of content and quality, but this has also led to the decline of some fixed-line telephony operators,’ Smith explains. ‘The mobile sector is continuing to develop, especially in emerging markets, where subscriber growth will continue to be the name of the game for the foreseeable future. In more developed markets, the emphasis has shifted towards mobile data services, through 3G mobile networks, WiMax and WiFi.’

On the fixed side of the telecom service industry, developments are dominated by the spectacular broadband take up on a worldwide scale. ‘This growth in broadband is partly at the expense of other sub-sectors and traditional voice services, in particular,’ says Smith. ‘We have reached a stage where revenues are shifting not only from one product group to another but also from one carrier to another, especially with broadband providers moving into PayTV. An interesting consequence of this move is the long-heralded convergence of telecom and media, and triple-play product packages (telephony, TV and internet) have become an established and accepted way for companies to capture and retain customers.’

Clients and products

The TMI Group has built up relationships with around 120 clients worldwide, in places ranging from Den Haag to Hong Kong, Madrid to Mumbai and Chicago to Shanghai. The type of client ranges from the large incumbents with international operations in key markets (e.g. KPN, Telefonica, Telecom Italia) to domestic players operating in key national markets (e.g. German cable companies KDG and EWT).

‘This year, we expect around 75% of total income to come from traditional loans, whether as bilaterals or syndicated loans,’ Smith

resumes. 'One of our key focuses is leveraging our relationships to become the mandated lead arranger of syndicated loans. We recently won the mandate to jointly underwrite and arrange, along with three other banks, a US\$950 million syndicated loan facility for STT/Telekom Malaysia, in connection with the acquisition of Idea/Escotel in India. We also recently underwrote €95 million of a €335 million syndicated loan for EWT in Germany. Each of these deals is expected to generate over €1 million in fees in 2005 and we anticipate many more opportunities such as these emerging in future,' says Smith.

Another focus area is cross-selling Rabobank products and services to clients. Smith: 'We work closely with

colleagues in different product groups to devise solutions that match clients' needs and we're currently focusing on delivering commercially attractive Structured Finance solutions, sometimes based on models implemented elsewhere. For example, we are presently speaking with two clients in Asia about the US\$1 billion financing of a new mobile network, the concept for which is based on a recent construction for F&A clients in the UK.'

Bright future

'The TMI sector can be characterised as vibrant, dynamic and positive, and the future looks bright for the next 10 years,' Smith enthuses. 'The Asian market, for example, currently represents only 15-20% of global TMI business. Growth

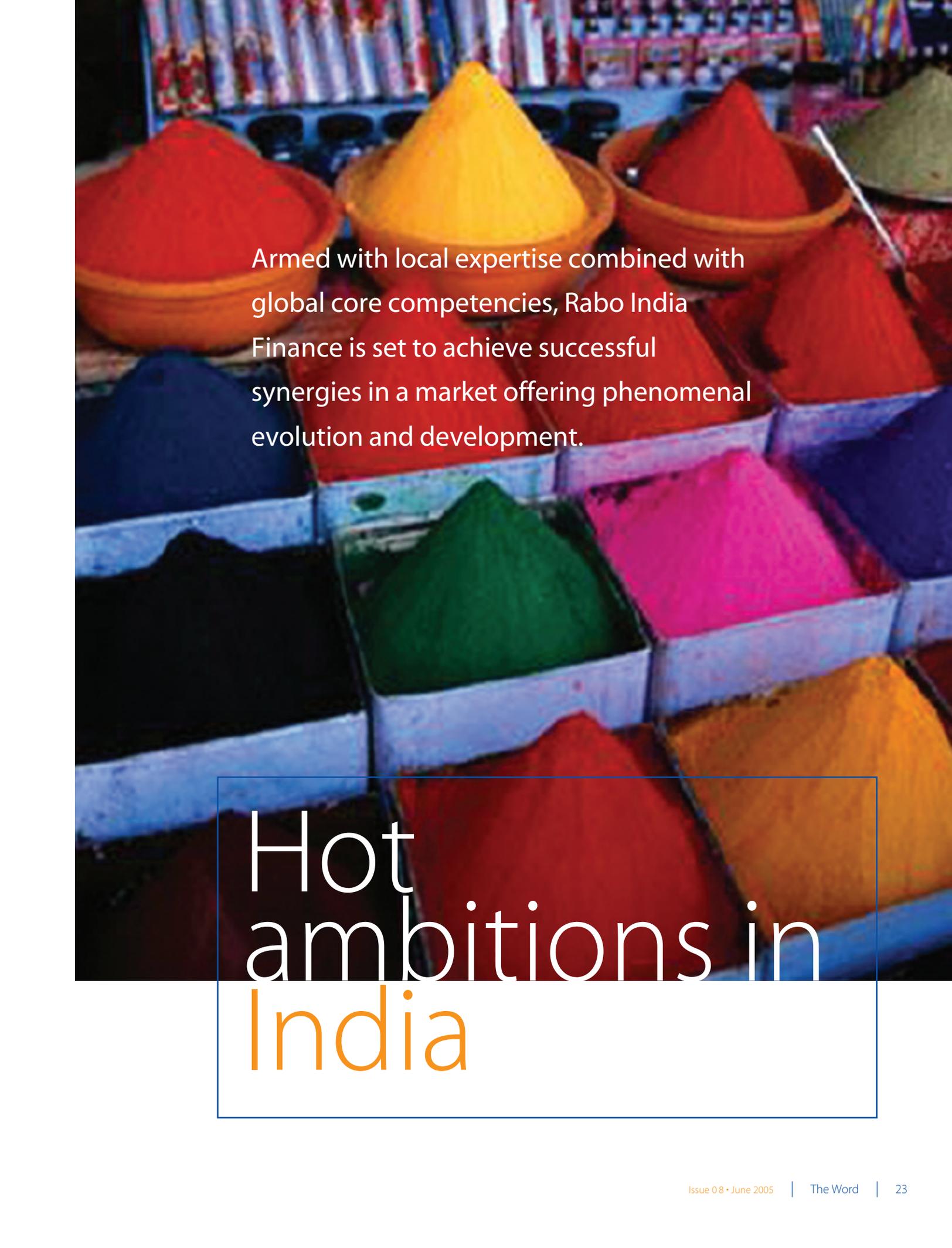
projections for mobile telephony in India show the number of subscribers rising from 40 million to over 150 million, by 2009. We already have good relationships with all the major players there and expect to be involved in any major deals that occur. I've recently visited a number of companies in China and I can see massive potential in leveraging our presence at both ends of the Sino-Indian business corridor. Our European client network also gives us a competitive advantage amongst Chinese equipment manufacturers, as they try to develop a footprint in Europe, and we genuinely have the potential to become the partner bank for several Chinese telecom companies. In South America, we are doing business with subsidiaries of European clients (e.g. Telefonica and Telecom Italia) and this is helping us to gain more familiarity with local TMI markets. We are very optimistic about developing meaningful business in this region, while maintaining an acceptable risk profile.'

'In terms of revenue targets, we're aiming to double, and perhaps even triple, our net profit over the next 3 to 4 years,' Smith concludes. 'The only limit is our own ambition and, believe me, we're not short of that.'

Ed Smith

vibrant,
dynamic and
positive





Armed with local expertise combined with global core competencies, Rabo India Finance is set to achieve successful synergies in a market offering phenomenal evolution and development.

Hot ambitions in India



Sanjiv Bhasin

banking relationships with every major player

At 40% per year, Rabo India is growing much faster than the rest of the Indian banking sector. This makes it the number one contributor to Rabobank International (RI) Asia in most product categories. Having achieved this success, Managing Director & Chief Executive Officer of Rabo India Finance, Sanjiv Bhasin, aims to increase his team's contribution even further.

Food and Agribusiness (F&A) and Telecom Media and Internet (TMI) form the backbone of Rabo India's business. TMI has been particularly successful generating US\$6.4 million in revenue and representing 64% of Rabobank Asia's business. 'We have been a key participant in the growth of mobile telephony in India,' explains Bhasin. 'We have banking relationships with every major player.' Last year, Rabo India provided a term loan facility of US\$157 million to

help Idea Cellular acquire Escotel Mobile Communications. As a result, Idea extended its footprint to around 65% of the potential Indian telecom market and the acquisition was voted Deal of the Year by Rabobank General Managers in Asia. 'Besides financing growth in this sector, we have earned advisory fees from M&A and syndication as well,' adds Bhasin. 'Significant consolidation is imminent and we hope to be a key player here as well.'

Challenges and opportunities

F&A is proving to be more challenging. The sector in India is very fragmented, so Bhasin and his team are focusing on product segments like sugar and breweries which offer opportunities with high-growth clients. 'We have also been exploring growth opportunities by developing new structures to address emerging markets like cotton financing.'

As well as developing business in RI's traditional core sectors, Rabo India has built a strong franchise in new sectors where major shifts in industry structure offer new opportunities. Two of these are auto-ancillaries and textiles. Global trade is opening up in both sectors and India's strong skills base gives it a competitive advantage in these markets. 'Rabo India has developed in-depth knowledge of the industry issues as well as company capabilities to present to credit forums at national, regional and local levels,' says Bhasin. Other non-core sectors include pharmaceuticals, in which Rabo India's franchise extends across the whole of the Asian region, and renewables and

infrastructure which include projects involving wind and biomass power.

Continuously evolving products

To meet client needs in these sectors, Rabo India has developed a suite of customised products and services that is continuously evolving. These include offshore and onshore products for term-lending, FAR to help leading multinational corporations enter the Indian market, and financial advisory which offers cross-selling opportunities. One service with strong growth potential is Mergers and Acquisition (M&A). 'We have applied for a Category 1 Merchant Banking Licence,' Bhasin confirms. 'This will enable us to not only offer purely advisory services, we will also be able to support execution of mandates like open offers and buy-backs.' All of this is backed up by in-depth knowledge of local and international markets, excellent relationships with almost all major companies in target sectors, proactive corporate communications to leverage Rabo India's reputation and a first-class team of movers and shakers.

As for the future, Rabo India wants to use its market knowledge and relationships to catalyse the entry of other Rabobank affiliates, like Robeco, De Lage Landen and Sarasin, into the high-growth Indian financial services market. It also plans to sponsor the country's first F&A Private Equity Fund in partnership with Temasek Holdings. For Bhasin, the benefits of this are more than just financial. 'It's promising not just for the return on the venture but also for the significant visibility it provides Rabo India in terms of existing and potential clients, policy makers and the wider public.'

Delivering the milk

One of India's most up-to-date dairy companies, Dynamix Dairy, has been working with Rabo India since the year 2000. This relationship, combined with Rabo India's knowledge of the dairy sector, allowed the USA's largest private label cheese company, Schreiber Foods Inc., to increase its presence in India, and Asia as a whole. Rabo India provided credit facilities that enabled Schreiber to take a 51% stake in Dynamix.

Rabo India is also working with Dynamix to finance the company's backward integration project to install bulk coolers in areas where milk cooperatives are unable to collect milk from farmers efficiently. This project will not only help Dynamix get more and better milk for processing, it will also enable farmers to get a fair assessment of the weight and quality of their milk and get paid accordingly too. At the moment, farmers are deprived of fair prices by current intermediaries. By eliminating distortions, Rabo India is helping to create a more prosperous life for farmers.

The Dynamix relationship is a prime example of Rabo India's special approach to its clients. One based on research and a combination of strategic advisory services, structured finance solutions, M&A services and private equity associations. The relationship also underlines Rabo India's commitment to develop and deliver commercially feasible yet socially valuable solutions that help clients realise their full business potential.



F&A Days: food for thought

A unique series of round table discussions, the 'F&A Days', facilitated by Food & Agribusiness Research (FAR), was recently held in Utrecht and attended by 120 people from across the globe. It was a chance to swap sector information, product knowledge and client information, and to spot new business opportunities.

Adrie Zwanenberg,
Global Head, FAR

'FAR facilitated this event to create discussions between Relationship Managers, Product Managers, Credit people, and FAR colleagues from diverse countries. Our clients value our research as a powerful tool, so it's good to leverage that. The event's been a learning experience and great success. Problems and solutions have been aired, and lists of opportunities compiled – the bank will get new business as a result of this event.'

Philip Kemp, Director,
Food, Beverages &
Agribusiness, RI
London

'I found the overview about the beverages sector very informative. It concluded controversially with a discussion regarding the bank's internal blockages. The outcome proposed is an industry specific positioning paper – showing the bank's current position and future opportunities.'

**Sapna Naik, Industry
Analyst, FAR, Utrecht**

'The sector round tables facilitate discussion among Rabobank colleagues working in different parts of the bank in various regions. In the food retail session, we deliberated on how the increasing price pressure in retail is shaping strategies of food manufacturers. Though the retail environment differs in each region, there were interesting parallels across regions. The participants outlined future scenarios in retail to identify implications for Rabobank's client portfolio.'

Charles H. Hallock,
Managing Director,
Industry Specialist,
Grain & Oilseeds, RI,
New York

'It is very valuable to talk with colleagues who are looking at the same sector, in a different part of the world. Most of the time you focus on the local view. This event gives a global perspective. It's been fascinating to hear from colleagues in China, Australia, and India. It's very fulfilling.'





Stephanie Lowe, Analyst, FAR, Australia

'Water management is an area that is increasingly talked about and potentially an area of knowledge that we need to build within the bank. From the discussions we have drawn together some conclusions about how to further our knowledge in commercially relevant ways. FAR will be looking to tie-in with the water project that the economics division will be working on with the World Business Council for Sustainable Development. The discussions have been about education, so we also invited outside speakers, to present issues and insights on a global and regional basis.'



Donald Tillman, Senior Equity Analyst, SAM Sustainable Asset Management, Zurich

'I'm excited to see that Rabobank addresses the risks and opportunities of the water debate. I think these round tables are very productive. The goal is to put dollar figures to the challenges. I believe if Rabobank takes the lead with regards to water challenges and agri-banking then they will truly be leaders in this industry.'



Pierre-Jean Esmieu-Fournel, Vice President, Food & Agribusiness, RI, Paris

'Clients know their own industries well, but they want to know what the financial community thinks about them and any move they may make, be it acquisitions or new technology. This event gives us the opportunity to have multi-lateral discussions about bank's position so that we can be the opinion leader for our clients.'



Fiona Boal, Vice President, FAR, New York

'We've been discussing trade policies. Regardless of country, trade policy is an issue on everyone's mind, particularly those involved in importing and exporting agri-products. At the trade policy round table, FAR and commercial people were updated on the policies of the World Trade Organization and how the big countries are playing their cards in the current Doha round. This was all funnelled towards what it means for us, our clients and new opportunities.'



Enrico Monreale, Assistant Director, Credit, RI, London

'The presentation I attended was about multinational companies. Knowing about other companies will definitely help me assess UK corporates against European corporates. It's been a learning experience.'



David Daniel, Director, Credit Department, RI, London

'These discussions are ideal for meeting Relationship Managers and Industry Specialists. I'm convinced that the contacts I've made today will be beneficial in the future. For example, I've been speaking to a FAR expert on dairy and as I'm currently working on a dairy deal, I'll be following up with him further.'

Did you know...

The Labuan Branch in Malaysia has recently been reopened. Through this office, Rabobank is able to provide offshore financial services to Rabobank's Malaysian clients and to take advantage of the growing Malaysian market. In recent years, Malaysia has developed into a significant agribusiness player in Asia due to its world leadership in palm oil production. Also, the telecommunications market in Malaysia has grown substantially over the last three years and is expected to grow further.

The Labuan Branch offers services mainly to the agribusiness and telecommunications sectors in the following areas: non-ringgit lending and syndicated loans; ringgit and foreign currency guarantees and bonds; structured trade and commodity finance; treasury services, mergers and acquisitions and corporate advisory services; Food and Agribusiness Research and strategic advisory.

The first loan, a US\$30 million participation in a US\$260 million syndicated loan, has already been booked to Maxis Communications Bhd, Malaysia's number one mobile player and a Telecom, Media & Internet target client. A first-rate year is expected for Rabobank in Malaysia.

Open for business

Rabobank International
reopens Labuan Branch in
Malaysia

