PricewaterhouseCoopers

European Treasury Survey 2006

Measuring Value from Treasury

Contents

Foreword

I am very pleased to be able to introduce the PricewaterhouseCoopers European Treasury Survey 2006. The focus of the study is on treasury performance management and how treasury adds value to the business - a complex topic, and one where there are undoubtedly opportunities for Treasurers to do more. Thanks must go to all those who have worked hard to put this survey report together, and particularly to the numerous companies from across Europe who took the time to complete the questionnaire, making the survey representative and hence worthwhile. As one would expect, the report makes interesting reading and will enable treasury and finance professionals to compare their current practices with those of peer organisations around Europe.

> "The survey confirms the continuing extension of the role of treasury, beyond its traditionally narrow boundaries, into areas such as shared services, working capital management and general business partnering."

As Honorary Chairman of the European Association of Corporate Treasurers (EACT), I was particularly pleased to see the broad geographical coverage of the survey. The 166 companies covered come from 13 countries in Europe, including most of "old Europe". This makes the study particularly valuable for those who recognise that one of the real strengths of the treasury community lies in its international scope, and ability to share best practices across regions.

A number of interesting, and sometimes even surprising, findings emerge from the survey. The survey confirms the continuing extension of the role treasury, beyond its traditionally narrow boundaries, into areas such as shared services, working capital management and general business partnering. It also confirms that the Treasurer's risk management skills are being increasingly recognised for the value they can add in areas going beyond the traditional financial risk management and into the management of commodity, energy and broader enterprise-wide risks. Perhaps surprisingly, survey respondents believe Shareholders and Treasurers have a rather different perception of where treasury adds value. Whilst this could seem odd, there may be an important lesson here about the need to improve communication on treasury's mandate within the corporation.

Treasury technology continues to be a challenge for many Treasurers and yet is arguably the area where most opportunity lies to improve the effectiveness and efficiency of treasury process and create closer connections to the business units. The survey responses confirm that Treasurers still see technology as one of the major areas they need to focus on in the coming years.

Finally people management issues are shown by the survey to be very much at the forefront of concerns of Treasurers today. This is a topic which deserves more attention and is at the heart of the EACT's own initiatives around the development of training programmes and appropriate curricula for professionals who wish to develop a career in treasury.

Change is the only constant and the world of treasury is certainly no exception to this rule. The PricewaterhouseCoopers European Treasury Survey 2006 provides a valuable basis for assessing how treasury has evolved in Europe in recent years, and where the future may lie. I wish you an enjoyable and interesting read.

François Masquelier
Honorary Chairman and Secretary, EACT
www.eact-group.com

Introduction

PwC's European Treasury Survey 2006 provides an unparalleled depth of insight into what Treasurers understand by "value-added" treasury, how this value is being measured and communicated, and the opportunities and challenges to further develop treasury going forward.

The survey is based upon the information gathered from 182 respondents including CFOs, Group Treasurers, Business Unit/Divisional CFOs, Regional and In-country Treasurers.

Survey responses were gathered between October 2005 and February 2006, via a web-based questionnaire.

Respondents represent some of the largest multinational corporations operating in Europe, some 17 of the EUROTOP 100, including some of the most sophisticated treasury teams.

Of the 166 individual companies covered in the survey, 114 were listed and just over 60% were credit rated.

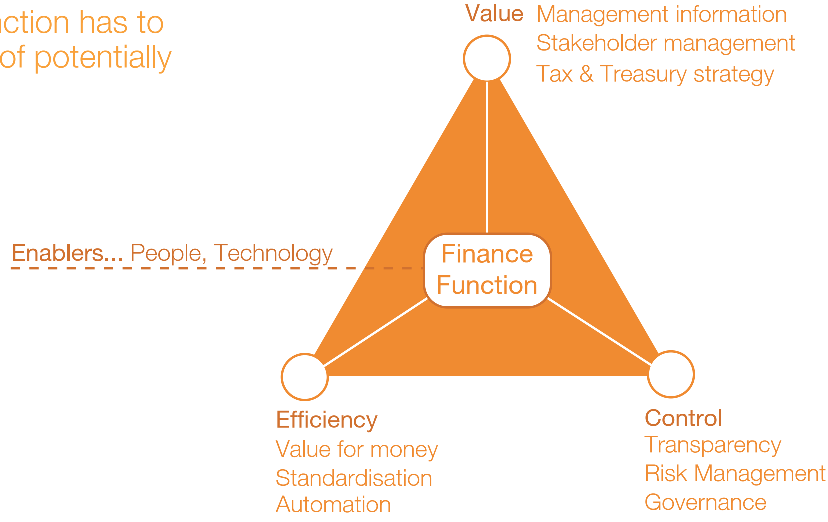
Respondents came from a broad range of industries, from consumer products to utilities, and from companies based in 13 countries across Europe.

Further analysis of the survey population is included in graphic form in the Appendix.

Executive Summary

Treasury, as part of the wider finance function, is under pressure to demonstrate the value it provides to the business, whilst at the same time reduce costs and increase transparency and control standards. The PwC European Treasury Survey 2006 focuses on the nature of value-added treasury. It addresses how treasury adds value and how performance can best be measured and communicated, both within the business and towards the ultimate beneficiaries of value - the Shareholders.

Today's finance function has to balance a number of potentially conflicting issues...



Broadening scope: from bank relationships and financial risk management to working capital management, shared services and commodity risk.

In this environment, "traditional" treasury activities such as transaction processing are increasingly being seen as less value-adding. The commonality of payment methods, for example, has led to this type of activity becoming largely commoditised, meaning that opportunities to further add value from within the treasury function are limited.

Many activities cited as critical for the future in this survey were therefore in areas beyond the boundaries of traditional treasury. Over the next five years, respondents expected to focus on areas ranging from working capital management, capital structure and customer financing to IT integration and commodity risk management.

The survey considered where respondents saw most opportunity for treasury to add value to the business in the near future. The areas which came top of the list were very much related to the greater integration of treasury with the underlying business and with the broader finance function. The top five responses were in-house banking, straight-through processing, payment factories, shared service centres and global banking. These were followed by more risk-related and financial areas, including increased knowledge and understanding of risk and innovative financial solutions.

A gap in perception: do Treasurers and Shareholders have different views on where treasury adds most value?

The survey showed a surprising divergence in the perceived views on value-adding activities between the Treasurer and Shareholders. Treasurers see their value coming in particular from bank relationship management and decision support/ business supporting activities. However, in their view, Shareholders overwhelmingly see treasury risk management as the key value-adding activity, perhaps in light of the recent focus on financial reporting for risk management activities and on internal controls.

This divergence suggests either that the activities Treasurers are focusing on may not be the most value-adding activities or, more likely, that better communication is needed on where treasury adds most value. The survey highlighted a very clear perception gap which needs to be bridged if treasury is to be recognised for the real value it delivers.

Measuring performance: a need to work on more tailored metrics for treasury

75% of survey respondents use formal performance measures to manage treasury activities, but a full 25% do not measure treasury performance at all, citing the difficulty in defining measures, the uncertainty as to what benchmarks to use and a lack of appropriate tools.

Bank relationship management, for example, whilst seen as a major area where Treasurers perceive themselves to add value, is not measured in performance terms by a surprisingly large number of respondents (23%).

Treasury performance reporting in the most sophisticated treasuries incorporates KPIs and benchmarks which convert policy objectives into numerical measures. Overall though, the nature of measures used varies widely, with an overwhelming reliance on accounting measures and other readily available information, rather than true treasury metrics.

Few respondents had clear performance measures in place to assess the relationship between treasury and the business units. 26% do not measure their performance in servicing business units, whilst 22% use satisfaction surveys, and only 23% use objective financial measures. There is a major opportunity for improvement here if treasury is to better serve its internal stakeholders.

Living with regulation

The impact of regulation, including IFRS and Sarbanes-Oxley, has been well documented and we are largely moving into the next stage where requirements have been understood and digested, and the focus is on developing treasury within the constraints of the new environment. In this regard we noted a decline in profit centre treasuries and in the use of the more complex/structured transactions.

Anecdotal evidence suggests companies are once again looking at more advanced and dynamic techniques for managing risk and will look to develop these further within the boundaries of the new regulatory landscape. Survey respondents cited innovative financial techniques and new risk management concepts as promising developments for treasury.

A further, more welcome effect of the focus on governance and control has been a highlighting of treasury activities as a control function in themselves. There is a real opportunity for Treasurers to demonstrate added value to senior management by monitoring, analysing and reporting on underlying business cash flows and risks.

Technology: from cost reduction to value creation

The role of technology was clearly highlighted by the survey, with technological and systems-based developments ranking top amongst current developments which add value in treasury management. Current developments, such as in-house banking, payment factories, and straight-through processing (STP), were seen as the most promising areas. In addition companies are increasingly realising that the need for enhanced control, to meet, for example, Sarbanes Oxley requirements, can be addressed via increased automation.

Technology implementation was cited as a major challenge, ranking as the third greatest challenge/obstacle to adding value, behind limited resources and regulatory compliance. This reflects our experience that many Treasurers are still not realising the full benefits from their existing investment in Treasury Management Systems and other technologies and that technology is not a core skill of most treasury functions.

Optimal use of treasury technology, creating a fully integrated environment, is still very much a “holy grail” for Treasurers. Benefits include significant efficiency savings enabling Treasurers to redeploy scarce resource to more value-adding activities. Future developments cited by respondents showed an increasing leverage of investments in technology to add value to the underlying business.

People: strong treasury profiles still scarce

Last, but by no means least, the survey highlighted limited human resource as the greatest challenge/obstacle for treasury to add value to the business. Given that limited budget was not viewed as a great obstacle, this indicates that Treasurers are having difficulty in finding the right people to enable them to add value rather than facing restrictions in the number of people they are allowed to hire.

The resource restriction may be due in part to the already significant move toward automation of standardised (non-value adding) treasury processes. As a result, treasury is becoming more and more a sophisticated series of specialist subjects and hence requires more highly-trained, highly-experienced but unfortunately more scarce resources. This is a difficult evolution which places obvious strains on people management and human resources.

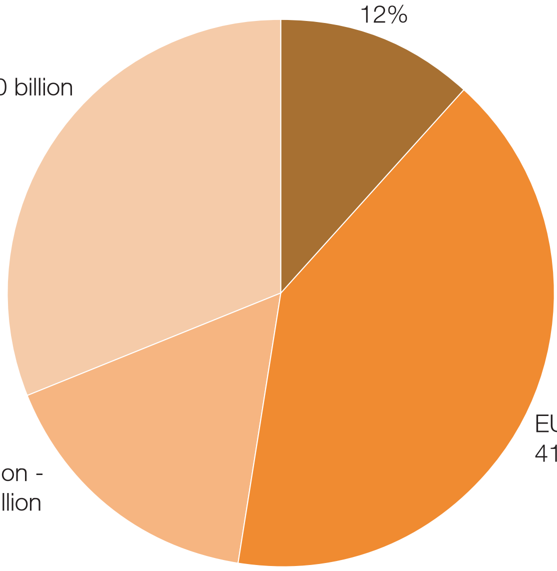
> “Our Internal Bank has generated huge financial savings for the group. We are now extending its scope by moving further up the financial value chain into the AP / AR processes.”
>
> **Piet Lammens,** General Manager, Statoil Coordination Centre, Belgium

1. Treasury in Europe: **an overview**

Treasury in the European market is a well-established and widely-recognised part of the broader finance function. Generally the complexity of treasury issues increases with the size of the business concerned and the international scope of its operations.

Companies in this survey consisted of a mix of the medium-sized companies in the EUR 1 billion to EUR 5 billion turnover category and the very largest companies with turnover in excess of EUR 10 billion. At the same time most had operations in between 11 and 50 countries and a large proportion in more than 50 countries worldwide (refer to Appendix for further analysis of the survey population).

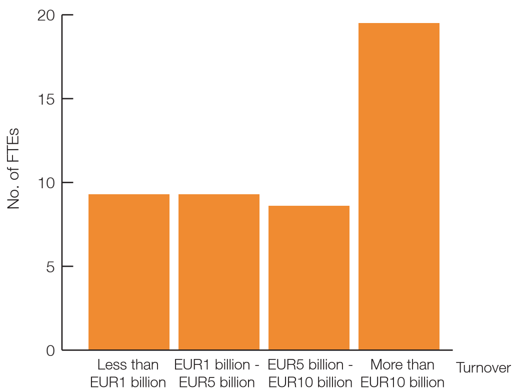
Annual turnover of respondents



Staffing and costs

Our survey showed an average of 12 full time employees (FTEs) engaged in treasury activities in the companies surveyed. However, as one would expect, this varied significantly depending on the turnover of the company.

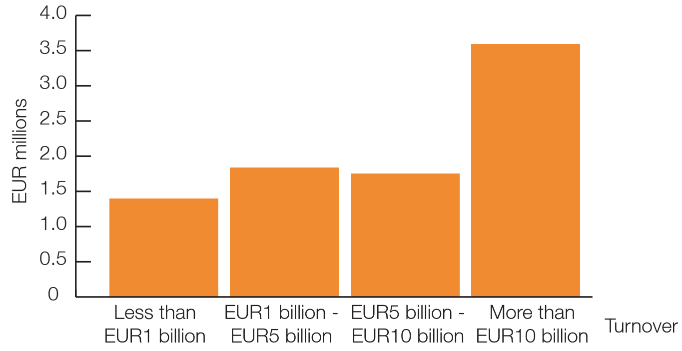
Average number of employees by Group Turnover



Average no. of FTEs	9.3	9.3	8.6	19.5
Min	1	1	2	3
Median	5	5	6	8
Max	30	50	30	100

The cost of treasury operations averaged around EUR 2.5m covering staff, hardware, and system costs. Those companies with a turnover below EUR1bn averaged 9 FTEs with a total cost of treasury of EUR1.4m whereas those with a turnover in excess of EUR10bn averaged 19 FTEs and a total cost of treasury of EUR3.6m.

Average cost of treasury by Group Turnover



	Less than EUR1 billion	EUR1 billion - EUR5 billion	EUR5 billion - EUR10 billion	More than EUR10 billion
Average cost	**1,396,154**	**1,837,615**	**1,752,778**	**3,589,655**
Min	100,000	10,000	250,000	100,000
Median	1,000,000	550,000	1,000,000	1,500,000
Max	3,000,000	20,000,000	10,000,000	25,000,000

Degree of centralisation

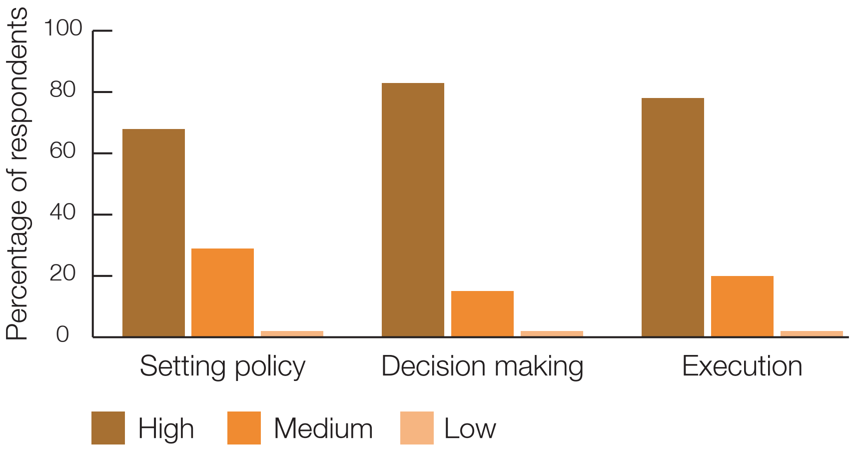
The move towards increased centralisation over the last few years is confirmed in the responses. The large majority of treasuries in the survey are highly centralised in terms of setting policies (69%), decision-making (83%), and deal execution (79%). This was also more pronounced in those companies that had a higher degree of financial leverage.

It was interesting to note that the setting of treasury policy was not as centralised as decision-making and execution. It is often assumed that the setting of treasury policy is the most centralised activity in line with business strategy.

In practice many leading companies set policy based on a consultative approach involving representatives from the business, meaning that the process is not wholly centralised. This is a trend that looks set to increase as treasury seek to develop closer relationships with the underlying business in order to add value.

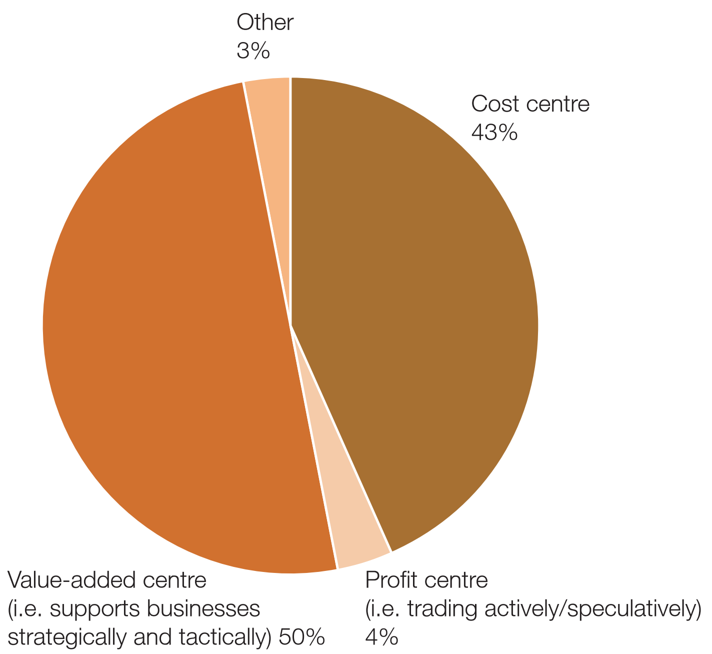
It was not surprising that decision-making and execution were highly centralised in the current environment of increased regulation and control.

Centralisation of treasury activities



Approach to treasury actvities

Treasury approach/model of respondents



"The role of treasury has broadened significantly within our organisation into M&A, Working Capital and Enterprise Risk Management & Reporting. It's helped raise the profile of treasury and given our treasury people a broader field of play."
François Masquelier, Head of Corporate Finance & Treasury of RTL Group, Luxembourg

50% of respondents classify the approach/model of their company's/group's treasury operations as a value-added centre.

The need for treasury to demonstrate where it adds value has evolved out of an environment in which cost reduction and a drive for efficiency has pervaded across all business activities.

Nonetheless, the number of treasuries which categorised themselves as cost centres in this survey was higher than in our previous regional surveys. The PwC Treasury Surveys of the Nordic region (2001), Benelux (2002), Italy (2002) and Switzerland (2002) showed cost centres making up just 4-17% of responses and profit centres up to 23%.

The survey therefore confirms the continued downward trend in the number of companies viewing their treasury centres as profit centres (down to 4% in this survey).

The increase in the number of cost centres (up to 43%) is more difficult to explain. This trend is probably driven by a variety of factors, which may include the recent focus on compliance (including IAS 39), which is often viewed as a non-value adding activity, and the pressure to drive down cost. In addition, a value-added service centre approach may be perceived as retaining too much risk, without sufficient demonstrable added value. The challenge of demonstrating where value is added is explored further in later sections of this report.

All of this could indicate more of a change in the perception of treasury activities recently, rather than a significant shift in the reality of what treasuries are doing. Other evidence suggests a move back to more dynamic risk management approaches (see following page under "Approach to risk management"), supported by a better understanding of how these actions will impact the financial statements, meaning treasuries are in practise acting more like value-added centres.

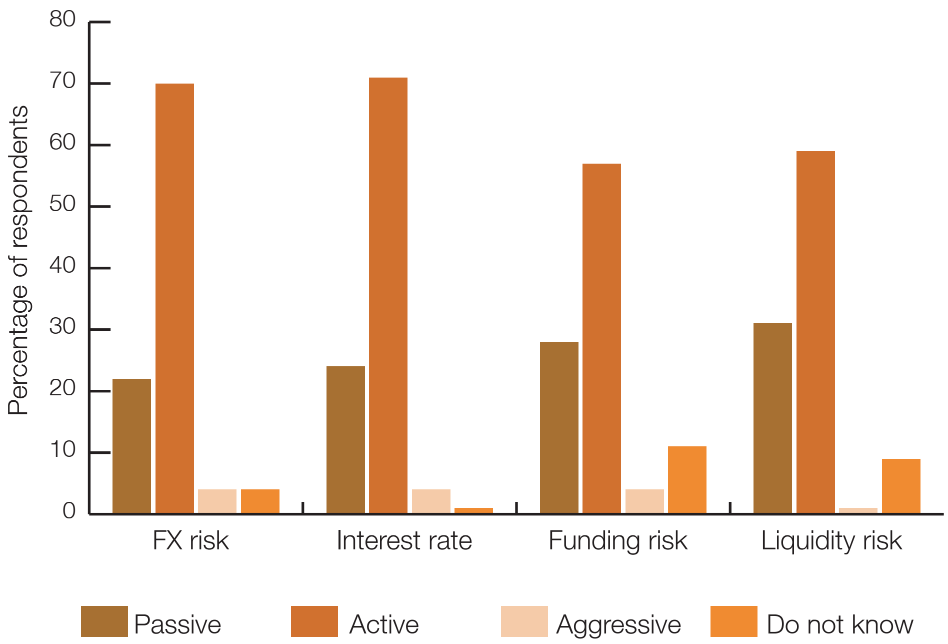
Approach to risk management

The survey considered the approach Treasurers applied to the “core” risk-related activities for which they have responsibility. The approach was largely one of active management: dynamically hedging risks within approved risk limits.

The approach to FX and interest rate risk management was very similar with a high degree of active management (70% of respondents in both cases). In contrast, funding risk and liquidity risk showed slightly lower degrees of active management.

The introduction of IAS 39 has had a temporary effect, pushing some Treasurers to adopt a more passive approach to risk management whilst the new rules were assimilated - for example not transacting complex derivative structures when hedge accounting treatment cannot be obtained. This trend is now showing signs of reversing, as it did following the introduction of FAS133 in the US, as Treasurers and their Auditors become more comfortable with the accounting implications of their activities.

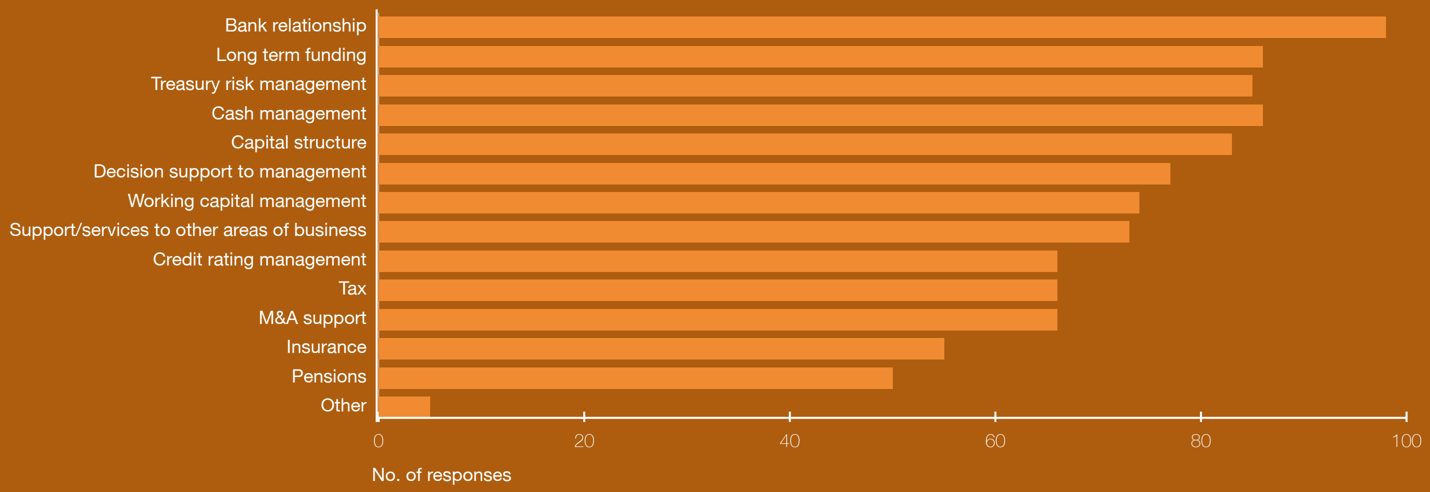
How risks are managed



2. How does treasury add value?

The survey addressed Treasurers' views of where the function adds most value, and contrasted this with their perception of what was most important to Shareholders.

The Treasurers' perspective on most value-adding activities



The activities that Treasurers viewed as most value-adding were particularly wide-ranging. However the top five value-adding activities were concentrated around: bank relationship management, long-term funding, cash management, treasury risk management and capital structure.

It is not surprising to see that Treasurers view bank relationships as the most value adding activity. Time spent presenting and negotiating with banks helps achieve better service and, most importantly, lower pricing.

Bank relationship management scored particularly highly in the smaller-sized companies where dependence on key banking partners is greater, notably in view of relative bargaining power. In the larger companies value added from managing the capital structure featured more highly.

Long-term funding, cash management, treasury risk management, and capital structure all scored fairly evenly from Treasurers reflecting their "core" treasury activities.

Decision support to management, working capital management, and support/services to other areas of the business feature much more highly than in our previous surveys. This shows the increasing prominence of a focus on internal relationships and stakeholders rather than solely on external parties.

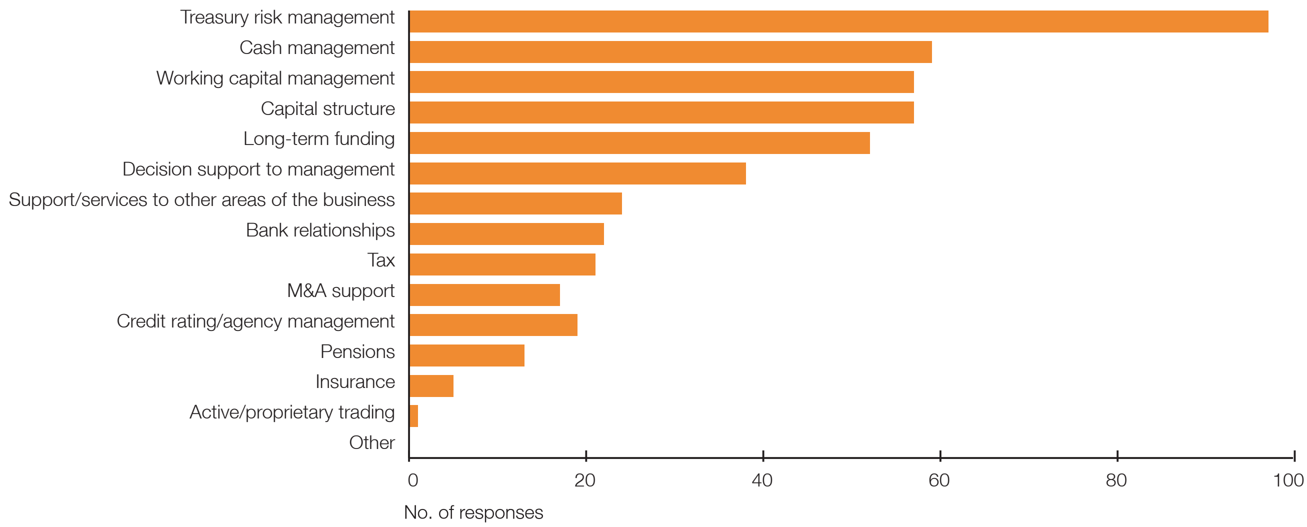
It was interesting to note that pensions did not feature very highly in the responses of Treasurers, given that this is an area where many Treasurers have recently become involved and are focusing a lot of their time.

The Shareholders' perspective

Respondents overwhelmingly felt that Shareholders would consider treasury risk management as the most value-adding activity, followed some distance behind by cash management, working capital management, and capital structure.

The perceived Shareholder emphasis on treasury risk management could be the result of their focus on performance and risk disclosures as reported in the financial statements. Shareholders are also perhaps more immediately concerned with the share price, and therefore earnings volatility, than with specific drivers such as bank relationship management or even the cost of debt.

Value-added treasury activities from the Shareholders' perspective



> "Treasury risk management in Philips is about keeping it simple. The real complexity comes from the nature of business exposures rather than the products used to hedge them."

Mark Kirkland, Head of Financial Services, Philips International, The Netherlands

A gap in perception between Treasurers and Shareholders

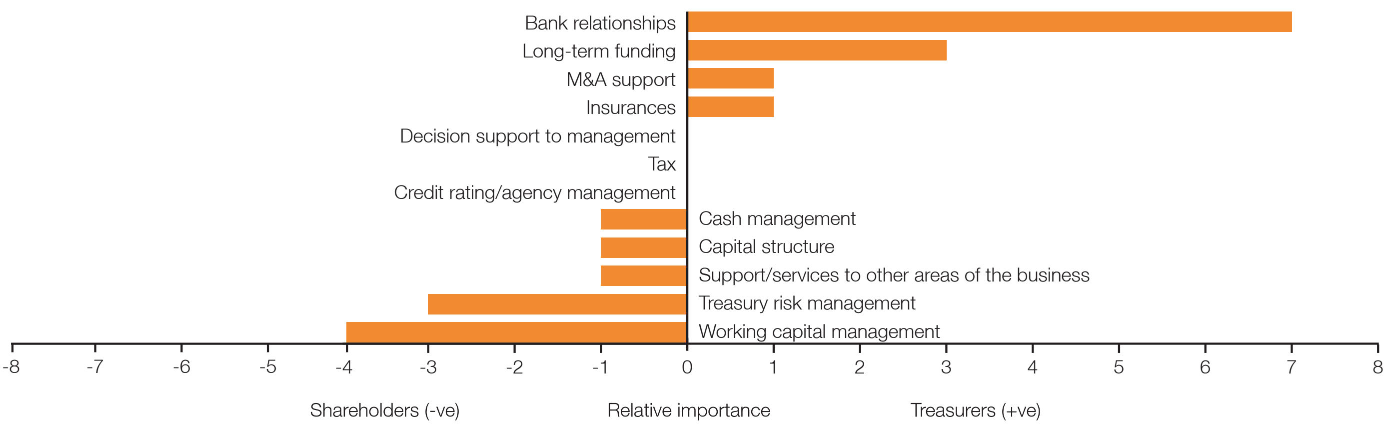
The difference in views of value-added treasury activities from these two perspectives can clearly be seen by the relative rankings that were assigned to each activity.

The primary differences in perception relate to working capital and treasury risk management, which were highly rated from the Shareholders' perspective, and bank relationship management, which received a much higher score from Treasurers.

The contrast in views of value-adding treasury activities suggests some degree of communication gap between Treasurers and Shareholders (via the Board or the financial statements) as well as a potentially different focus. This may mean that Treasurers should be publicising the value-adding benefits of their work in managing bank relationships and long-term funding to a greater extent, whilst listening to the Board and Shareholders to better understand their expectations in other areas, such as working capital management.

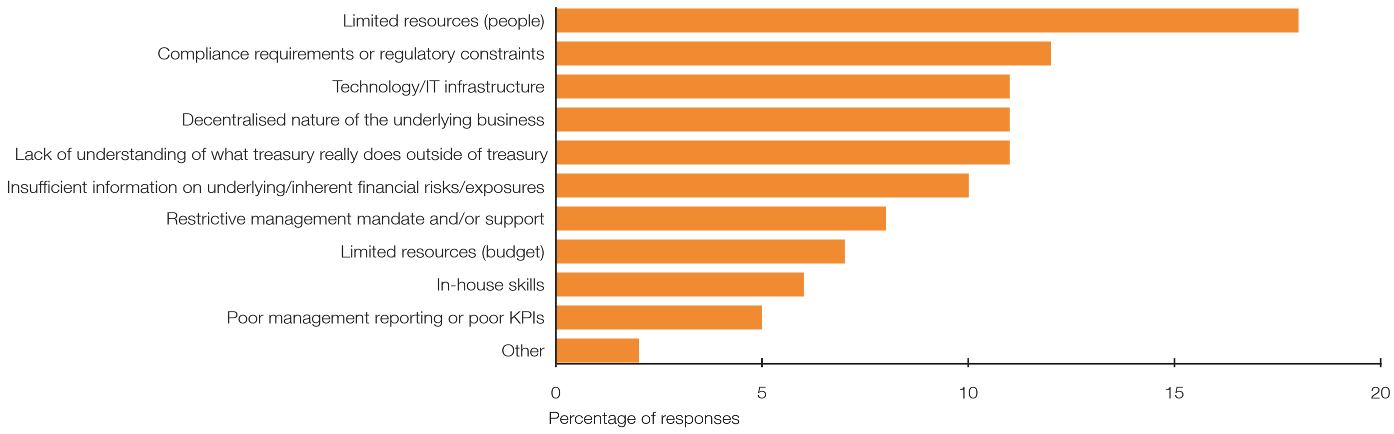
The challenge is to close the gap by better communication. This will include the implementation of performance measures which align drivers of value (such as the management of bank relations) with visible and measurable financial outcomes, which are better understood by senior management and investors. In this way the day-to-day activities of treasury can be steered so as to maximise value creation whilst enabling the better articulation of this value to a non-treasury audience.

Relative importance of treasury activities in adding value



3. Challenges to **adding value**

We asked respondents what they viewed as the greatest challenges or obstacles for treasury to adding value:



By far the greatest challenge or obstacle cited in treasury adding value was limited resources in terms of people. Given that limited budget was not viewed as a great obstacle, this indicates that Treasurers are having difficulty in finding the right people to enable them to add value rather than facing restrictions in the number of people they are allowed to hire.

The resource restriction may be due to a combination of factors. There has already been a significant move toward automation of standardised (non-value adding) treasury processes. This has allowed Treasurers to reduce the numbers of transaction processing resources. However to perform the "real" value-adding roles, Treasurers now require a different skill set to that required in the past - for example greater project management and communication skills. Some companies are meeting this challenge through the development of internal "finance academies" to develop multi-disciplined team members.

Compliance requirements and regulatory constraints were also cited as very significant obstacles to adding value. This is a well-documented area with significant compliance costs and restrictions on treasury activity from Sarbanes-Oxley and IAS39. However some Treasurers have begun reviewing their processes including a number of the "short-term fix" solutions that were put in place to ensure that processes are efficient and durable. This is an area where there is considerable scope to free up resource through standardisation and automation to focus again on value creation.

Technology and IT infrastructure ranked third in the challenges/ obstacles whilst at the same time being seen by many respondents as an area of promising developments. Treasurers are clearly still not getting the maximum benefits from their investment in treasury technology. Most companies have now moved away from the use of spreadsheets to purpose built treasury systems, however many still have multiple manual interfaces, a portfolio of systems without STP and very often continue to rely on spreadsheets for their final analysis. In many cases, significant unrealised benefits can be achieved with relatively small further investment.

As treasuries become involved in a wider scope of activities, there is naturally a lag in the development and utilisation of technology. We are now seeing Treasurers defining their technology requirements and actively engaging with technology providers to enhance their current functionality or understand new product offerings.

Other barriers identified by respondents included a lack of understanding of what treasury does/could do outside the treasury function and insufficient information on the underlying or inherent financial risks and exposures. There is a clear need for treasury to educate its internal business partners and thereby improve information flow.

Poor management reporting or KPIs were not seen as obstacles to adding value. However we believe that these are important enablers to resolve communication, expectation and performance gaps identified elsewhere in this survey, and need to be better aligned with underlying drivers of value in many organisations.

4. Measuring value: **defining metrics**

75% of companies in our survey state that they use formal performance measures for treasury activities.

It is clear that in order to demonstrate the value-added impact of treasury operations it is necessary to produce robust indicators to show the performance of treasury activities. In some of the more developed treasury functions these are combined to produce a dashboard of value indicators that can be monitored strategically at Board level.

From our survey it is clear that many Treasurers are using KPIs which are easy to measure but which are not necessarily the most appropriate. The challenge is to develop measures that can both measure treasury activities and show the value added. In this respect Treasurers may need to look to other areas within the business that have developed sophisticated KPIs.

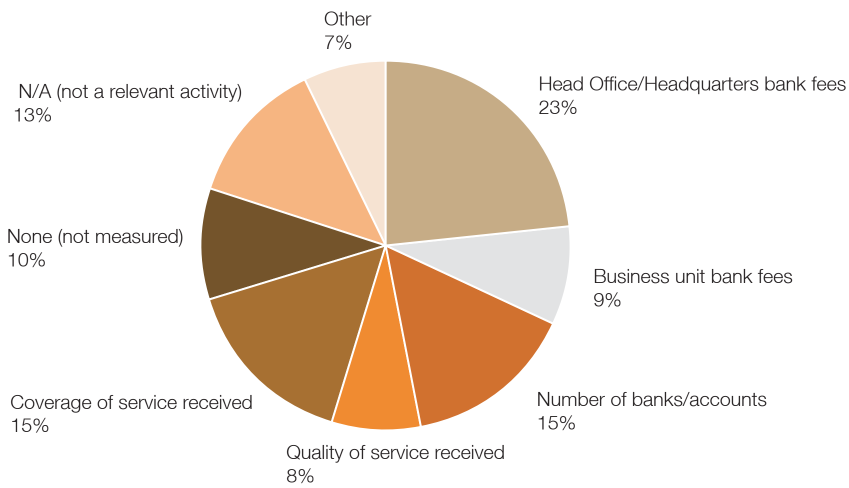
Of the remaining 25% who don't use formal performance measures, most cited the difficulty in defining treasury performance and the uncertainty of which benchmarks to use as the reason. The lack of appropriate tools was also cited as a barrier to measuring performance.

The aim of performance management should be to measure the value-added to Shareholders in line with other business investments and the cost of capital. Our survey considered the types of metrics used for measuring treasury performance in the key activity areas within the treasury function.

Bank relationship management

Although bank relationship management was seen as a major area where Treasurers perceive themselves to add value, a surprising number of respondents (23%) currently don't measure performance in this area.

Measuring value from bank relationship management



- Most of those that do measure the performance of bank relationship management use bank fees (32%) as a performance measure, and mainly at the HQ level (23%). This is a relatively straight-forward and accurate measure but may point to difficulties in measuring performance at a local level.
- Given the international scope of most of the operations surveyed and the trend towards global banking this is an area where significant development opportunities lie. Many ERP and electronic banking platforms can be designed to capture detailed banking information in a structured manner. This enables subsidiaries to feed local banking information to central treasury more effectively and more accurately allowing Treasurers to produce follow-up reports and better support the businesses.
- Several respondents commented on the measurement of the less tangible elements of bank relationships: commitment, solutions offered, and infrastructure or capability. These more qualitative measures are an important aspect of this area and can be combined with the quantitative measures to form more of a "Balance Scorecard" approach. One respondent produced a "Bank Relationship Global Report" combining these two aspects.

“Shifting to an ERP platform for treasury has been a major change for us. The focus is now on business partnership and value creation, including the improvement of financial risk management.”
Thierry Cairus, Director International Financial Risk Management JT International SA, Switzerland

Treasury risk management

This is seen as the most value-added activity by Shareholders according to the Treasurers surveyed.

- As this has long been the core activity of treasury nearly all Treasurers measure their performance in this area. However the use of different measures was widespread. The most popular performance measure was the “accounting” measure of profit/loss at maturity, which has traditionally been very easy to implement, as the information is readily available.

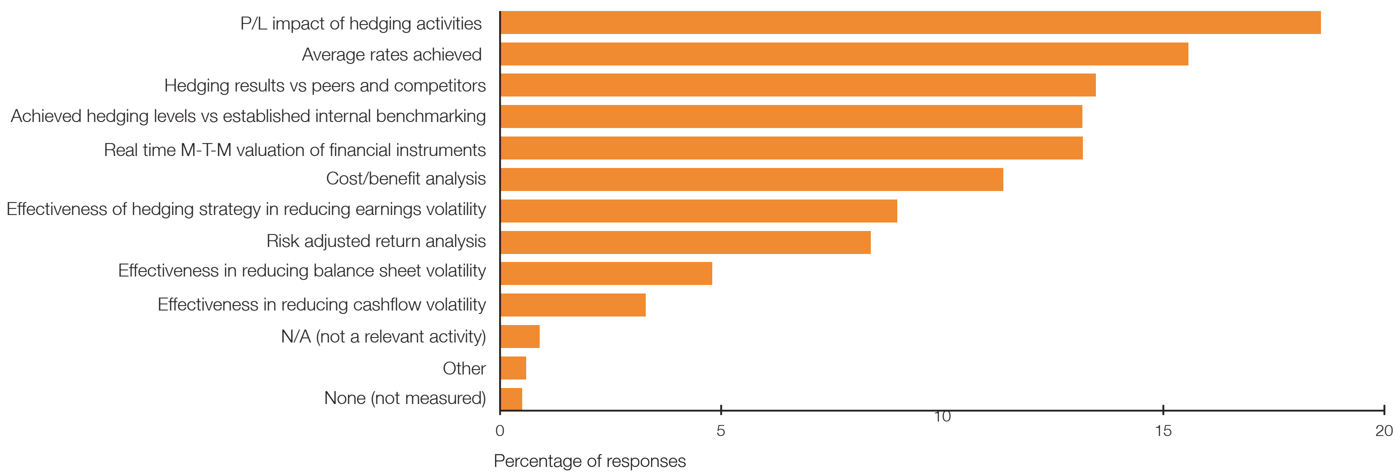
- Other popular measures included average rates achieved, peer benchmarking, and hedging levels versus internal benchmark. The effectiveness of hedging strategies in reducing volatility in earnings, cash flow and balance sheet all ranked surprisingly low in the analysis.

- We would expect that measures encompassing the business’s formal risk policy would be more widespread. These would include measures of volatility reduction or risk adjusted return. Some of the more sophisticated treasuries have effectively applied a Value-at-Risk (VaR) framework to measure risk reduction rather than profit or loss. Further developments in this area include stress-testing, sensitivity analysis, and scenario-testing.

- It is interesting to note that cost-benefit analysis - measuring the benefits of risk management activities carried out against the cost of employing suitable professionals - and maintaining the infrastructure to carry this out is used surprisingly little. We would expect this type of analysis to be carried out periodically and in particular as part of any significant project appraisal or decision process - for example, when implementing cash pools or a payment factory.

- Benchmarking of hedging strategy/ results against peers and competitors was ranked third most popular measure despite this information being of a highly confidential nature. The increased disclosure under IAS 32 & 39 (and in future under IFRS 7) may allow greater access to this information but it is questionable whether this would be sufficient to use for performance measurement.

Performance measurement for Treasury risk management

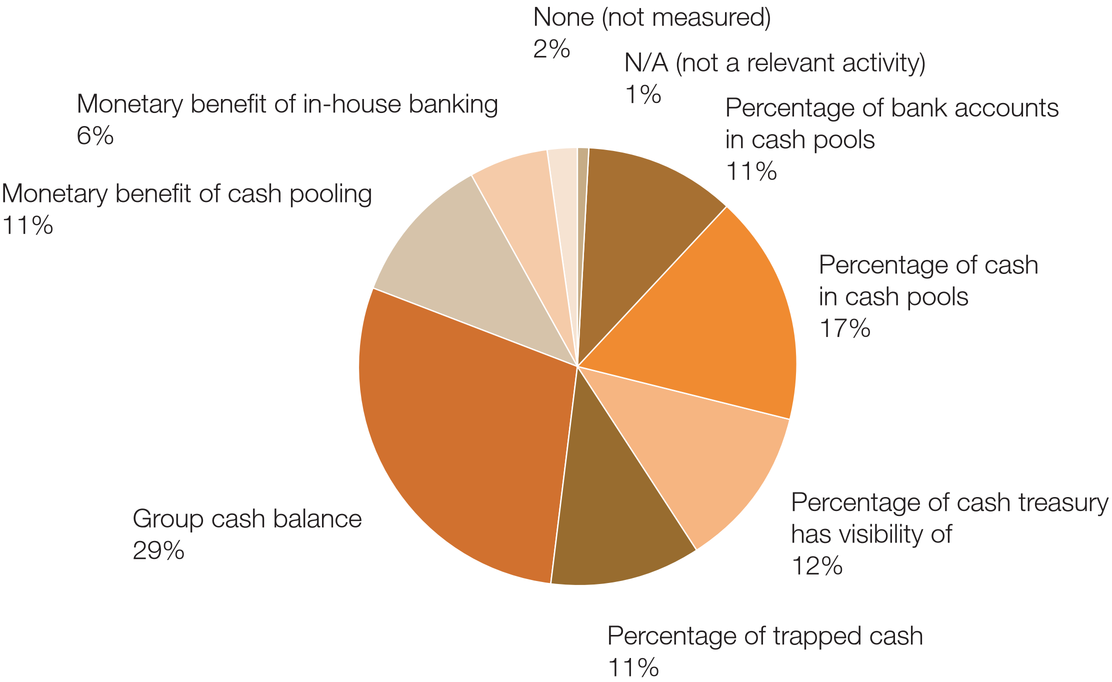


Cash management

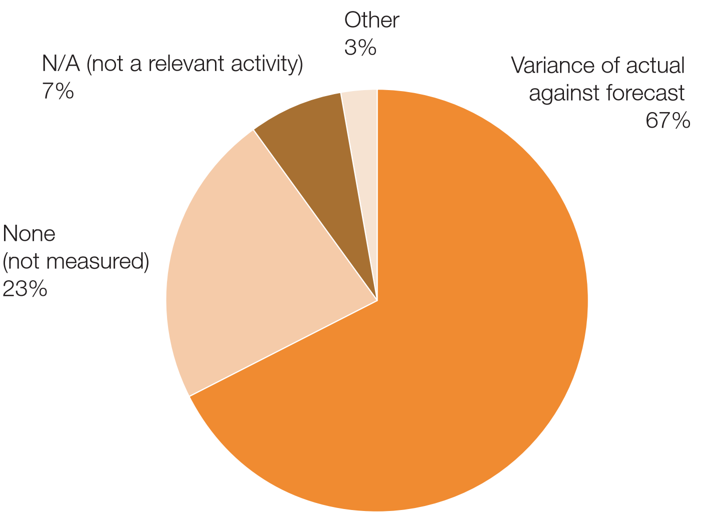
Again cash management is considered a "core" treasury activity and as such the accessibility of cash was measured by almost all respondents.

- A large number of respondents (29%) use the Group cash balance as a measure of the value added by treasury in this area. This is a very simplistic measure considering the nature of this treasury activity and it is questionable how effective a measure it is of treasury adding value.
- Given the widespread use of cash pool arrangements and/or in-house banking (IHB) structures, it appears that only a small percentage (6%) are actually monitoring the benefits on an ongoing basis.
- Measures encompassing the monetary benefits of various actions were relatively poorly ranked in responses. This suggests that the focus of this activity in most companies is now related more to monitoring and control, rather than achieving higher marginal return.
- The level of trapped cash continues to be an important measure for Treasurers, particularly as their business operations expand into new emerging markets, for example China.

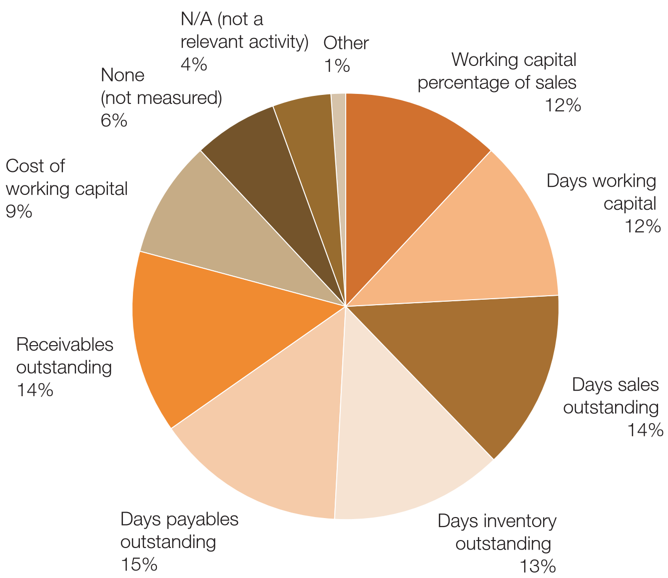
Performance measurement for cash management



Performance measurement for cash flow forecasting



Performance management for working capital management



Cash flow forecasting

- 23% of respondents stated that they do not measure their performance in cash flow forecasting. This is surprising given that timely and accurate forecasting is fundamental to effective risk and cash management.

- Almost all of the 70% of companies that did measure cash flow forecasting used a form of variance of actual against forecast to measure value-added in this area. Measures in some of the more sophisticated treasuries include the opportunity cost of forecasting, for example, the cost of funding a forecast short position that did not materialise.

- Technology and banking solution providers have developed a wide variety of new tools which support companies in cash forecasting, measuring forecast accuracy and quantifying the cost of inaccuracy. These include web-based forecasting tools, ERP systems and enhancements to traditional bank applications.

Working capital management

- Respondents ranked working capital management as the third most value-adding activity from the perspective of Shareholders. It is not surprising then that of the treasuries that undertake working capital management, only 6% do not measure their performance.

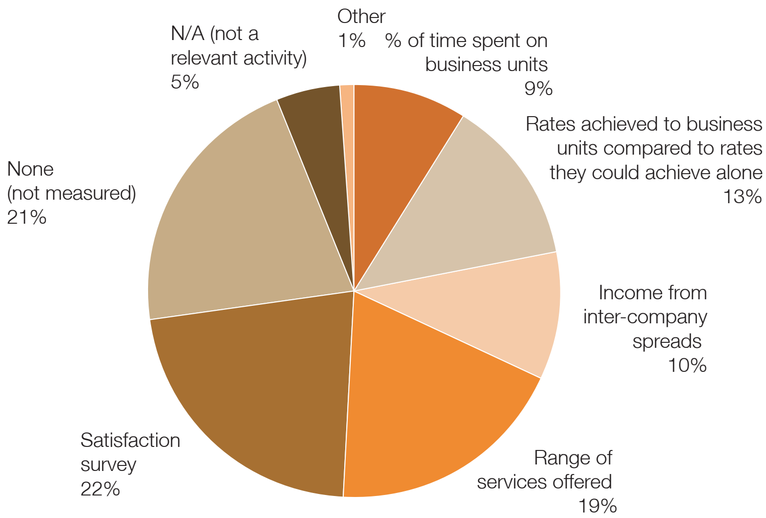
- For the remaining 90% who did measure performance in working capital management, the traditional "accounting" measures of working capital/sales, days working capital, days sales outstanding, days inventory outstanding, days payables outstanding and days receivables outstanding were all widely used.

- Several respondents commented that working capital management was generally the responsibility of business units but that treasury maintained an important involvement through, for example, their participation in focus meetings and in setting KPIs.

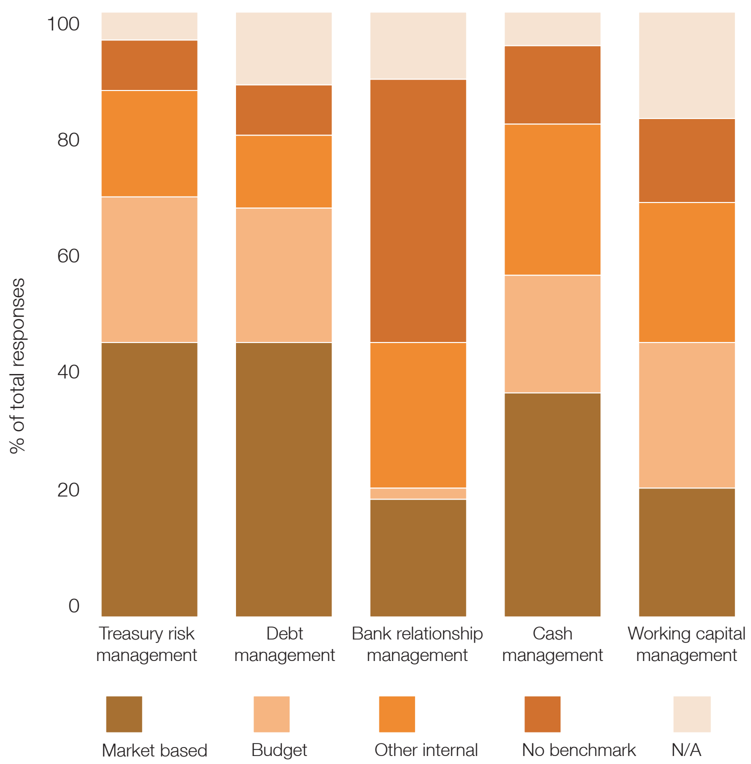
“One of our key performance measures in terms of value-add is the effectiveness of our hedging strategy in reducing P&L volatility, albeit now harder under IFRS.”

Charles Coase, Group Treasurer, Diageo

Performance measurement for the overall value-add of treasury to business unit



Benchmarks for treasury activities



Service to business units

- 21% of treasuries do not measure their performance in servicing business units. This may be consistent with the 43% of treasuries which consider themselves cost centres. However the value-adding approach to treasury activities has recently led the trend to a more internal focus.

- Those that did measure their performance in servicing business units often used satisfaction surveys (22%) which can be highly effective but require very careful design and interpretation, and can be difficult to manage on a frequent basis.

- Just 23% of respondents used objective financial measures such as rates offered and income from inter-company spreads. These measures can be used to concretely assess the value added by treasury and display its effectiveness to the wider business.

Benchmarks

Once appropriate performance measures have been selected, these must be complemented with appropriate benchmarks.

- Nearly 50% of respondents used market-based benchmarks to measure performance in treasury risk management and debt management together. A high proportion also use the benchmarks for cash management. Budget-based benchmarks were more widely used in working capital management (24%). Interestingly, benchmarks were generally not used in bank relationship management (44%).

- Best practice in this area would suggest the use of benchmarks which both reflect policy and are achievable. In practise this generally means that market benchmarks, such as forward rates for the relevant maturity locked in when an exposure is identified, are appropriate. To the extent that a budget rate is used, then again this should be based on market rates.

5. The Future

We asked respondents to rank the current developments in treasury in terms of their impact on adding value to the business. The majority of responses were centred around technological and system-based developments. These were also cited as a major challenge to adding value revealing that Treasurers recognise the potential of developments in this area but are unsure of the return on the often substantial investment required up-front.

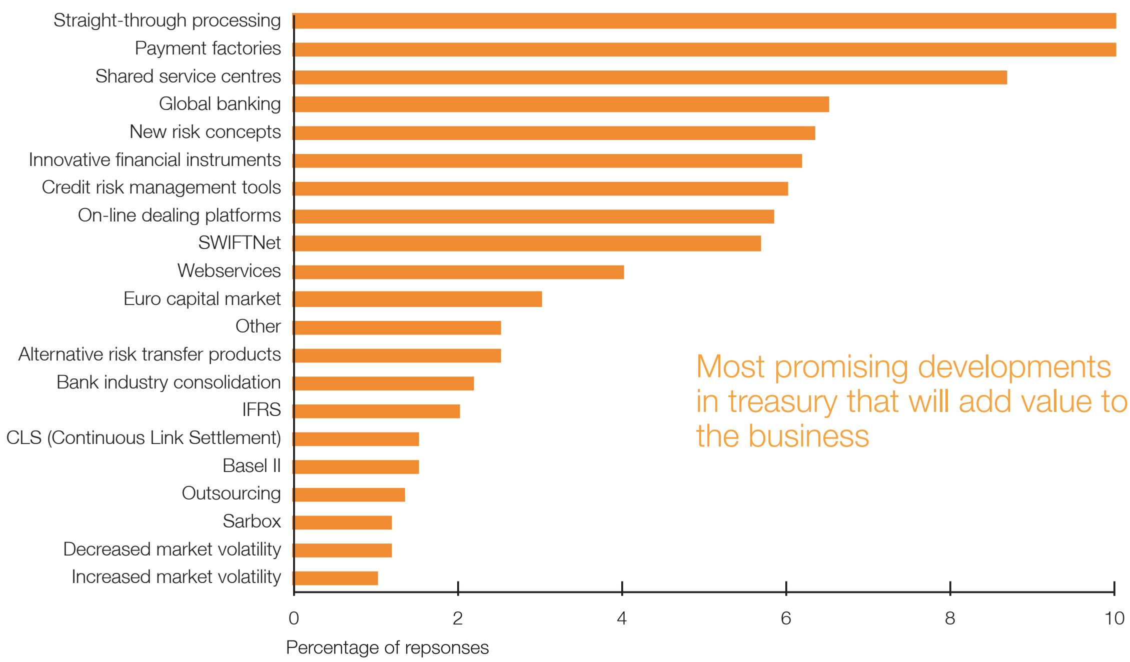
From our experience, the main barriers to this are often in the implementation stage and we have seen many cases where revisiting how the technology already in place is being utilised has allowed treasuries to make significant improvements in processing and other treasury activities using their existing technology.

More specifically, responses showed that in-house banking, payment factories and STP were by far the most significant areas that Treasurers could currently leverage to add value. Treasurers are currently attempting to reduce banking costs, gain control over the full financial value-chain, and cut down on administration. Many are still trying to make the most of their Treasury Management Systems whilst under pressure to simplify their processes to comply with regulation such as Sarbanes-Oxley.

Outsourcing, a hot topic in the wider finance arena, featured extremely low in responses. Due to the relatively small size of treasury teams there have often not been the cost savings to be achieved compared with other larger corporate functions. We have however seen outsourcing used as a way of managing operational risk and control, for example in back-office functions.

Treasurers still see further opportunities from increased standardisation and centralisation, as reflected in the relatively high ranking of payment factories, shared service centres and global banking.

Innovations in the area of risk management also featured highly, including new risk concepts, innovative financial instruments and credit risk management tools.



Most promising developments in treasury that will add value to the business

"As well as the "traditional" treasury activities of cash management, funding, risk management and capital structure, we also add value to the business through M&A support, commodities-hedging and more recently in playing a role on the carbon emissions markets"
Patrice Tourlière, VP Financing & Treasury, Lafarge

Focus on adding value to business units

A major focus for treasuries adding value is in positioning treasury within the wider business and in this regard the relationship between treasury and the individual business divisions/units is increasingly important.

We asked respondents specifically what treasury could do to add more value to the local business units.

In line with our findings elsewhere in this survey, the majority of responses focused on being more proactive in their relationships with the businesses and gaining a greater understanding of the needs of the business. Some CFOs have pushed this initiative by encouraging and facilitating the movement of finance staff between treasury and other parts of the company.

Centralising, in order to make efficiency gains, continued to feature highly in respondents' comments. Aligned to this was the focus on automating treasury processes which would aid both treasury and the business units. Some respondents mentioned the ability to "leverage ERP systems" as an area where Treasurers could drive value creation.

A number of respondents mentioned being involved in other areas of the business where the Treasurer's risk-based approach could be applied. For example, several organisations highlighted commodity risk management where treasury has worked with procurement functions to develop wider risk management frameworks.

Where will treasury add value to the business in five years time?

We asked respondents what areas they believed presented the most opportunity for treasury to add value to the business over the next five years. We then grouped the responses under major themes to assess where the major trends lay.

Working capital, cash management and payments-related topics came top of the list, cited by 26% of respondents. These areas point toward a broader definition of treasury's role. Aligned to this is the closer integration of treasury with other finance areas, notably including financial shared services.

An area of particular interest was leveraging the in-house banking capabilities of treasury. Several respondents expect that their investments in payment/cash collection technology will put them in a position to offer these services to customers.

Topics around risk management and related innovations came second with 22% - Treasurers may be envisaging more volatility or more significant emerging market activity which will require their core skills to add value to the business in the future. Specific comments on risk management covered the extension of the Treasurer's activity to wider enterprise-wide risk management. An integrated risk management approach can allow risk reduction at a lower overall cost given the wider portfolio of risks that can be incorporated.

Other popular topics were support to the business, funding integration and standardisation, geographical expansion and capital structure.

Also listed by several participants were pensions, commodity risk management, customer financing and centralisation.

"Our relationship with our business units is crucial to the success of treasury at Swiss Re. In this regard, we must always try to increase the frequency of our discussions with business management despite other pressures."
Hess Jeurg, Head of Corporate Finance and Treasury, Swiss Re

6. Feedback and Further Information

We would be delighted to hear your feedback on this report and if it has helped you to formulate new strategies for increasing your treasury's value-added contribution.

Please log on to **http://treasurysurvey.pwc.be** to log your feedback and request more information.

7. PwC European Treasury Solutions Group

The PricewaterhouseCoopers European Treasury Solutions Group comprises over 150 dedicated professionals across Europe, with a broad range of complementary treasury, banking, technology, taxation, accounting, and programme management skills. Our team has worked with many of the world's leading corporations to support change in treasury practices and has an enviable track record of successful solutions-based work.

Our team has established an extensive knowledge base of treasury standards of the leading corporations. By combining this knowledge with the multi-disciplinary skills of the team, we provide creative and practical solutions to meet the requirements of our clients.

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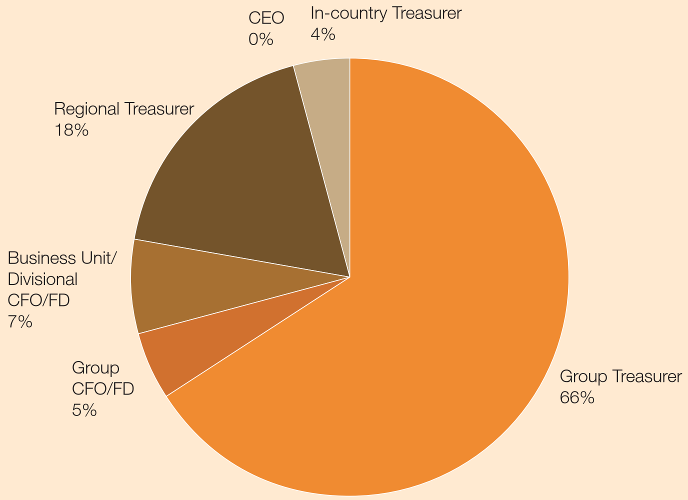
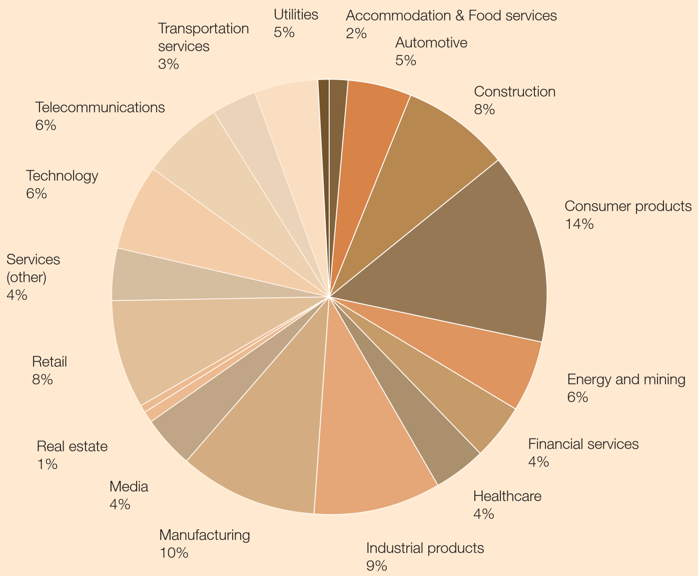
Appendix: analysis of survey respondents

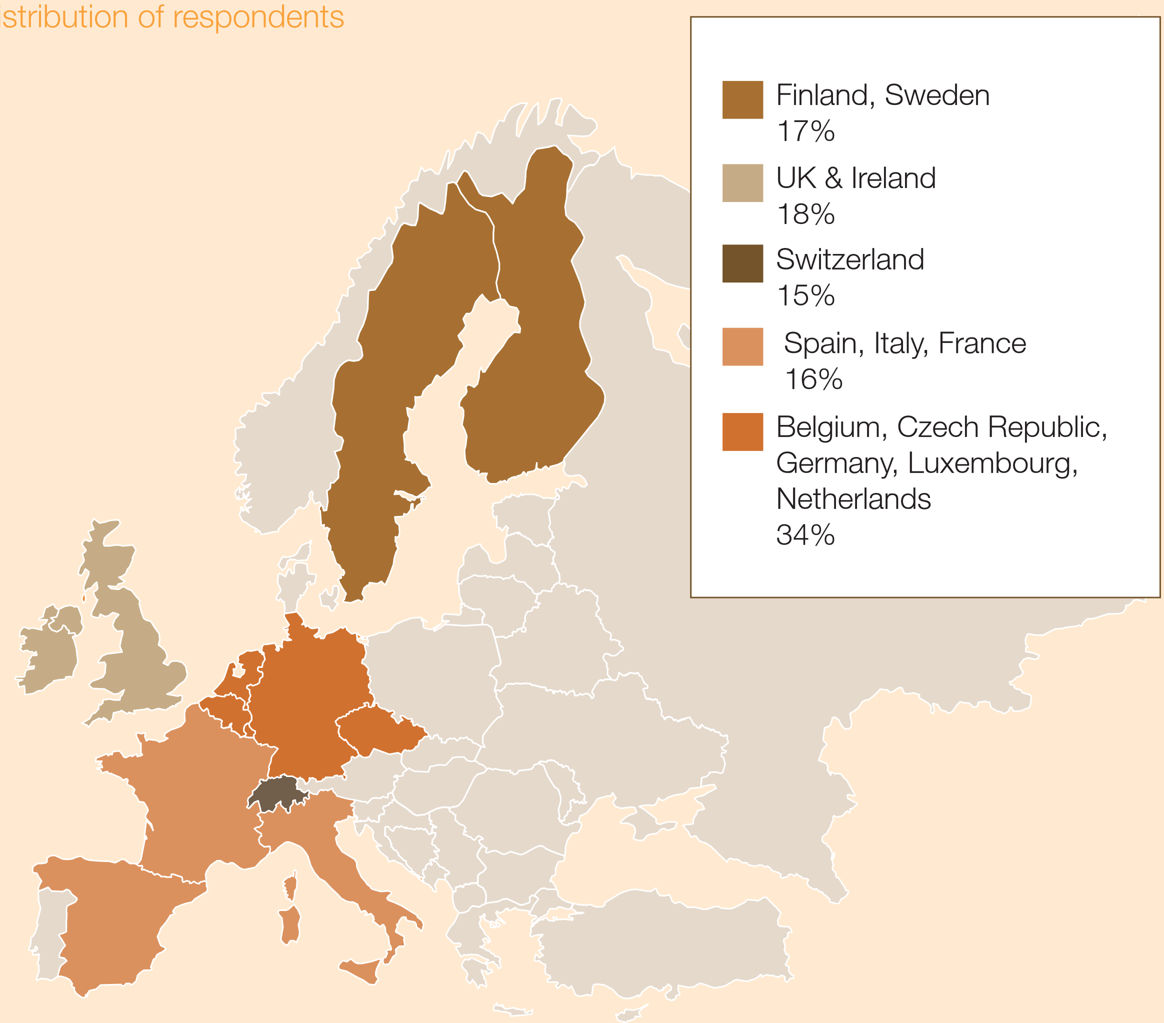
The role of the respondent



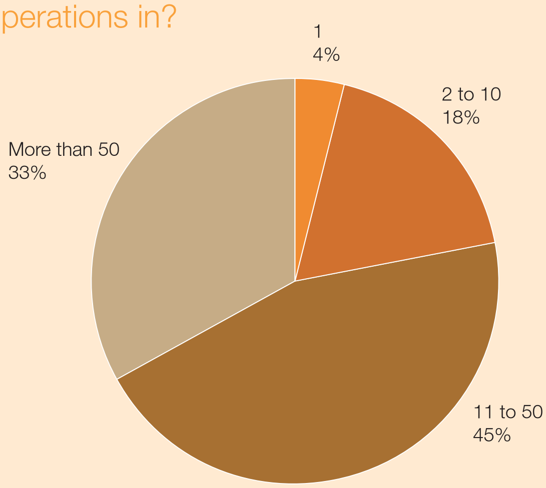
What is the predominant industry/ sector of your compay?



Geographical distribution of respondents



How many countries does your company have operations in?



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