Ask the experts:
Treasury challenges for 2006

What will be the key challenges for treasurers over the coming year?

Neil King, Group Director of Treasury, The Carphone Warehouse Group PLC

As humble shopkeepers, Carphone's treasury focus in 2006 will remain on familiar ground: efficient cash management, control of bank charges, minimising debt and controlling foreign exchange (FX) exposures.

Cash management at Carphone is simple in concept and increasingly complex in execution, although the continuing rollout of the shared service centre allows for much more centralisation. I'll be looking for more automation of the system in 2006 as well as better co-operation between our local and international banks in sharing data and making payments.

One answer that I'll be looking for in 2006 is why a direct debit in Portugal costs three times as much as one in France, which in turn costs 10 times as much as one in Germany or the UK. Bank charges are one of the larger controllable costs here and I'm looking for imaginative solutions from the banks for handling cash as well as for credit and debit card acquiring, particularly on a pan-European basis.

The developments on SEPA (Single Euro Payments Area) are to be welcomed by European corporates – although possibly not by our banks – and we'll be looking to exploit these opportunities over the next few years.

I'll be watching corporate debt margins closely. A year ago I was told they couldn't go any lower. I'll be looking to lock in at these levels for longer than our current maturities, either by refinancing existing debt or taking acquisition finance.

European expansion means that an ever-increasing percentage of our profits come from the euro zone and addressing the FX translation risk here will increase in importance next year. That said, my main challenge currently appears to be trying to fend off the multitude of banks desperate to help me hedge these risks.

Finally, I really need to find a bank that has tickets for *Fidelio* next summer at Glyndebourne.

David Blackwood, Group Treasurer, ICI

While it is interesting to speculate, the main challenges we will face next year will most likely be specific to our business and quite possibly unexpected. There are, though, some likely themes that may affect the majority of us.

Personally I wouldn't be surprised to see the credit environment get more difficult next year. This could give many of us cause for thought about when to do any funding we are contemplating.

Somewhat unfortunately, I expect international accounting standards are still going to be an issue. It is a great shame since accounting has got very little to do with creating value for the enterprises we work for. However, pragmatically it is something we will be wrestling with a little longer, and deal with well.

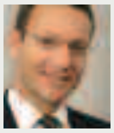
Pensions, for those with significant pension issues, will remain in the spotlight. The Pensions Regulator has been pronouncing in the UK, and the new environment is starting to settle in. There are also new funding rules expected in the US, and the European directive still has to be fully implemented in parts of the EU. I am also certain we will see more derivative-based strategies implemented for managing pension fund risk.

Of course, pensions are now a major issue in the area of mergers and acquisitions (M&A). It is clear the M&A market is currently busy – my investment banking friends have large smiles these days! I wouldn't be surprised if this continues into next year.

Finally, in among all the big picture stuff, you can never get away from the need for all of us to drive relentlessly for operational improvement.

Although headline inflation seems fine, input cost pressure is very real, and the need to drive down operational costs and to add to the business bottom line will be as big an issue for treasurers next year as always.

David Blackwood is Chairman of the Treasurers' Conference, 17-19 May 2006



Tom Gunson, Partner, PricewaterhouseCoopers

With Europe's answer to Sarbanes-Oxley in the guise of the EU's 8th Directive just around the corner, governance and control will again be on management's agenda. Add to this the complexities of embedding international financial reporting standards (IAS 39, and so on) into daily processes and managing the 'cost of compliance' in an environment of continued cost pressure will be a major challenge. However, while many see compliance creating little value, it does present a great platform for the treasurer to drive standardisation and automation through broader treasury-related business processes (such as cash payments, FX exposure identification). Thus some, if not most, treasurers could support the operational improvement programmes many corporates have under way and realise significant benefits.

We cannot talk about challenges and leave out pensions, whether treasurers are balancing dual roles as both trustee and chief strategy advisor for managing any deficit, managing the corporate's 'new' balance sheet or understanding the new products the banks will bring to market.

I also agree with David that the credit environment may get more difficult next year, so look for more emphasis on the company leveraging its own balance sheet by optimising working capital. The treasurer is increasingly asked to play a key role in helping the business achieve this by providing better visibility of where cash (in its broadest definition) is tied up.

Lastly, treasurers will need to continually reassess their treasury model to answer questions like: how do we add the most value in an environment of increased regulation and compliance, perceived lower value-added-transaction execution (such as FX, cash management) and cost pressures? How does treasury fit into the invigorated appetite for shared services? How do I retain my best people while equipping them to be the finance executives of the future?