

OILING THE WHEELS

How does treasury help to fuel the world's 10th-largest company? Total group treasurer Humbert de Wendel explains

Words: **Sally Percy** / Photos: **Sébastien Dolidon**



As group treasurer for French oil and gas giant Total, Humbert de Wendel holds one of the top jobs in treasury. But while he's been in that post (and in mainstream treasury, as it happens) for just under two years, he's racked up more than 30 years' service in finance roles with the company that he joined as a graduate in the early 1980s.

"Why change, I would ask?" he responds in excellent English, when probed as to why he has never taken his talents elsewhere. "It's a very nice company to work for. It's not just me; most of my colleagues have tended to stay with the company. That's because it offers a variety of opportunities. You don't need to go to another company to do something different."

De Wendel's latest 'opportunity' – if you can call it that – entails moving Total's treasury function – along with its investor relations team – lock, stock and barrel from Paris to London in June 2014. "More than ever, London is the centre of financial activities of the kind that we're engaging in," is his explanation for the move. "Also, our activities are more and more dollar-based and less and less euro-based so it makes more sense to be close to the dollar market in Europe, which is obviously London. We can get close to our counterparties, our investors and where things are happening." Around two-thirds of Total's 60-strong treasury team will relocate to the UK capital and de Wendel is positive about the change. "I love London as a place to live," he says. "It will be a challenge to move the whole team there, but it will be an adventure. You don't have adventures of that kind every day in treasury."

Indeed you don't, not even when you're the treasurer of the 10th-largest company in the world, according to the Fortune Global 500 list, with the kind of credit rating and cash reserves that some treasurers can only dream of (more on this later). But that's not to say that the office move is de Wendel's only workplace challenge. Total has set itself the ambitious target of producing three million

barrels of oil and gas a day by 2017, up from 2.3 million a day in 2012. As a result, it is investing heavily in its operations, which is inevitably gobbling up cash. "There's a lot of stress on treasury because we are in a very heavy period of cash-flow consumption," explains de Wendel. "Oil and gas are challenging, both technically and financially. The amounts at stake are ever-growing. Some of the projects we're engaging in can be \$30bn to \$40bn in size."

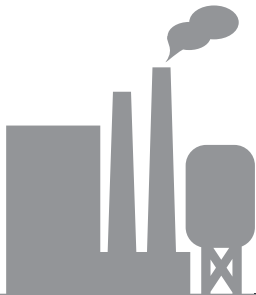
Although de Wendel describes the company's cash flow as 'stressed', according to both its own and industry standards, he acknowledges that other companies would see it as 'relaxed'. Nevertheless, he points out: "We are generating rather less than is needed to fund our activities and pay our dividends. So we need to ensure the security of funding for the group and make sure there is ample liquidity for the group's financial activities. In treasury, we are central in making sure that the strategic priorities are being achieved because cash is king."

Total has around €33bn in long-term and short-term debt, and raises the vast majority of its funding (some 85%) through the bond markets. "We tend to be very opportunistic in which financial markets we tap," de Wendel explains. "The good thing about being a large company with very good ratings is you have access to good markets." Total taps the US bond market most often, but it also goes to markets elsewhere. In 2013, it raised \$10.8bn altogether, of which \$6bn was from the US, while the rest came from the euro, Hong Kong renminbi and Australian dollar markets among others. "The US market is deepest and easiest to tap," says de Wendel. "But you can tap other markets and get better conditions than we would get in the US market."

Where Total does have bank loans, these take the form of bilateral agreements rather than syndicated group facilities. "If times get tough, renegotiating with all your banks at the same time can be a very difficult thing to do," de Wendel points out. "We're in a very >



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TOTAL IN NUMBERS

€22.94bn

was Total's gross capital expenditure in 2012

€12.4bn

was Total's adjusted net income in 2012

€2.34

per share was the dividend paid by Total in 2012

130

is the number of countries in which Total operates

87%

of Total's share capital is held by institutional shareholders

14,725

is the number of service stations in 68 countries run by Total

2.3 million

barrels of oil a day are produced by Total

10

was Total's ranking on the Fortune Global 500 list of the largest companies in the world in 2013

97,000

people is the size of Total's global workforce, including more than 40% outside Europe

9

natural gas liquefaction plants in Africa, Asia, Europe and the Middle East have Total as a shareholder



favourable position *vis à vis* banks. But what I would advise in general is to keep your options open, diversify sources of funding as much as possible and try not to have all your eggs in the same basket."

Total holds cash reserves of around €13bn and these provide security in the volatile environment in which it operates. "We have to deal with commodity prices that can vary tremendously," notes de Wendel. "That puts a lot of stress on our cash need. At all times we want to have enough cash to be able to repay our debts plus we need to be able to withstand a dip in our cash generation. We also have variations in our working capital that are very wide." Indeed, Total's variations in working capital from one quarter to another can change by as much as \$3bn.

It will come as no surprise, then, that Total is very cautious about what it does with its reserves. "We are extremely prudent with our cash," confirms de

Wendel. "We don't take any risk. We have a very well-developed counterparty policy, so we only leave our cash with the most secure counterparties." In 2011, it trusted most of its money to the French central bank – "It doesn't pay much, but that's the most secure place to leave it" – and it also deposits with the highest-rated global banks. It buys some sovereign and corporate paper, but doesn't use money market funds "because we like to manage the cash ourselves".

> Overall, 33 banks from all around the world provide credit lines to Total and these are a mixture of global and local banks. While the group historically preferred to work with banks that shared its high credit rating (it has a prized AA rating with Moody's and Standard & Poor's), practicality now dictates that it must work with banks that have a slightly lower rating than its own. "We want to have relationships with banks from all



HUMBERT'S TOP TIPS FOR SUCCESS:

1
"Keep your options open and have your debt profile maturing on a tiered basis."

2
"We have the ability to be opportunistic. So it's important to organise things so that you can pick the opportunities."

3
"I'm a member of L'Association Française des Trésoriers d'Entreprise. Membership of a treasury association brings a lot in terms of being able to exchange technical views regarding how you centralise cash."

4
"I'm not a man for gadgets, but I live with my iPad at the moment. My wife would tell you that I'm using it for business too much. I use it to look at my email when I'm travelling. I also use it for music."

5
"I like to be precise and accurate. I also like to avoid personal controversy."

6
"What's the most difficult question my CFO could ask me? It's part of the job description to be asked difficult questions all the time, so I wouldn't like to say. But I would not like to answer this one: 'How do we recover the money that has been stuck in the demise of one of our counterparties?'"



HUMBERT'S CURRICULUM VITAE

January 2012 to present
 Group treasurer, Total, Paris

2006-2011
 Senior vice president, corporate business development, Total, Paris

1997-2006
 Vice president, financial operations for various group divisions, Total, Paris

1995-1996
 Finance manager, Total Middle East, Total, Paris

1992-1994
 Deputy CFO, TMR (Total joint venture), London

1982-1992
 Various financial positions, Total, Paris

Qualifications
 Graduate of the Institut d'Etudes Politiques de Paris and ESSEC Business School

over the place," says de Wendel. "We have a centralised approach. Our middle office monitors all the banking relationships that our subsidiaries have around the world. When they want to work with a bank that doesn't match our credit requirements, they have to ask us. We look at the reasons why they ask and we do a deep analysis." Meanwhile, the contracts that Total has around the world enable it to keep its cash in US dollars and, almost always, in offshore bank accounts.

Given that it does business in 130 markets, you might expect Total to have difficulties with trapped cash. De Wendel says this is not a huge issue in most countries, however, "because normally we have exemptions from foreign exchange controls". He continues: "It's not trapped, but it's not always where we would like it to be. 'Trapped cash' is not the way I would describe it. It's more 'cash in transit'."

While Total's business mostly operates in dollars, it pays shareholder dividends in euros, which inevitably creates a huge FX risk for the company. "The volatility is such that we can jeopardise our returns to shareholders if we're not careful," says de Wendel. "They want us to take the business risk of exploring oil and gas, not FX risk." Total's treasury handles between \$80bn and \$90bn in FX each year, "which I'd guess is on the high side", de Wendel says. Therefore, it has very strict rules as to how it calculates and mitigates FX exposures so that it takes as little risk with FX as it can. Usually it hedges FX upfront once a decision has been made to launch a project. "We have very precise rules and we abide by them. We don't take chances."

Another risk that the treasury team monitors closely is interest rates, due to the large debt sitting on Total's balance sheet. "We evaluate what percentage of debt needs to be on fixed rates and what percentage needs to be on floating rates and hedge day-to-day risks that we have in these areas," de Wendel explains. Overall, around 20% of Total's debt is fixed while the rest is floating. "We have a very volatile cash flow so one way or another we feel that keeping interest rates floating is a better hedge than fixing them," he says, "for contractual reasons and because of the link between inflation rates and the price of oil."

The group treasurer's role is actually de Wendel's second stint in treasury at Total. Back in the 1980s and early 1990s, he headed the treasury's trading room for a while. Over the past three decades, he has held a range of other finance roles, including FD of a joint venture, M&A, product finance, basically "everything you can think of in finance in a company like this". In his present role, he has had to get to grips with treasury's sizable and complex IT systems and with running a large team since previously he had mostly led groups of between five and six people. So what's the trick to running a successful treasury at Total? "It's like running any other team in any other business. You have to make all these people from different backgrounds draw the cart together. It's one of the interesting aspects of the job." ♦

Sally Percy is editor of *The Treasurer*