

Winner

World class

Rolls-Royce



LAST YEAR, THE ROLLS-ROYCE TEAM SUCCESSFULLY ISSUED A £500M BOND AND COMPLETED A \$200M PRIVATE PLACEMENT. IT ALSO RATIONALISED ITS VAST GLOBAL CASH MANAGEMENT OPERATION, ROLLING OUT INTERNET-BASED BANKING PLATFORMS TO IMPROVE TRANSPARENCY AND LIQUIDITY.

WHY THEY WON

Whether working on complex risk management, introducing supplier finance programmes, raising money from the capital markets or overhauling its global cash management, this team offered well-planned and well-executed performance.

A large, complex global business needs a good treasury department. At Rolls-Royce, where engineering excellence is at the heart of the company culture, the treasury department is as well engineered as any.

Based in Derby, the Rolls-Royce treasury team has operations in the US, Germany and Norway. The 22 people in the team take care of more than 150 subsidiaries scattered all around the globe, and their long list of responsibilities includes pensions risk management.

The treasury team is used to dealing in large numbers. Group turnover is around £10bn but the dealing team handles a hefty number of transactions, adding up to £85bn a year.

It is clear that the Rolls-Royce team is held in high esteem by the banking community. It manages a huge and sophisticated risk management programme, mainly for foreign exchange. It has also re-engineered its commercial banking operation and has had a key involvement in the group's pension de-risking process.

Group treasurer Mark Morris says that 2009 was fairly challenging for his treasury team, as for many other treasuries dealing with the fall-out from the credit crisis as it hit the non-financial economy. Rolls-Royce raised money by issuing a £500m 10-year sterling bond; it went well for the group and was oversubscribed six times. The treasury team also completed a private placement in the US, raising a further \$200m for the company's engine leasing business.

According to Morris, Rolls-Royce found itself in a "sweet spot", with its single A credit rating providing comfort for risk-averse investors at an acceptable yield. He says: "It is fair to say that we were one of the companies that were sitting at the right part of the rating spectrum. We saw a flight to quality, with investors also wanting to generate a yield, so people were looking for a home for their money." The company has no immediate plans for raising further capital but Morris says the treasury team keeps a watchful eye on the markets.

While raising money has been key, the biggest project that the treasury team has recently undertaken is one designed to rationalise a global banking operation for cash management. The group's cash management arrangements used to involve working with 65 banks in 25 countries with more than 400 bank accounts. By the time the

project is completed that will have been slimmed down to under 10 banks and the group will be taking full advantage of technologies such as SWIFT and other internet-based banking platforms to improve transparency and liquidity.

Morris makes the point that under the project leadership of Hylda Wilson, the group's head of global banking, Rolls-Royce spent 12 months just doing its homework. Morris says: "We looked at what was in the market and we looked at what other corporate users had been doing and learnt from their experiences."

A number of banks said the resulting request for proposals (RFP) was the most comprehensive they had seen. Morris says that desire to do the research properly is the result of the ingrained company culture, "part of the engineering DNA". Last year the project plan saw the selection of the global cash management banking group; this year will be about implementation.

The Rolls-Royce treasury team handles a wide variety of work. Current tasks include: commodity hedging in the financial and physical markets, supply chain financing, working with distressed suppliers, and economic modelling when setting company strategy for suppliers, site selection, defence and aftermarket contracts. The treasury team is well integrated with the business.

It can only be seen as a compliment, although it's not always one that Morris welcomes, that the treasury team seems to land up working with some of the more intractable financial problems.

Given the treasury team's culture of being prepared and open in tackling new problems, it should come as no surprise that it has an extensive development programme, which draws heavily on the ACT's education and training programme. Rolls-Royce also contributes to wider professional development, most recently working with the FSA, the European Commission and the EACT/ACT on resolving problems with proposed reforms to OTC derivatives.

The last year has seen governance rise to the top of the agenda, putting treasury departments in the spotlight. The importance of treasury to the survival of the organisation is appreciated as never before. The Rolls-Royce treasury team stands up to such scrutiny and as such is an example to and for the whole profession.