ANDY LONGDEN, GROUP TREASURER OF SHELL, TALKS TO **LIZ SALECKA** ABOUT HOW A CENTRALISED TREASURY OPERATION HAS BENEFITTED THE OIL GIANT'S CASH MANAGEMENT AND FOREIGN EXCHANGE ACTIVITIES.

REFINING SHELL'S TREASURY

Having focused on the centralisation of its operations since the 1990s, the Royal Dutch/Shell Group of Companies, which has five core businesses and a presence in 145 countries worldwide, is now reaping many of the economies of scale and efficiencies this can bring. The treasury function, which was once run on a country-by-country basis, with local treasurers taking responsibility for the cash and FX needs of their individual operations, is no exception.

"Shell was once a confederation of organisations, with local treasury operations and treasury systems," explains Group Treasurer Andy Longden, who joined Shell in London from British Telecom in 2003, to look after treasury, mergers and acquisitions, and pensions and insurance across the group globally.

"Then, in the 1990s, Shell was centralised across business lines – and departments such as treasury also became centralised. The end result has been the introduction of common systems and common controls across the group of businesses."

CENTRALISING THE TREASURY. Today, the energy and petrochemicals company's treasury operations are centralised in London, Houston and Singapore, with the three centres working together to meet the cash and foreign exchange (FX) needs of Shell businesses in their respective regions.

'THE CENTRES HANDLE ALL OF THE GROUP'S TREASURY NEEDS AND CARRY OUT MORE THAN 70,000 TRANSACTIONS WORTH OVER US$3,000BN PER ANNUM'

The three centres, which were selected for geographic and time-zone reasons, benefit from the same management and use of common procedures and systems. They now handle all of the group's treasury needs and carry out more than 70,000 internal and external transactions worth over US$3,000bn per annum.

This achievement has been facilitated by the deployment of Quantum TMs as the standard treasury management system in London, Houston and Singapore. Quantum is fully-integrated across the three centres, providing each one with total visibility of the group's cash positions and FX exposures worldwide at any one point in time.

profile SHELL

CASH MANAGEMENT. Centralisation has greatly simplified Shell's handling of payments and receivables as well as the entire cash management process, ensuring that the value of available cash resources is always optimised.

Shell is an integrated company with several activities and sales outlets, including a network of service centres, of which there are 11,000 in Europe alone. In the past, cash collection was conducted on a country-by-country basis, which is a complex and unco-ordinated process. In 1999, the centralised treasury took on this responsibility, using one system infrastructure. It now handles the collection of receivables from petrol stations and direct debits and collections from other customers; the payment and settlement of all inter-company and third-party transactions, as well as the concentration of funds.

Wherever possible, all spare cash resources are now pooled into the centralised treasury (Shell still holds some small foreign currency accounts locally to meet local liquidity needs) where they are netted and then invested. The end result is that cash shortages anywhere in the world can now be readily offset by surpluses elsewhere in the organisation. Daily money flows are also managed more effectively to meet funding requirements.

HEDGING. The three treasury centres are also responsible for managing the FX exposures of Shell subsidiaries in their respective regions.

With oil prices set in US dollars, and the group reporting in dollars, Longden explains that Shell's main exposures are against the currencies of countries in which it has local operating costs. Dollar exposures versus sterling and other currencies are managed using macro-hedges.

The advent of the euro has simplified FX hedging in much of Europe, adds Longden, by providing one common currency against which adverse fluctuations in the dollar must be hedged.

Longden adds, that despite the current strength of oil prices, this is mitigated by the dollar's current weakness. "How our business performs in Europe is in part a balance between the rate of exchange and the level of oil prices," he says.

'A VITAL DISCLOSURE REQUIREMENT IN ONE PART OF THE BUSINESS WENT WRONG, AND THE CONSEQUENCES HAVE CLEARLY BEEN DEVASTATING FOR SHELL'

CENTRALISED FUNDING. For several years, Shell has acted as its own banker, raising finance in the capital markets on behalf of its subsidiaries. This is now handled by the centralised treasury operation which leverages on the consolidated creditworthiness of the Shell group as a whole. "We can borrow on the back of an AA+ credit rating, while a subsidiary operation will attract a lower rating," says Longden, adding: "We aim to ensure that the Shell organisation around the world, and the companies that we own and invest in, have a disciplined capital structure... In this way, we also ensure that our debt and subsidiary credit lines are structured, correctly priced and optimised for local tax conditions."

The centralised treasury takes such opportunities further by acting as a global procurement function for the group for a wide range of treasury products and services – including its banking services. By capitalising on the huge volumes of business that a group the size of Shell can do, it ensures the best price on behalf of its subsidiaries for a cross-section of deals and services. "We routinely tender out our business" says Longden. "Because of the volumes of business we can do, we believe we should be able to command the finest margins and lowest process costs."

Andy Longden, Group Treasurer, Shell

Andy Longden has had a long and varied career in treasury. He spent a number of years in South Africa with De Beers and Anglo-American Corporation as Companies Accountant, before joining Charter plc in a range of treasury, corporate finance and operations roles.

He joined British Telecom in 1991 where he became Group Treasurer in July 1995 and Finance Director of its UK Business Division, responsible for over £5bn of revenue, in 1997. He resumed the Group Treasurer role in 1998 following the aborted merger with MCI. While at BT, he was responsible for some of the largest ever capital market deals – bond issues exceeding US$20bn in December 2000 and January 2001, and the largest ever completed rights issue – £6bn – in the London market in May 2001.

On 1 November 2003, he joined Shell, which he describes as a company that has been in the process of radical change from the day he joined. "I had really completed my job at BT. I was looking for a new opportunity and when I was approached by Shell I never gave it a second thought" he says.

Despite recent well-publicised problems, Longden feels some aspects of the press criticism of Shell has been distorted. "Shell has a vibrant and diverse culture, and any further structural change will need to ensure that the many good aspects of Shell can survive and flourish," he says.

Aside from having overall responsibility for treasury, risk and pensions management and mergers and acquisitions worldwide, he is a trustee of the Shell UK Pension Scheme. In aggregate, the Shell group has pension assets and liabilities worth around US$45bn.

Andy Longden is a fellow of the Association of Corporate Treasurers (FCT).

Lessons will be learned from oil reserves "crisis"

Controversy surrounding the Royal Dutch/Shell Group of Companies over its 'downgrading' of oil reserves ended five weeks ago when the group agreed to meet penalties of £17m and US$120m respectively to UK and US stock market regulators.

The investigation into the energy and petrochemicals group started earlier this year when it admitted overbooking oil reserves by more than four billion barrels – an event that led to the restatement of its earnings for every year since 2000, and the resignation of three of its senior executives.

The recent agreements bring an end to the investigation, with the company neither admitting nor denying the regulators' findings.

For Andy Longden, who joined Shell as Group Treasurer on 31 November 2003, the oil reserves 'crisis' brought several demands. The company's credit rating was downgraded from AAA to AA+, and this called for continuous dialogue with ratings agencies and investors to explain the significance of the event.

He, nevertheless, remains convinced that having faced up to its problems, Shell is now in a much stronger position. Longden is a member of a key team set up to address the corporate structure and governance issues that investors want to see reviewed.

"There was a vital disclosure requirement in one part of the business which – for whatever reason – went wrong, and the consequences of that have clearly been devastating for Shell in terms of group reporting and reputation," he says. "But if lessons can be learned from Shell's experiences, then that at least is a silver lining, and Shell will emerge stronger."

In July, Shell appointed Citigroup and NM Rothschild as financial advisers to a review into its board/group management structures, decision-making processes, accountability and group leadership, the results of which will be published later in the year. It has also agreed, with the Securities & Exchange Commission, to spend an additional US$5m developing a comprehensive internal compliance program.

Longden is convinced that the group's corporate governance will be further strengthened as a result of compliance with the internal control requirements of Sarbanes-Oxley, which come into effect next year.

"Our SOX project has been underway for the best part of a year, and compliance with Section 404 is one of the group's top priorities," he says.

He explains that Shell plans to fully integrate SOX with its existing corporate governance structure, thereby eliminating duplication and the possibility of gaps arising between two separate control frameworks. Ensuring that the combined control processes are embedded from the very top of the organisation to its roots, is also imperative. "You can have all the assurance processes in the world but unless these are fully integrated into the underlying management structure, then they won't work," he says.

"If it is properly integrated, SOX will work. It is all about saying what you do and doing what you say."

He agrees that the US legislation brings some harsh consequences for all US-listed companies in terms of the additional cost of systems reviews, accounting advice and the introduction of new working practices. There are also penalties attached to non-compliance.

"SOX matters because of the severity of penalties under SEC rules – and this will focus the mind," he says. "I do not personally think voluntary regulation is enough, but do believe in taking a proportionate approach in the sense that sanctions should be applied selectively in relation to the severity of the misdemeanour."

And he concludes: "There is no reason why European standards of corporate governance should not follow SOX, although large companies already have a heavy burden of compliance and in an ideal world it would be preferable to have global reporting and governance standards."