


Engineering a recovery

A man with glasses, wearing a dark blue suit, white shirt, and red tie, is sitting on a wooden bench. He is looking directly at the camera with a slight smile. Behind him is a large tree with many small white flowers, and a building with large windows is visible in the background.

ABB'S GROUP TREASURER
ALEX HALL SAYS THE GLOBAL
FINANCIAL CRISIS HAS
POSED FEWER CHALLENGES
THAN THOSE OVERCOME
BY THE ENGINEERING
GIANT EIGHT YEARS AGO.
GRAHAM BUCK REPORTS.

Less than a decade ago, liability incurred through working with asbestos contributed to a dramatic reversal of fortunes for Swiss-Swedish engineering group ABB. It's in stark contrast to today, with both the group's earnings and order book in rude health. Through its specialism in power and automation technologies, ABB has become one of the world's largest conglomerates, with operations in around 100 countries, 124,000 employees and annual revenue of \$31.6bn.

Yet it was a very different story in 2002 and 2003, when the Financial Times warned that the company was about to go under, recalls its treasurer Alex Hall. The group had enjoyed a decade of strong growth after its formation in 1988, through a merger between Sweden's ASEA (Allmänna Svenska Elektriska Aktiebolage) and Switzerland's Brown Boveri. Under its barnstorming chairman and CEO Percy Barnevik, formerly ASEA's chief, who headed the new group for eight years, a mixture of acquisitions and organic growth fuelled earnings. By the late 1990s, ABB was a double A-rated business, which had developed a sizeable financial services division and was already enjoying considerable success from China's dynamic economic development.

That success story came to an abrupt halt when ABB revealed a net loss of \$691m for 2001. The company asked Barnevik to pay back some of his pension package and became embroiled in a similar dispute with Goran Lindahl, who had taken over as CEO in 1997.

"On top of our asbestos liabilities, the financial services division had expanded fast," admits Hall. "We regarded ourselves as principally a bank serving a major industrial client, whereas treasury should be a division fully integrated within the business. So the financial services division was sold off practically overnight, although the core treasury division was retained, and with it my position."

A massive restructuring followed during 2002 and 2003, as the financial press speculated about ABB's future.

"Fortunately for us, the banks could recognise that although the group was overleveraged, and had overextended itself, there was still a fundamentally strong business underneath," adds Hall. "And the restructuring transformed treasury. From being treated as a profit centre it became a proper, centralised department that was able both to think and act globally."

Hall had arrived at ABB in 1998, after spending the first half of the 1990s in London. He had begun his career at NatWest as a graduate trainee, working in its markets division and specialising in tax-based financing. His time there coincided with the escalation of the IRA

bombing campaign in the capital. "I was based at NatWest for five years and in that time our offices were badly damaged in the Baltic Exchange attack of April 1992 and then in the Bishopsgate bombing a year later. It was quite an unnerving period, with the second explosion occurring just as I was sitting my banking exams."

After qualifying he moved to a tax-based vehicle being set up by IBM in Switzerland. "It was still a few years before the advent of the euro, so the business dealt in 10 different currencies while the group's US customers wanted a one-stop shop. I helped set up the new operation, which had both a financing and tax angle."

Next stop, after three years at IBM, was ABB, which by then had chalked up a decade of strong growth with little sign of the drama that lay ahead. The group's reorganisation did not begin until 2003, when several divisions were combined and other businesses sold off.

"The huge amount of restructuring required made it a very exciting period. We were fortunate in that the dotcom boom-to-bust and post-9/11 downturn were largely played out by then and the banks were in fundamentally good shape. Had it all happened five years later then our survival might have been less assured."

RAPID RECOVERY ABB also benefitted from the European approach to restructuring rather than the harsher US approach, Hall says. "The banks went in while the bondholders had to sit on the sidelines and couldn't get involved. We re-emerged very quickly from our near-demise."

Having secured a settlement of its asbestos liability claims in 2006, ABB's financial health was fully restored while its treasury division continued its transformation. "From being a profit centre charged with making money and using our strategic reach to do so, we've realised this isn't the way that an industrial treasury should operate. Instead you need to be centralised, take a holistic view and be able to pull the right levers as and when necessary."

Post-restructure ABB's treasury has steadily centralised and now carries out functions such as global liquidity planning, conducted weekly, from its Zurich head office.

The profile of the group's board and senior personnel, which 10 years ago was still an equal mixture of Swiss and Swedish executives, has also become more international. ABB's strong growth in the emerging markets is now reflected at the boardroom table.

Having withstood a local crisis, ABB was well positioned to ride out the global financial crisis that began to emerge in mid-2007. Both its senior and middle management responded promptly.



"As our function had been steadily centralising it was easy to move cash as appropriate to avoid exposures so we didn't have to spend time putting new systems in place. And Lehman's demise made little impact on us."

ABB was able to replace its \$2bn five-year revolving credit facility a full year ahead of its July 2010 expiry – an accomplishment that won its team the Deals of the Year Award in the European large loans category of that year. "We endeavoured to align our financial footprint with our greater business footprint in the emerging markets," says Hall. The new facility was less dependent on Europe, with two Chinese banks and three investment banks included, although an ambition to add at least one India bank was not realised.

Hall believes that instability from the sovereign debt crisis poses a major risk to European companies but stresses that its impact is more limited on a global business such as ABB. The group sees "tremendous opportunities" in Northern Europe, particularly in Germany and even the UK. The Middle East, China, India and Latin America (principally Brazil) represent ABB's brightest long-term growth prospects, with the US also promising.

The treasury function has a central team of 70 individuals in Zurich which, together with core teams in Connecticut, Dubai and Beijing, comprises an "inner ring". A further 25 country treasurers, who oversee a total team of 200 people constitute the outer ring. In addition to areas such as cash management, treasury is responsible for derivatives, internal and external funding, pension schemes, insurance (including a captive operation), export and trade finance, risk management and derivatives accounting.

Hall says while he is "agnostic" about qualifications, he actively encourages his team to sit professional

exams and recommends the ACT courses and the CFA (Chartered Financial Analyst).

"I'm very much in favour of the ACT and encourage my team to get involved with it. The courses are valuable as they are by treasurers for treasurers. I also recommend that they check out what the ACT has to offer on discussion forums."

ABB's treasury policy has three main strands. "First is centralisation: we do nearly everything from Zurich, which includes trading currencies through a 24-hour order book. Second is 'feet on the street', or having our people close to the action, so we have a regional treasurer structure in North America, the Middle East and Asia in order to fully understand our customers' exposures. Third is

holistic enterprise risk management, initiated three years ago by our CFO; it reviews a range of potential financial developments, such as what we do if the US dollar appreciates by 10%."

Hall sums treasury up as offering "a safe pair of hands that adds value to the business." He also sees the dynamics of today's market offering many similarities to those of the late 19th century, when the two businesses that formed ABB were originally founded.

"Two of the world's top five recessions occurred during our early years, yet this was also the period when Central Europe and North America were busy electrifying their cities. There was a particularly sharp crisis in 1907 when many financial institutions teetered on the brink and, no doubt, they had similar discussions to those of today.

"Little more than 100 years later we're now electrifying the cities of China, India and the Middle East. Once more, we're doing so against the backdrop of a global economic crisis."

Graham Buck is a reporter on The Treasurer.

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Quick-fire quotes

WORDS YOU MOST OFTEN SAY TO YOUR CFO?

We are a floating rate company.

WORDS YOU MOST OFTEN SAY TO YOUR TEAM?

No innovation without irritation.

DOES A DOUBLE-DIP RECESSION OR GROWTH LIE AHEAD? Growth in emerging markets, US and northern Europe; jury's out on the rest.

DEBT OR EQUITY? Debt.

FIXED OR FLOATING INTEREST RATE? Floating.

BIGGEST SUCCESS IN YOUR CAREER? Being part of the ABB financial restructuring team in 2002-03.

DEAL YOU ARE MOST PROUD OF? 2006 convertible restructuring combined with a Eurobond exchange offer because it triggered ABB's upgrade back to investment grade.

MOST VALUABLE PART OF THE ACT QUALIFICATIONS? It's training by treasurers for treasurers.

REASON FOR ATTENDING ACT EVENTS? Meeting like-minded people who speak the same language.

BLACKBERRY OR IPHONE? Blackberry at work, iPad at home.

