Allen & Overy’s lawyers are global advisers to some of the world’s largest and most influential organisations. They also contribute to the decisions being taken at the very highest level in policy groups, committees and boards around the world. Here is a small sample of the ways that our lawyers are shaping change within business, regulation, governments and charities, as well as at the very top of the legal sphere.

**Government**
- **Arnold Croiset van Uchelen**/Netherlands: Queen’s Counsel in Netherlands (private appointment)
- **David Wootton**/UK: Lord Mayor of London (2011–2012)
- **Anton Konnov**/Russia: member of the group of expert advisers to the Public-Private Partnership committee of the Russian State Duma

**Law**
- **John Wotton**/UK: President of the Law Society
- **Patricia Hynes**/US: 63rd President of the New York City Bar Association

**Corporate**
- **Stephen Denyer**/Germany: Chairman of the International Bar Association’s Law Firm Management Committee
- **James Grandolfo**/Hong Kong: Vice-Chair of the International Securities and Capital Markets Committee of the American Bar Association’s Section of International Law
- **Bенно Кимельман**/US: Chair, International Commercial Disputes Committee, Association of the Bar of the City of New York
- **Leonard Verburg**/Netherlands: Judge in the Court of Appeal, The Hague
- **Michael Reynolds**/Belgium: Vice-President of the International Bar Association
- **Gordon Stewart**/UK: President of INSOL International, the leading international organisation for insolvency and restructuring professionals
- **Alan Paul**/UK: member of the rule-making committee of the UK Takeover Panel
- **Chris Swift**/Hong Kong: member of the Hong Kong Takeover Panel
- **Geert Glas**/Belgium: Chairman of the Benelux Council for Intellectual Property (BCIP) and appointed by the Belgian Federal Minister of the Economy to the Belgian Council for Intellectual Property

**Economics**
- **Ferdinand Grapperhaus**/Netherlands: appointed by Her Majesty Queen Beatrix as an independent member to the Netherlands’ Social Economic Council
- **David Morley**/UK: member of The Mayor of London’s International Business Advisory Council

**Charity and Arts**
- **Annelies van der Pauw**/Netherlands: Chairman of the Board of the Dutch National Fund for Art and Architecture appointed by the Dutch Minister of Education, Culture and Sciences
- **Paul Crook**/UK: Director of ILFA (International Lawyers for Africa) an award winning pro bono/CSR programme

To search for our lawyers by name, expertise, or jurisdiction, visit www.allenovery.com/people
Anne Baldock/
UK: appointed to the Nuclear Liabilities Financial Assurance Board which advises the Secretary of State on the Nuclear New Build Programme

Arent van Wassenaer/
Netherlands: Chairman of the Section on Energy Environment National Resources Infrastructure Law (SEERIL) of the International Bar Association

Brice Henry/
France: member of the advisory committee of the French Autorité des marchés financiers (AMF) for all fund and portfolio management regulatory matters

Henri Wagner/
Luxembourg: member of the Securitisation Committee and the CRD IV Committee (on Basel III regulations) of the Commission de surveillance du secteur financier (the Luxembourg financial sector regulator)

Jean Schaffner/
Luxembourg: Chair of the scientific committee of the Luxembourg branch of the International Fiscal Association

Jennifer Marshall/
UK: member of the Treasury working group on failing investment firms, HM Treasury

Jane Jiang/
China: member of the experts panel for the central bank of China on RMB internationalisation; member of the experts panel on financial derivatives for the National Association of Financial Market Institutional Investors (NAFMI)

Edward Murray/
UK: member, Bank of England Financial Markets Law Committee

For other examples, please see www.allenover.com/shapingchange
In this review

02–05  
**Action!**  
Senior partner, David Morley, and managing partner, Wim Dejonghe, describe how A&O is preparing for long-term growth.

06–09  
**Energy futures**  
At a volatile time in the world’s energy markets, affordability, supply security and decarbonisation are shaping global policy.

10–11  
**Asia rises**  
Former president of the UN Security Council, Professor Kishore Mahbubani, talks to A&O about sharing power in the new global economy.

12–15  
**The East looks West**  
A&O is at the heart of the surge of transactions by Indian companies entering new markets abroad.

16–17  
**The energy leap**  
Inventor of the Reva electric car, Chetan Maini, tells A&O why the world is poised on the brink of an electric car revolution.

18–19  
**Companies in intensive care**  
In a complex global economy, saving companies from collapse demands increasingly innovative legal solutions.

20–21  
**What if a state fails?**  
A&O’s Global Law Intelligence Unit asks why state insolvencies steer clear of legal solutions.

22–23  
**Avoiding collapse**  
Founder and first president of the European Bank of Reconstruction and Development, Jacques Attali, shares his views on the European debt crisis.

24–27  
**Help or hinder?**  
With huge change on the cards for banking regulation, we ask “Will that really make banking safer?”

28–29  
**Power shifts**  
Economic speaker, broadcaster and writer, Dr Pippa Malmgren, talks to A&O about the return of economic power from East to West.

30–31  
**Covered bonds flourish**  
The economic crisis has forced banks in more countries to turn to a safe, traditional way of raising funds – covered bonds.

32–33  
**The net widens**  
Measures to speed up the extradition of terrorists are being used to bring white-collar criminals to book. A&O lawyers are working to ensure these powers are not abused.

34–35  
**Business boost to society**  
Former managing director of the World Economic Forum, Fred Sicre, talks about economic growth in the Middle East and North Africa.

36–37  
**A matter of emergency**  
When natural disaster strikes, the response must be immediate. We are helping the Red Cross promote new laws to speed up the delivery of vital aid.

38  
**Behind the numbers**  
A&O’s finance director, Jason Haines, describes how our decision to invest through the downturn is showing results.

39  
**Financial history**  
Summary financial data for the last five years.

40  
**Responsible business practices**  
See our annual reporting on pro bono and community affairs work, environmental performance and people statistics.

41–43  
**News in brief**  
Highlights from the last year.
The shape of change

In a year of momentous change, the need for integrated, global legal expertise and insight remains more relevant than ever. Smart organisations are seeking advice to reshape themselves now to take advantage of opportunities for growth in the future.

The effects of change are far-reaching and not always easy to predict. So we’ve asked five of today’s leading thinkers to share their perspective on global challenges and their outlook for the future. Told in their own words and crossing continents and sectors, these five “global views” provide a fascinating context for the year’s story and broaden the debate beyond the legal sector.

The long-term outlook is one of optimism, but the pace of change is unprecedented and markets are in a constant state of flux. As we go to print, the future is uncertain but our belief remains that bold decisions and counter-cyclical investment today will lay strong foundations for future returns.

David Morley, Senior Partner, August 2011
To see a video of David and Wim’s interview, go to www.allenovery.com/annualreview
David Morley, senior partner, and Wim Dejonghe, managing partner, describe how Allen & Overy is preparing for long-term growth in an increasingly global, but less predictable world.

The shape of the recovery is still unclear. Worries about Eurozone and US debt crises, gyrating financial markets and pessimism about slowing global growth have conspired to create an uneasy economic backdrop.

Added to that, the legal industry is in the midst of its biggest upheaval for decades. Client expectations have been transformed by the downturn. They now want better value and more expert support from their legal advisers at lower cost. Law firms are under severe pressure to respond quickly.

That ought to be a very daunting agenda. But both men are upbeat.

“I’m very bullish about the future of the firm,” says David. “We occupy a position very few of our competitors enjoy, particularly with the growing trend towards globalisation and the fact that businesses are increasingly working across borders.

“I see growing demand for top-tier legal advice from firms that can deliver local market knowledge across multiple jurisdictions. We are right at the leading edge of that in our profession.”

“I need lawyers who think like that.”

Evidence of this can be found in A&O’s changing revenue streams and work patterns in recent years. Some 60% of revenues now come from outside the UK. Nearly 70% of matters now involve offices in two or more countries — compared to two-thirds a year ago — and nearly 50% involve three countries or more.

“It’s not just that A&O has the largest network of offices around the world,” David says. “It’s about an attitude of mind.”

He recalls a recent conversation with the General Counsel of a major investment bank who said every single issue currently on his desk was global and cross-border in nature, adding: “I need lawyers who think like that.” But if that’s the obvious trend for the profession at large, what makes A&O stand out from its competitors?

Wim points to a curious paradox. Some firms are trying to build a global footprint by opening new offices, but continue to run each as separate local entities. Others are concentrating on quality services and are confining their operations largely to the world’s major financial centres.

“The sweet spot for us is that we combine our global footprint with a quality offering that is truly integrated. It’s not just about having loads of offices — you need to have the mindset to get these offices working at the highest possible level in an integrated way.”

The last 18 months has seen A&O break new ground and invest in offices in Australia, Indonesia, Morocco, Qatar and Washington, D.C. More openings are on the cards.

So how do you invest with confidence when world affairs are so unpredictable?
“If you are embedded in local communities you have an advantage,” says David. “You can see these events in their local context, take a more balanced view, spot opportunities ahead of others and read the investment climate more accurately.”

Given that, it’s not surprising to find that both men see increasing opportunities arising both in Latin America and, in the long term, Africa. “It’s all about investing in the right place, in the right way at the right time,” says Wim.

That’s been the successful strategy in the Asia Pacific region where, in response to huge growth in China, India and Korea and booming demand for resources in Australia and Indonesia, A&O has built the largest presence of any top tier firm, doubling the number of partners in the region in two years.

But while the eventual goal is to be the world’s leading global law firm, it is absolutely not about being the biggest.

“Scale does matter,” says David. “Having revenues of some £1.1 billion and 2,600 lawyers around the world means you have the right resources to bring to issues as they become more complex. But we don’t need to be the biggest, and that’s certainly not our ambition.”

**Investing through the downturn**

The growth strategy has been pursued right through the downturn, with A&O determined to keep investing in offices and lateral hires, while others have held back.

“Why? Well any private equity house will tell you it makes sense to invest counter-cyclically if you want to achieve real value,” says Wim. “But you have to do that from a position of strength, financially and culturally.”

“That’s a tribute to the attitude our partners take,” adds David. “In tough times it can be very tempting to focus on profitability and personal reward – the dollar today. A lot of partnerships work like that.”

“But our partners recognise there’s a longer game to be played and that they have a responsibility to pass on the firm in better shape than they found it.”

Heavy investment in recent years has been focused on three main areas – boosting the firm’s practice areas, advancing into key new geographies and deepening the relationship with key clients.

Protecting existing profits in the short term is also vital. That means making efficiency gains and offering new services in established markets, like the UK and Benelux, where the firm’s market position is strong; and building market share in other established markets like the US, France and Germany – during the year, New York was the busiest office and third largest in revenue terms.

And it means challenging incumbents with a new business model in markets like Australia and building strategic partnerships in emerging markets like China and India, where A&O is still prevented by law from offering services directly. “When these rules change – and they undoubtedly will – we want to be there on day one and first out of the starting blocks,” says David.

“That’s our strategic framework, but, in the end, it is always about people. It’s not just about finding the right place to invest. If you can’t find the right
people you just don’t go ahead. Washington is a case in point. We’ve been looking to open an office there for years. We’ve only recently found the right people,” says Wim.

**The firm in 10 years’ time**

Amongst the most important investments of the last year has been a new support and legal services centre in Belfast, which will save A&O £11 million in the first five years and at least £8 million per year thereafter.

It will house many previously London-based functions like HR, IT and finance as well as standardised legal services.

“It’s all about the future,” says Wim. “We’ve taken a view about what the firm will look like in 10 years’ time and how it will need to be structured.

“It doesn’t make sense for a global firm to have its support functions based in one of the world’s most expensive cities. Clients were demanding we find a more efficient way to organise ourselves and rightly so. But we were determined to balance quality, risk and cost and that’s why we decided against outsourcing. We want Belfast to be another A&O office where the quality of our work is assured. We have a brand to protect and you can lose control of that if you outsource.”

David pays tribute to the professionalism of staff in London, where around 155 jobs will be lost. Most have worked hard through the lengthy transition period, helping to ensure the success of the project. “We are very appreciative of that.”

In Belfast the investment has been welcomed enthusiastically, there were 2,300 applications for the first 130 posts in the first few weeks of recruitment. “Because Northern Ireland has a great public education system, there’s a huge pool of talented people looking for first-rate opportunities, which tend to be thin on the ground.”

**Meeting clients’ expectations**

The other huge focus in the year has been on building better and more lasting relationships with clients.

“We’re very good at transactions and cases – that’s what we do and how we make our money and we’re not going to let that go. But we want to improve our ability to act as strategic advisers to clients,” says David.

Initiatives include a special programme, designed with help from consultants McKinsey, for the 100 most experienced partners. There’s been a renewed focus on managing relationships with big global and local clients who account for some 75% of revenues.

Client research conducted for the programme showed that clients generally felt more bullish than the firm’s own partners about the impact A&O could have on their businesses. “Research like this is giving our partners the confidence to have higher level conversations with clients – to look at the impact they can have beyond the individual deal,” says Wim.

With clients demanding much greater specialist knowledge from their lawyers, A&O is taking a more sectoral approach to issues, linking lawyers across practices and offices so that they can bring more of the firm’s expertise to bear.

“It’s a light touch change,” says David. “A lot of what we are already doing in terms of client practice is very good. So this is about maintaining our momentum and strengthening our position for the future.”

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**Priorities for practice areas**

- Maintaining the world’s leading finance practice
- Investing in regulation capability by hiring specialists in the US, Germany and Spain
- Building the corporate practice further with 20 lateral hires in 2010
- Bolstering litigation with key lateral hires in China, Germany and the US and strengthening IP

David Morley and Wim Dejonghe were interviewed by Simon Beavis June 2011.
To read our latest reports on the energy sector, visit www.allenovery.com/energy.

Energy futures
Where energy is concerned, three things matter most to governments – security of supply, affordability and cutting carbon. At a volatile time in the world’s energy markets, these three issues will continue to shape global energy policy and investment.

Twelve months ago, there was talk of a nuclear renaissance around the world. Then the Fukushima disaster struck in Japan and the policymakers went back to the drawing board.

Twelve months ago, the US was talking about a surge in renewable energy to free itself of an expensive dependency on, largely imported, oil. Then shale gas made its breakthrough and all the talk turned to the US becoming a gas exporter to rival major exporters of Liquefied Natural Gas (LNG), like Qatar, Nigeria and Indonesia.

A year ago, there were scarcely any Indian investors in Australian energy and natural resources. Now, in an extraordinary turnaround, they dominate foreign bids for coal and port assets.

This is only a tiny snapshot of the complex global energy market in 2011. But it makes a point. Tracking the pattern of energy policy and investment is far from simple and predicting outcomes can be a mug’s game.

But Gareth Price, global co-head of our Energy practice, points to one constant piece of logic behind global energy markets. “We face a trilemma,” he says. “It’s all about striking a balance between affordability, security of supply and decarbonisation. The first two have always been there; now governments have got to map carbon on top of them and that makes life difficult.”

The international reaction to Japan’s nuclear disaster underlines this point, with most countries pausing – or in some cases, halting – their plans for nuclear expansion.

Germany is phasing nuclear power out, putting renewables at the centre of its energy strategy. An overwhelming “no” referendum vote has put paid to Italy’s plans to restart its nuclear programme after a 20-year gap. China, despite its massive demand for energy, has put its plans on hold while it reviews the safety of its current and intended nuclear fleet. It’s assumed too that the US programme will be significantly slowed, although this has more to do with shale gas than Fukushima.

And yet, speculation that shale gas could be a “game changer” in the energy debate – thanks to the fact that it is
cleaner than coal, cheaper than oil and some renewables, and less risky than nuclear – is also open to debate.

The International Energy Agency has warned governments they cannot meet their climate change targets if they rely on gas. And there are widespread concerns about the environmental side-effects of exploiting shale gas – it uses huge amounts of water and has been known to spark earthquakes, even in seismically-safe areas like the north of England.

Nuclear too seems likely to remain a part of the global mix as one of the most dependable sources of base-load electricity.

Dubai-based partner, Duncan Macnab, says that nuclear is now on the agenda in parts of the Middle East region. While to date, only Iran has an operational nuclear project, Turkey, UAE and Jordan are considering the option.

As Gareth puts it: “Gas is a big part of the future, but not an answer in itself. It’s part of a patchwork of solutions involving technologies we know already and technologies we can barely conceptualise.”

Those technologies range from marine and tidal power to smaller, modular reactors that help to deal with nuclear waste concerns, such as GE-Hitachi’s PRISM reactor. But they also encompass energy demand management systems like smart grids and smart meters, coupled with regulatory market reforms to incentivise energy companies to save power and force consumers to be more efficient.

Jeremy Parr, global co-head of Energy, agrees. “Governments talk a good talk about carbon, but most need to know they have security of supply and affordable energy prices, particularly in a recessionary world. The carbon part will be tackled when they can afford it.”

That has been underlined in Europe, where a number of governments have backed away from offering incentives to kick-start renewable technologies like wind and solar. Indeed, using the Energy Charter Treaty, we are representing international investors seeking compensation from the Spanish Government after it pulled tariffs supporting EUR4 billion of solar projects.

Security of supply and affordability are also driving China and India’s remorseless global search for natural resources, which has seen a surge in M&A activity around the world, from Australia to Africa and Latin America.

Take India for example. We have acted on many of the key transactions in the last 12 months, including BP’s groundbreaking USD7.2 billion partnership with India’s Reliance Industries and Vedanta’s USD9.6 billion reverse takeover of Cairn Energy (see pages 13–14).

We have also advised on most of the major coal and port deals as Indian companies have, in just one year, replaced China as the biggest bidders for Australian assets.

As Barry Irwin, a partner in our Sydney office, puts it: “India’s growth is so rapid that the lights are actually starting to go out. It has a five-year plan to build more than 170 power stations. De-carbonisation doesn’t feature; its economy simply can’t progress without coal.”

The spike in M&A activity is set to continue, argues Jeremy Parr. “National oil companies have traditionally been conservative, but now they are behaving more like international oil companies. At the same time the international groups, searching for new growth markets, are increasingly willing to swap assets as well as make direct investments.”
Security of supply and affordability are also on the minds of some governments in the Middle East and Northern Africa where we are seeing more cross-border interconnection of power grids and the continued construction of gas transportation pipelines. Recent political upheavals have added to these security concerns.

Russia—which sits on such vast frontier reserves of minerals, oil and gas—is also flexing its muscles.

Russian companies are anxious to gain access to technology to exploit reserves in some of the world’s most inhospitable and delicate environments, as Shell’s Sakhalin project in Siberia shows.

Research by our US Energy team and our New York-based China Group, led by partner Mitchell Silk, has shown that energy manufacturers are also aggressively seeking new export markets in developed economies.

In a recent report, we tracked the increasing activity of Chinese wind turbine manufacturers seeking openings in the US market having achieved an extraordinary 1,000% growth at home in the last four years under a carefully and centrally-planned campaign of investment.

The report reveals how these manufacturers have shifted their sights from Europe’s now stuttering wind market to the US, concluding: “Only two factors stand in the way of their significant penetration of the [US] market: financing challenges and political resistance.”

The second of those two hurdles looks set to be an issue dealmakers will, increasingly, have to overcome. Protectionism has not to date been much of a feature in markets where we are seeing most deals, but that’s beginning to change.

While many African countries continue to soak up direct investment, particularly from China, in Latin America and Australia questions are being asked about the wisdom of trading ownership of valuable natural resources.

Dominic Morris, another Energy partner based in London, and Jeremy Parr acted for Vale on its USD5 billion disposal of bauxite and aluminium assets to Norsk Hydro. That deal was a success, but Brazilian and other South American politicians and media have been keen to trumpet a greater resistance to overseas ownership.

In Australia, says Barry Irwin, the Foreign Investment Review Board has openly challenged the wisdom of selling assets to big state-owned foreign investors.

The failure of BP’s attempts to conclude a deal with Rosneft on the exploitation of arctic oil and gas shows that deals can be difficult.

The group’s unhappy deep water drilling experience in the Gulf of Mexico does not appear to have been a deterrent.

However, contractual complexity and political questions about the ownership of strategic assets remain unavoidable.

Contributors

Jeremy PARR
London

Gareth PRICE
London

Barry IRWIN
Sydney

Duncan MACNAB
Dubai

Mitchell SILK
New York

“The superposition of a European policy on top of governmental policies creates a complex global environment but it stimulates renewable energy innovation and investment.”

Alexandre ANCEL
Corporate partner, Paris
After more than 30 years as a senior diplomat, including stints as Singapore’s ambassador to the UN and President of the UN Security Council, Professor Kishore Mahbubani is now Dean of the School of Public Policy at the National University of Singapore. In a series of books, including “The New Asian Hemisphere – the irresistible shift of global power to the East”, he has established himself both as a friend and a fearless critic of the West, arguing that it must learn to share power more equitably in the new global economy.

**Global view**

“We are entering a new era of world history that is completely different to the last 200 years. I call it the end of the era of Western domination. That does not mean the end of the West, which will remain very strong and powerful.

But now we are seeing the return of Asia. Why return? Because, until 1820, the world’s two largest economies were consistently China and India. The last 200 years were a major historical aberration. That is coming to an end.

The financial crisis has dramatically accelerated the shift of power to the East, and has caused a major change in the psychology of Asian policy-makers. They naturally looked to Washington, London, Paris or Berlin for answers to global problems. But suddenly they are beginning to wonder why their teachers have performed so badly.

Asians also feel increasingly confident that they are on the right track. They’ve paid attention to the fundamentals – balancing budgets, saving for the future – and now find themselves in a much better position than the West.

Failures of financial regulation were the result of the West, notably Alan Greenspan, the former chairman of the Federal Reserve, becoming a prisoner to the Reagan/Thatcher ideology that government is not the solution, it is the problem.

Asians were very puzzled by this because there’s a view in Asia that you need a balance between the invisible hand of markets and the visible hand of good governance. In the West, ideologically, the market is the only thing that matters.

Ironically, another result of the financial crisis is that Asians are discovering they have greater faith in the free market and free trade than the West right now. That’s why you are seeing Congress holding up trade
agreements with Panama and Colombia for instance. By contrast, some 300 Free Trade Agreements have been signed between the countries in the Asia-Pacific region.

Western governments, representing 12% of the world’s population, are reluctant to share power in key institutions like the IMF and World Bank with those representing the other 88% of the population. That’s a reflection of their refusal to accept that power has shifted.

Before the era of globalisation the world’s countries were like 192 separate boats sailing the seas and we needed rules to ensure they didn’t collide. But now we are so integrated it’s as if we’re living in 192 cabins on the same ship. Each cabin has a government taking care of it, but no one is looking after the ship as a whole. That is crazy.

Does that make me pessimistic about the future? No, quite the opposite.

I am 63 years old and this is the most optimistic I’ve ever been in my life. The world is becoming a much more civilised place. For example, the prospect of a major war is the lowest it’s been for 200 years. The pace of modernisation is the fastest it’s ever been in history. The number of people being rescued from absolute poverty is the highest it’s ever been. The number of people joining the middle classes is higher than ever.

I guess my optimism is partly a reflection of the fact I am here – these are the best of times for Asia. But it’s not just Asia – look at parts of Africa and Latin America where there is also growing optimism.

But I’ve never seen the West as pessimistic as it is today. So we’ve really got to figure out why 12% of the world is feeling so pessimistic when 88% is feeling the opposite.”

 Professor Mahbubani was interviewed by Simon Beavis
July 2011
Last year saw a dramatic surge of transactions by Indian companies tapping increasingly innovative forms of global finance to transform their operations at home and enter new markets abroad. Our lawyers around the world are now right at the centre of this corporate adventure.
Buoyed by staggering GDP growth – averaging 8.4% per annum in the six years to 2010 – India has become an increasingly vibrant market for M&A transactions and innovative corporate finance.

In the early days of this growth story, much of the debate was about Western companies breaking into high growth economies, like India and China. Now the focus has shifted and what is most remarkable is the speed at which Indian firms, like their Chinese competitors, are accessing the global financial markets to transform their own operations and break into new markets.

“Companies within India’s corporate elite are now looking to be more than just national champions,” says Sanjeev Dhuna, a member of Allen & Overy’s India Group. “They are pushing away from their national moorings and expanding, not just to achieve growth in developing markets but in developed economies too.”

He points out that M&A activity has grown significantly, but the majority of those deals have been outbound. Inbound activity, while growing, is still being held back by regulation, worries about corruption and the fear of unexpected shocks. The pace of outbound deal-making is now accelerating.

The motivation is clear. Companies want to achieve global scale, source coal and other natural resources, find new outlets for products and gain access to technology. Importantly, many of the deals are transformational, and, thanks to a war chest of cash and ready access to global debt, equity and capital markets for funding, many are audacious.

Take the USD9.6 billion reverse takeover of Cairn Energy’s Indian operations by Vedanta Resources, who we acted for. This deal has turned Vedanta Resources from a mining group into a fully-fledged and globally-minded natural resources conglomerate. Vedanta Resources is listed in London, giving it greater freedom to innovate. “A lot of companies are now
looking at whether they should seek an offshore listing and we are seeing lots of innovative financings designed to tap into deeper funding pools. This is a necessary development to try to mitigate regulatory constraints in the domestic market,” says Sanjeev.

Jonathan Brayne, chairman of our India Group, says there are good incentives for international banks to provide funding.

“With the economic challenges facing developed markets, corporations and financial institutions are struggling to get a good pay back for their investors. So they are looking to high growth markets like India where returns can be higher.”

As a result India’s own financial markets are also progressively being reshaped as Indian companies become less conservative and start using a much wider range of financial instruments, including hybrid and corporate high-yield bonds in the international markets.

Companies across sectors – including telecoms, infrastructure, outsourcing, IT, health and education – are looking to expand.

Bharti Airtel’s USD10.7 billion takeover of Zain Africa’s mobile phone operations in 15 African countries, is a case in point. The deal, in which we acted for the banks, was then India’s largest ever financing and transformed Bharti into the fifth largest mobile phone operator in the world.

Tom Levine, Corporate partner in Abu Dhabi, says that the deal was noteworthy for more than just its size.

“Bharti’s acquisition of Zain’s African portfolio poses the question of whether the low-cost operator model that Bharti developed in India could be successfully exported to Africa – a question yet to be answered.”

But energy and natural resources deals continue to dominate the scene, as India looks for new ways to fuel its relentless economic growth.

We acted for Reliance Industries in its groundbreaking USD7.2 billion partnership with BP – one of the largest-ever direct foreign investments in India – which will see the two companies working together to exploit oil and natural gas reserves and develop the infrastructure to transport and market gas within India.

The deal is a striking example of how Indian companies are using ambitious transactions to gain access to expertise. It also shows that major international oil companies are increasingly prepared to form partnerships with national companies in growth markets (see page 8).

This burst of activity provides A&O with a major opportunity, not least because many of the international transactions are being conducted using English law.

A&O’s presence in Australia and Indonesia, coupled with our long-standing relationship with Trilegal, our associated law firm in India, means that we are ideally placed to advise on the growing number of deals in the region. Our combination of integrated cross-border advice and a full-service offer on the ground is unique among international law firms.

“We’re seeing huge demand for high quality legal services from both corporates and banks. Few law firms have the presence, or the relationships, in key emerging markets or the interconnectedness to offer this service,” says Sanjeev.

India is currently leading the way in Australia’s natural resources boom, overtaking China as a bidder for assets.

“Before this year I had never acted for an Indian client in 23 years of practice,” says Barry Irwin, a partner in Sydney.

“Now Indian companies account for over half my work.”

“Our recent cross-border outsourcing deal for ArcelorMittal exemplifies Indian companies applying a direct, lean management style and careful cost control to build a successful global conglomerate.”

Filip VAN ELSEN
Intellectual Property partner, Brussels
But is corporate India’s expansion sustainable? Kayal again: “People say we might see a slowdown in the next few months. That’s possible. But there’s still a huge amount of interest in the natural resources sector and I expect to see Indian companies continuing to invest heavily in Australia, Indonesia and Africa.”

Contributors
Jonathan Brayne
London
Sanjeev Dhuna
London
Barry Irwin
Sydney
Tom Levine
Abu Dhabi
Kayal Sachi
Singapore

Singapore is a key hub for financing Indian deals, thanks to favourable tax treaties and historic cultural ties. India-related work now accounts for some 85% of the deals Kayal Sachi, a banking partner there with many years of Indian experience, is acting on.

Recent deals include the AUS$1.8 billion bid for the Abbot Point coal terminal in Queensland by India’s biggest coal importer, Adani Enterprises. We acted for Standard Chartered, an important strategic banking client in the region, in the provision of a USD1 billion loan facility for Adani.

“Our profession is very much relationship-driven – that’s how business in Asia is done. We’ve built up lots of important relationships with companies, banks and regulators. It’s very important that we have the Allen & Overy name on the legal panels of banks and that we have the bandwidth across the region to service these deals.”

“Impressive trading families are some of the most successful investors and traders in Dubai, and have been for generations.”

Tom Levine
Corporate partner, Abu Dhabi
Inventor of the Reva electric car and founder of the Reva Electric Car Company, entrepreneur Chetan Maini has seen his industry increasingly move from the periphery into the mainstream – and the momentum is gathering pace. With over 4,000 Revas now on the road around the world, a new 30,000 car plant nearing completion in Bangalore and as a new majority stakeholder in the Mahindra Group, the company is poised for growth. More importantly, the world appears ready to take advantage of new technology, new energy solutions and growing consumer acceptance.

Chetan Maini is convinced the global debate about energy and transport is at a critical turning point. “I've been doing this for 15 years and in the last 12 months for the first time there has been a shift – rarely seen in history – where one industrial technology has received impetus from right across its value chain,” he says.

“We've got high oil prices, tough new CO2 regulations, a huge change in technology that can leapfrog this industry forward, and changes in infrastructure funding. Governments have also taken a leadership role. Obama has talked of putting one million electric cars on the roads by 2015; China's Premier is saying similar things; there's significant forward-thinking in Europe; even in India the government has announced a 20% subsidy for buying electric vehicles and a National Mission on hybrid and electric vehicles.”

Then there's investment by the established carmakers and new cross-sector partnerships springing up between companies, like Samsung and Bosch, to produce powerful new batteries. Finally, consumer attitudes are beginning to shift towards electric vehicles.

“So if I look back over 30 years, never before has everything happened concurrently as now. In the 1970s we had the oil shock, but there was no technology then and no one cared about the environment. Now everything is aligned.

“That means huge opportunities for any company addressing the global green transportation market and huge challenges,” he says. “The greatest challenge is regulation and rethinking the way the energy market works.

“I don't think anyone is looking at this from a macro level. People still see electric cars as products rather than as mobility solutions.”

For instance, a growing fleet of electric vehicles, equipped with new generation batteries, using technologies like lithium-air, could become part of the energy market infrastructure providing a much needed way to store wind and solar power.

“Developments like this will fundamentally change the automotive industry – which in some economies can account for 10–15% of GDP – and the energy sector.”
“A 3m x 3m solar panel on your house could provide free energy for your car for 30 years. If you’re currently spending USD25,000 on fuel over 10 years, suddenly that value will be going to someone else – the battery and power companies rather than the oil companies. These changes will have a very big impact on society.”

Government is only just beginning to think about these issues and has a crucial role in providing a long-term policy framework over five to seven years – “That’s when you’ll really see a shift,” he says.

It also has a central role to play in persuading individuals to change their own lifestyles to tackle climate change.

“We need everyone to do 20 things differently. The focus so far has been on sectors and certain renewable technologies. That’s all good. But creating that sort of individual awareness – which in India would impact one billion people – will achieve far more. It’s do-able, but it will be a challenge.”

Is India proving a fertile environment for entrepreneurs and innovators? “We are moving away from being a services-based economy to a product-orientated one. We’re beginning to value intellectual property. Innovation and differentiation are being looked at very differently today and in a much better way.”

Is he optimistic?

“Always – but that’s me as a person. I tend to see every problem as an opportunity. These are trying times but trying times enable you to innovate very differently. If you’re pessimistic, you don’t think innovatively.

“You tend to think about saving yourself and that can quickly become an organisation’s or a country’s way of thinking.”

Chetan Maini was interviewed by Simon Beavis
June 2011
Companies in intensive care

When a business goes to the wall, huge value is lost – not just to immediate stakeholders, but to wider society. In a complex global economy, saving companies from collapse, and ensuring creditors get a fair deal, demands increasingly innovative legal solutions.
R
cession and
cOMPany failures
go hand-in-hand.
Deep downturns – like the one the
global economy is just clawing
itself out of – claim very big,
and increasingly global,
corporate victims.

But what if those companies
had one more chance to put their
houses in order, rather than be
forced into insolvency?

Welcome to the world of
restructuring – a place of growing
legal complexity.

“A basic principle underlies all
restructuring work,” says Gordon
Stewart, head of our Global
Restructuring Group. “Formal
insolvency proceedings destroy
value for everyone involved in
the collapse of a company, so
everyone should try to work
together to avoid it.” The theory
is straightforward but in practice
it can mean striking a delicate
balance between competing
interests and claims.

Peter Hoegen, a partner in our
Frankfurt office, puts it this way:
“Restructuring is like working in
an intensive care unit – we do
everything we can to make sure
the patient survives. It’s complex
legal work and to succeed you
need to be versatile, multi-skilled
and have a high sense of social
responsibility.”

With companies and lenders
operating in multiple
jurisdictions, and with debt being
held by a growing number of
different institutions, this is
regularly cross-border work,
involving a variety of, sometimes
conflicting, legal approaches.

“We’re seeing aggressive tactics
and a growing number of actions
brought by junior debt holders
who get crammed down in
restructurings. As Gordon puts it:
“Lawyers for the senior have had
to become ever more ingenious
to avoid being greenmailed by
out-of-the-money stakeholders.”

The idea that a multinational
company’s “Centre of Main
Interest” (COMI) is the
jurisdiction where the principal
insolvency proceedings should
be conducted is gaining ground.

It is now enshrined in EU law
and is included in a Model Law
drawn up by UNCITRAL which
is steadily being adopted by
countries across the world.
Special recognition agreements
like those between the US,
Canada and Mexico, and among
Commonwealth countries, have
also been seen.

But what if the main forum’s
laws do not enable the deal agreed
by the majority of stakeholders
to be implemented? Companies
or creditors may then look for a
suitable jurisdiction to complete
the deal. This is sometimes,
pejoratively, called “Forum
Shopping”.

This year, for example, the
Dutch aluminium group, Almatis
and a group of senior lenders we
represented, successfully filed
for Chapter 11 proceedings in
the US, where the company has
substantial interests and where
many of its banks were based,
not in the Netherlands, where
it was centred.

But Ian Field, a partner who
worked on the case, says that
if the solution requires you to
change jurisdiction, the process
becomes more complicated. “For
holding companies it is relatively
easy. But for operating companies
it is almost impossible.”

In another trend, we are
seeing jurisdictions modify their
own procedures to achieve greater
deal flexibility. Dubai has created
a tribunal to serve the Dubai
Financial Centre, staffed by
former UK and Singapore
common law judges.

During the global downturn
Germany amended its directors’
duties laws to prevent companies
from being forced into rapid-fire
mandatory proceedings on the
grounds of “over-indebtedness”.
Peter says the amendment saved
a lot of “liquid” companies with
unhealthy balance sheets from
collapse and may well be retained.

Meanwhile the financial crisis
has thrown up a debate about
how to deal with systemically
important financial institutions.
Should global banks be treated
as single entities? Or should the
deposit-taking business
be ring-fenced, allowing risky
investment operations to go bust?

States have armed themselves
with so-called “strong arm”
powers to move in and rescue
the “good” parts of a troubled
bank. But these powers create
uncertainties for lenders, making
it harder to put a price on debt.

“These tensions will persist,”
says Gordon. “And with financial
institutions the stakes are, as
we’ve seen, very high indeed.”

Contributors
Ian FIELD
London
Peter HOEGEN
Frankfurt
Gordon STEWART
London

Dubai World
A team of 30 A&O lawyers
from across our network
advised each of the creditor
committees in the USD14.4 billion
restructuring of Dubai World, the
USD10.4 billion restructuring of
the Nakheel real estate company
and the USD5 billion Dry Docks
World deal. In what is the
largest-ever restructuring, we
liaised with over 100 international
banks, hedging counterparties
and other debtors and negotiated
a government support package
for the Dubai World Group.

Merckle
One of Germany’s largest
family-owned companies,
Merckle comprised three main
businesses – Ratiopharm,
producing generic drugs,
the Phoenix wholesale
pharma business, and
HeidelbergCement – and a
complex web of hundreds of
subsidiaries and international
financing agreements. To ensure
an orderly restructuring, A&O
lawyers from Germany and
Luxembourg used a pioneering
Trust structure and devised
a “super waterfall” to ensure
creditors of the three different
corporate units were fairly
compensated. A co-ordinated
sale of Heidelberg shares was
supported by an innovative
secondary placement which
more than doubled the share
price, allowing approximately
EUR2.1 billion of liabilities to be
repaid. The sale of Ratiopharm,
to Teva of Israel, raised around
EUR3.6 billion. The deal,
negotiated over two years,
saved 100,000 jobs.

Cattles
We worked with between
40 and 50 creditor banks to
restructure GBP1.6 billion of
debt lent to the financial services
group. The deal took two years
to negotiate and involved several
unique features. The banks
were able to treat their debt as
structurally senior and there was
a groundbreaking agreement
with the Financial Services
Compensation Scheme to
handle insurance policy liabilities.

Last year, A&O lawyers
acted on some of
the world’s biggest
and most complex
restructuring deals.
Why do state insolvencies steer clear of legal solutions when bank and other bankruptcies rely on increasingly complex rules and regulations? The A&O Global Law Intelligence Unit, set up to help our clients make sense of complex cross-border legal issues, has been looking at a debate brought into sharper focus by the Eurozone sovereign debt crisis. Here Philip Wood, who heads the unit, reflects on the arguments.

"One of the great lessons of recent history is the extraordinary unpredictability of events. We often find ourselves looking the wrong way. Behind us there’s a chariot, driven by a blind charioteer, who cares nothing for economic prosperity or the rule of law.

One of the big issues we need to decide is what role does the law play in our societies? Should we be encouraging more or less of it? That’s an issue that goes to the heart of insolvency – whether it’s a company or a state that has gone or is about to become bankrupt.

It’s important to realise that insolvency doesn’t happen only to deficient businesses or states. Think of some of the giants of the industrial world that have sought protection from their creditors – Rolls-Royce, Texaco and Chrysler to name but three – and you realise that great companies are not immune.

Where countries are concerned that’s even truer. In the last 100 years, there have been only about three sovereign states that have not been insolvent at some time. In the last 30 years alone, over half the world’s sovereign states have experienced insolvency.

So despite some of the alarmist rhetoric around the bail-out of eurozone countries, we actually shouldn’t be too shocked and certainly shouldn’t panic.

But we do need to think about what role the law can play in minimising the impact of these events. Traditionally the answer has been very different for companies and states.

Take bank failures. In most countries the law is very intrusive and interventionist where bank collapses are concerned. In times of threatened crisis, most countries introduce more rules to guard against such failures.

Yet when states fail – even though this happens regularly and the impact can be devastating – you don’t get the same level of intervention. It’s seen as a matter of national sovereignty and we seem happy to get by with merely contract law to help debtors and creditors come to an agreement on how things should be resolved.

The truth is that in all but a few cases (notably Argentina), the system has worked well; there have been very few disorderly state insolvencies. In most recent cases – for example Pakistan, Uruguay, Ecuador and the Ukraine – a high percentage of creditors (often as high as 98%) have agreed to restructuring terms.

The received opinion has been that these situations don’t require massive legal intervention. But that could be about to change.

The eurozone crisis has re-ignited the debate about whether we should start using interventionist procedures similar to those deployed in the corporate sphere.

Many people think that we should continue as now, hoping that a balance of interest forces both sides to come to an agreement and to resolve the issue, as has happened so many times in history.

The only change suggested is the wider use of collective action clauses, binding on all creditors, in both foreign and national lending agreements. These are effectively democracy clauses preventing holdout creditors from scuppering a restructuring.

Alternatively, some policymakers, including the IMF, think there ought to be more legal intervention, with creditors being subject to a legally enforceable stay of action.

A third camp argues there should be a full international bankruptcy statute involving a stay on creditors. This would be coupled with creditor voting on a plan with an international
mechanism to ensure that, once a majority of creditors agree to terms, it is recognised in all other countries. This approach would replicate, so far as possible, what happens with corporations.

The fourth approach – and one that seems to be increasingly popular with some politicians – is to get tough on the bankrupt. The price of any bailout is the right to demand changes in fiscal and monetary policy in the affected state, forcing it to raise more taxes and spend less on things like employment and pensions.

What will the solution be? Will the liberals or the interventionists win out?

It’s hard to predict. But it’s clear we need to reach a common solution. The world is so interconnected these days, it is impossible to separate ourselves off. No one can afford to be parochial. We need a system which is functional and which guarantees fairness and justice.

Policymakers, in deciding what to do, tend to focus on function and can sometimes forget about justice. And that, increasingly, is where the rule of law is likely to come in.”
Jacques Attali is one of Europe’s leading thinkers on globalisation and the massive governance challenges that it has created. A former special adviser to François Mitterrand and the founder and first president of the European Bank of Reconstruction and Development, he is a prolific writer with 50 titles to his name, including essays, novels, children’s tales and plays. He founded and is chairman of the NGO, PlaNet Finance, Europe’s largest microfinance organisation, which now operates in some 80 countries. In 2007 he was made president of the Commission for the Liberation of French Economic Growth.
“Europe’s debt crisis is just one tiny dimension of the global governance crisis.

Very often I say there are two masters who can help us to understand the future. One is Marx who explained that everything moves according to economic laws and his analysis remains a valid way of understanding how capitalism is adjusting to globalisation.

The second is Shakespeare who explained that, whatever laws exist, everything is in the hands of leaders and is affected by powerful forces like loyalty, power and corruption.

As far as today is concerned, Marx would say we are bound to go towards a system of European federalism because the Euro will not last without it. The collapse of the currency would be a disaster, so the leaders will avoid it – at the last minute.

Shakespeare would say: “We just don’t know.”

It’s interesting to note that America faced an identical crisis in 1790. There was a lot of debt in the individual states, which were living together in a loose confederation.

At a dinner, Hamilton, Jefferson and Madison decided to build an army, create a capital named after Washington, draw up a budget and create Treasury bonds. Without that decision, the US would today be as fractured as South America.

The problem for Europe is that we don’t have a Jefferson, Hamilton and Madison to gather together at a dinner. Our policymakers, with very few exceptions, just have not grasped this.

When we created the common market in the late fifties we knew it wouldn’t work without technical norms. When they were introduced we knew we needed to create a single market.

When that was put in place in 1984 we knew there was a risk of competitive devaluation and we would have to go for a single currency. When we created the Euro we knew it would not last without a federal budget. We had to go through this crisis to understand that properly.

But there is a tight timetable. If, in the next two years, we have not moved drastically in the direction of a federal budget, the Euro will disappear.

Europe’s leaders understand that economic power has shifted to the East. But they have yet to do the things needed in response – like creating a federal budget and a federal defence policy.

The West lives beyond its means and we cannot achieve the growth demanded by our citizens without borrowing. We need to achieve real growth and the only way to do that is through innovation.

In a global context, if we want growth to be stable we also need a new kind of demand and that will come from the world’s poorest people. We have to create a win-win situation, where the poor get something as well as the rest of the world.

I call it socially sustainable development. For that we need financial inclusion – which is where microfinance comes in – and also democratic inclusion.

Some figures suggest we are having success in alleviating poverty – but it’s only in terms of ratios, not absolute numbers. It’s true in China, but not, unfortunately, in sub-Saharan Africa.

Planet Finance operates in 80 countries. We are helping some 200 million micro-entrepreneurs or about one billion people, if you include their families. We believe microfinance has massive potential in combating poverty and in developing democracy.

I’m neither an optimist nor a pessimist. I compare it to soccer. If you are a spectator you can be optimistic or pessimistic about the team you support.

But if you’re a player on the field, it’s an invalid question. You just need to play to win and that means understanding your strength, the strength of your teammates and the strength of the opposition.”

Jacques Attali was interviewed by Simon Beavis
July 2011
Help or hinder?
A mass of new laws governing the behaviour of banks is now being translated into regulation and huge change is on the cards. But will that really make banking safer? Our regulatory experts in London, New York and Hong Kong identify six areas where new rules might end up creating a new hierarchy of risks.

**Setting rules**

Historians will probably pinpoint the collapse of Lehman Brothers in September 2008 as the epicentre of the financial crisis. But the summer of 2011 may one day also be the subject of intense analysis.

This is the moment when the global agreements designed to avert a future banking crisis start to get translated into actual regulations.

Thousands of new rules are being written, covering everything from capital requirements, to derivatives trading, “living wills”, bank break ups and executive pay. It’s a massive undertaking and it’s putting a strain on banks and regulators alike.

US regulators are busy turning the Dodd-Frank Act – a complete bank reform programme contained in one ambitious piece of legislation – into regulation. In Europe, a raft of separate laws is being introduced.

Doug Landy, a partner in New York, says banks are trying to ensure the rule-writing process is duly thought through – which takes time.

“As a result we were left – six weeks before the first bits of Dodd-Frank came into effect in August – with only about a third of the regulations written. That means the statute will become effective without having the proper framework in place.”

The reform process in Europe is different, says Bob Penn, a regulatory partner in London. “Instead we have about 30 new laws, with an increasing volume of rules and regulations to be made under those laws. That can make it harder to get your arms around what’s happening, but the speed and scale of change is broadly the same.”

Banks in the Asia-Pacific region are nervously watching developments, says Alan Ewins, a partner in Hong Kong. “Much of the domestic law is close to other international initiatives. But everything is globalised these days. Banks are worried about the extra-territorial dimension of the European and US reforms.”
Plugging gaps
When the G20 began the banking reform process in 2008, the aim was: global solutions for a global crisis.

In reality, that isn’t happening. While there is broad consensus on capital requirements and on derivative trading, most other regulations are diverging – not least on bank separation and directors’ pay. Sometimes it’s the timetable that is out of sync. Either way, lack of co-ordination presents new risks.

Take the “living wills” experiment in the UK, the system under which banks will be forced to draw up wind-down plans should they fail. The US is following the same road, but is about two years behind. Parallel, but subtly different, regimes could emerge.

“That could cause a lot of frustration and duplicated effort,” says Bob. “There could be literally thousands of things between the two systems that are inconsistent or irreconcilable.”

Fighting corners
The fragmented regulatory response to the crisis has provoked competitive tensions between jurisdictions.

Doug cites the issue of capital. “The US may force banks to hold more capital than banks in Europe must hold under Basel III. Dodd-Frank draws a USD50 billion line – if assets are higher than that, then stricter demands might apply.”

It’s a tough stance. In June it led US Treasury Secretary, Tim Geithner, to warn Asian markets not to adopt light touch regulations to woo business away from the US. He suggested that London had done that before the crisis, with “tragic” results.

“He’s saying we don’t want to set high standards only to see them undercut by markets trying to attract new business,” says Doug. “His other point is that financial institutions are global. If any market becomes a weak link, risk will feed back to London and New York.”

His remarks did not go down well in Asia, says Alan. The Singapore and Hong Kong regulators immediately defended their records and cast doubt on the strength of US regulation.

Bob suggests that is markets like Australia and Canada – whose banks remain robust – that might legitimately question what’s in the new regulatory strictures for them. “That’s where you may see migration, with businesses moving to escape being strangled by red tape.”

Contributors

Damian CAROLAN
London

Alan EWINS
Hong Kong

Doug LANDY
New York

Bob PENN
London
Clearing ground

“Derivatives are the one product where there is dramatic change in the US, Europe and, to some extent, Asia,” says Damian Carolan, a partner in London.

“The G20 declared that all standardised derivatives should be cleared through clearing houses by the end of 2012. It’s a full-frontal statement of political intent.”

Traditionally, few people outside the banks understood these markets or had a clear idea of their size. But the crisis showed how susceptible they were to systemic risk.

Using clearing houses was seen as the way to increase transparency and to contain risks. Products in all asset classes – credit default and interest rate swaps and foreign exchange and commodity products – will be put through clearing houses.

“It’s an entirely new business,” says Damian, who has worked in our team advising a consortium of 14 major banks in their negotiations with the new clearing houses. “There are immense challenges and the risks are huge.”

With some legislation behind schedule and different approaches, is there a risk of arbitrage? Just how knowledgeable are the new entrants vying to clear OTC derivatives about the products they will trade?

And then there’s an even bigger question: “What will we do when the clearing houses, themselves, become too big to fail?”

Changing shape

The UK Government has shied away from breaking up banks to separate their retail and “casino” operations. Instead it favours the Independent Banking Commission’s idea of building firewalls between the safe and risky parts of the business.

This is still pioneering stuff – the rest of Europe is just starting to look at the issue. But will it work?

“Ultimately this question will not be solved by rational argument but by politicians pointing fingers,” says Bob.

“Global banks will face a more hostile environment and find it harder to access liquidity. Will that create better retail banks or a more stable financial system?”

Running dry


The global banks are in the hardest position, argues Bob. They have all beefed up their policy teams and lobbying activities, but it’s a Herculean task. “No matter how you plan, it’s impossible to predict how all this change will pan out.”

And public perception remains hostile. “What’s been lost in the US is any sense that banks perform a socially useful role,” says Doug. “Banks really need to regain that, but it could take five years.”

With so much regulatory change on the cards, it will also be a good few years before banks have a really clear view of the new regulatory landscape. “We’re still at an early stage in terms of getting close to what the regulatory end point will look like in the US and Europe,” says Bob. “Individual banks are starting to get a handle on things within their own power blocs. But it’s much harder for global banks to get their arms round the big international picture. No doubt that’s where we’ll still be in a year’s time.”
Dr Pippa Malmgren is president of Principalis Asset Management – a London-based financial services company. In a career spanning public policy and banking, she served as an economic adviser to George W Bush and a member of The President’s Financial Markets Working Group. She has held senior positions in UBS and Bankers Trust in Europe and Asia. Her speciality is understanding how policy and markets will determine how risk and prices are going to behave. She has established a reputation as a public speaker, broadcaster and writer on the world economy.

Global view

“T he US has always had an incredible capacity to recover from economic crisis and that absolutely still holds true today. We’re seeing an extraordinary revival of manufacturing in the US, particularly in the Midwest. As wages in China and other emerging markets rise because of their own inflation problems, China can no longer compete with the West on quality high value added goods. Suddenly it’s attractive to put manufacturing operations in the US.”
Caterpillar, TK Maxx and Tiffany’s are all manufacturing back in the US again. The Chinese are also buying Volvo and GM so they can learn how to make a high value added automobile. They are moving up their learning curve through acquisition, placing their capital in Western manufacturing, technology and even US farmland — that’s a significant reversal.

I challenge the idea that economic power is shifting permanently to the East. We did have a shift of power from West to East, but the story of the next ten years will be its shift back again. Growth will be more evenly distributed around the world instead of concentrated in China.

China today has a growth rate of 10% and an actual inflation rate of 10%. That adds up to an ugly picture. The public are no longer sure they will get rich before they get old, so, unsurprisingly they’ve already got some civil unrest.

I’m not saying China won’t grow. But the assumption that the US is finished and that China will take over the world is wrong — we’re a long way from that.

Western policy-makers didn’t understand the shift of power to the East and they certainly don’t understand the transition now from East to West. They’ve been behind the curve twice. But, markets are in front of these trends.

There are similar misunderstandings around sovereign debt.

People are scared of the word “default”. But if you lift the debt burden you give oxygen to growth. If countries default, they reboot, restart and can grow again.

There are different ways to default. The US will default through a higher inflation rate. So will the UK – but coupled with austerity. Countries like Greece and Ireland don’t have that option and will opt for haircut defaults. I don’t think haircuts will be enough and eventually some countries will temporarily print currency again. If they devalue then they can recover.

The elephant on the landscape is Japan. Its debt problems dwarf all those in Europe. But they don’t have the entrepreneurial response mechanism and demographics are against them.

Since the fall of the Berlin Wall we’ve experienced a lucky period of history, with low volatility, low inflation and low interest rates fuelling growth. But this was an exception caused by the entrance of billions of new workers into the world economy who pushed down wages and prices. Now things are back to normal and we should not be surprised to see volatility, inflation and political instability returning.

The problem is that the people running companies and managing money are all under 50. They will find it hard to manage inflation and stagflation, defaults and higher volatility, and the pressures these bring to balance sheets and margins.

But I’m optimistic, without a doubt. The greatest fortunes are always made in difficult times.

The biggest challenge is to manage the squeeze caused by a record debt burden bearing down on consumers and real cost pressures caused by inflation. I see two exit doors from this squeeze.

Firstly countries will have to renegotiate the contract between citizens and the state — that’s what austerity is all about. It can happen through the ballot box, or by overthrowing the government, as in Egypt. But once you have agreed who is paying for what, you will have a new foundation for growth.

The second exit is innovation. I think we’re going to see extraordinary innovation in the next decade. Existing business models have been blown out of the water and people are inventing new ones. Watch the application of high tech to agriculture. That’s going to be an exceptional source of investment returns and will revolutionise where and how things are grown. And remember, people will become more entrepreneurial out of necessity.”

Dr Malmgren was interviewed by Simon Beavis
July 2011
COVERED BONDS flourish

For more information on covered bonds, visit www.allenovery.com/coveredbonds
Securitisation markets all but ran dry during the financial crisis, forcing banks in a growing number of countries to turn to a safe, traditional way of raising funds – covered bonds. From London to Sydney and Washington to Seoul, the question now is how far will this market be allowed to grow?

Compared to the high-octane world of securitisation, the history of covered bonds stands out as being really quite quaint. For several hundred years they have been used as a safe and secure way for banks to raise funds; the first believed to have been issued in 1739 to help fund the Prussian wars. In key European markets, notably Germany, France and large parts of Scandinavia, they have been and remain the instruments of choice for raising liquidity.

Today, thanks largely to the global financial crisis, covered bonds are an increasingly hot ticket, competing with other types of funding tools as investors flock to them for greater security.

So what sets them apart? Well, safety is the key. No covered bond has ever defaulted, as far as the records show.

A covered bond is a type of security, typically issued by a bank on a full recourse basis, which is fully secured or covered by a pool of high quality collateral that sits on the bank’s balance sheet. This could include residential or commercial mortgages and public sector loans.

If the bank should fail, bondholders would have a legal first call on these assets to meet their claims.

Not surprisingly regulators have seen covered bonds as a special case. Indeed provision has also been made for them to receive specific, preferential treatment under the new liquidity standards contemplated by the Basel III framework.

In the last decade, Allen & Overy has been at the forefront of building the covered bond market in new locations across the world and in steering new laws covering bond issues.

A team, led by partner Angela Clist, worked with HBOS Treasury Services plc on the issue of the first UK covered bond in 2002. We then helped the UK Treasury draw up the 2008 UK Covered Bonds Regulation and now work for some 90% of UK credit institutions issuing covered bonds.

We’ve helped develop a market for covered bonds in Eastern Europe, worked on new issues in Norway and Sweden and acted for Credit Suisse and UBS on the first issue of bonds in Switzerland.

Likewise we helped launch the first issue of bonds in Canada in 2008 and acted for Credit Suisse and UBS on the first issue of bonds in Switzerland.

We’ve also worked on preparing issues in Korea and Canada and have taken a lead in the debate currently raging in Congress on establishing a US market.

Covered bonds – unlike other securities – showed robust growth throughout the financial crisis. While the wider securitisation market has begun to recover, there’s no immediate sign that interest is leaking away from covered bonds.

As Angela puts it: “Banks have various ways to raise funds. Covered bonds have provided them with a new tool in their toolboxes. But no one way of raising liquidity is going to dominate despite the growth of covered bonds; it’s about working out which is the right product at the right time.”

Despite rapid growth, however, it is by no means all plain sailing. As the market spreads to new locations, issuers are testing new types of assets that can be used as collateral. In return regulators are questioning what exactly constitutes a covered bond and how far the market should be allowed to expand.

Lawton Camp, partner in our New York office, points out that the Garrett Bill currently being debated in Congress envisages a range of assets as qualifying as collateral including such things as auto, student and small business loans.

Part of the motivation, says Lawton, is to use this new market to chip away at the huge debt sitting on government books from the rescue of the mortgage institutions, Freddie Mac and Fannie Mae. But the initiative has met resistance from the Federal Deposit Insurance Corporation, which worries that too many assets will be soaked up in the covered bond pool, potentially making other creditors vulnerable to losses.

The US initiative has also raised eyebrows in some European markets where, traditionally, more secure assets have been ring fenced for the asset pool.

Karolina Popic and Sonia Goumenis, partners in our Sydney office, note that the Australian Prudential Regulatory Authority has traditionally taken a dim view of covered bonds, worrying that protections for bondholders will put the bank’s depositors at a disadvantage.

Although the Australian Government changed its policy in 2010, draft legislation establishing the features of an Australian covered bond is, according to Karolina and Sonia, “super conservative” to reflect these historic fears. For example there will be a strict maximum cap on the assets that an Australian bank can hold in a cover pool equal to 8% of the bank’s assets in Australia.

Drawing on experience in Norway and Canada, we have been able to advise on an “aggregate” model where smaller financial institutions, like credit unions and building societies, can club together to issue bonds with only limited exposure to each other’s liabilities.

This potential global explosion of interest in covered bonds has sparked new debate back in their birthplace, Europe. This summer Angela is participating in the technical committee of the European Covered Bonds Council, which is trying to draw up a working definition for the European Commission of what can legitimately be labelled a “covered bond” and what minimum transparency requirements should apply.

With the bonds earmarked for special treatment under Basel III, much is at stake, she says.

“The decisions made over labelling could significantly affect investor demand and regulators need to strike a very fine balance between protecting unsecured creditors and creating robust laws so that covered bonds remain secure. It’s a tightrope regulators are walking all the time.”

Contributors
Lawton CAMP
New York
Angela CLIST
London
Sonia GOUMENIS
Sydney
Karolina POPIC
Sydney
The net widens

Measures to speed up the extradition of terrorists are increasingly being used by law enforcers to bring white-collar criminals to book. Our criminal litigation and defence lawyers are now regularly working across borders to make sure these powers are not abused.

A banker, passing through the US on a family holiday, is arrested on an Interpol Red Notice. He works in Hong Kong for a European bank and is one of three colleagues facing dubious charges of fraud levelled by a client from the Philippines who has suffered heavy, but entirely normal, trading losses on foreign exchange deals.

In an attempt to gain compensation, the client has used a local law firm to exploit criminal investigation powers to pursue the case rather than conventional civil proceedings.

After being held for eight hours and following an intervention by A&O criminal litigation and defence lawyers, the Red Notice — an immensely powerful device that can be deployed with relative ease — is removed and he is released.

Law enforcers are pursuing corporate crimes with growing vigour these days and increasingly their reach is global.

The US Foreign Corrupt Practices Act is being enforced with far greater zeal than at any time in its 30-year history, and the UK’s new Bribery Act has given regulators and the criminal authorities specific power to take action on events that happen way outside their own jurisdictions.

Now they are also regularly using other tools like extradition and airline passenger information to pursue white-collar crimes, such as bribery, fraud and insider dealing.

“The corruption agenda is hot across the world,” says Peter Watson, a litigation partner based in London.

He points out that law enforcers are increasingly working together to pursue corporate corruption cases and more countries are agreeing Mutual Legal Assistance Treaties to speed up the process.

Many of these new powers were brought in as a direct response to 9/11, with law enforcers realising they needed greater co-operation and better tools to deal with this global threat.

Take the European Arrest Warrant (eAW), for example. By replacing the old political and administrative phases of European extradition with a new judicial mechanism, the time it takes to gain an extradition order has been reduced from around 18 months to just 50 days.

In some cases that is a welcome efficiency.

The trouble is these new powers are increasingly being wielded to combat often far less serious crimes than perhaps was originally intended. That’s led to growing worries that the new
powers can be disproportionate and unfair.

That’s also the case being made by Fair Trials International (FTI) in the non-corporate sphere. This year lawyers from our offices across nine European countries carried out pro bono research for FTI to review how the EAW regime was being implemented in different countries. It showed the use of EAWs is far from consistent. Despite having a much smaller population, Poland, for example, issued four times as many arrest warrants than France in 2009, and 22 times more than the UK.

FTI is now using this work to press for changes in the EAW regime, and recently put the case for reform to the European Commission Vice-president for Justice, Viviane Reding.

Sergio Ung, the A&O lawyer who co-ordinated our research for FTI, explains the concerns: “Fair Trials International is not suggesting the system should be taken down, because it recognises the need for an efficient extradition system and for effective co-operation in cross-border cases.

“Instead it argues that there are inadequacies in the system that are leading to injustices. It’s clear that warrants are being issued, often for very minor offences, without proper consideration of whether extradition is proportionate.”

Major concerns include the fact that:

• Rights to legal representation apply only in the executing but not the issuing state
• Warrants can remain live in other European jurisdictions after another state has refused to execute
• The European Convention of Human Rights is frequently breached. Between 2007 and 2010, there were 181 Article 3 rulings on torture and degrading treatment, and 1,696 Article 6 rulings on the right to a fair trial against EU countries.

Arno Chakrabarti, a litigation partner in London, says the FTI research has direct relevance to our client work. “We are increasingly getting involved in questions about the fairness of trials and the fairness of the process.”

Simon Clarke, a Hong Kong partner, says, as the arm of anti-corruption and securities laws stretches across frontiers, the Hong Kong regulator is working much more closely with the US and UK authorities.

“There’s been a very definite increase in cross-border activity,” he says. “It’s very much on our clients’ radars and we’re increasingly providing them advice on compliance.”

Regulated banks and financial institutions tend to have fairly robust systems in place, he says. But small and medium-sized businesses operating in the region may not and can therefore struggle to understand how vulnerable they are when operating in countries where “hospitality and gifts” are part of the local business culture.

Peter sees it as part of a wider trend. “More and more things you do as a company director expose you to liability and prosecution. Companies must understand the new environment and get their houses in order.”

Arno agrees: “I think this trend will only continue especially as more and more countries set up treaties on co-operation and as prosecutors spend more time talking to each other. It’s just the way things are going to be in future.”

Contributors

Arno CHAKRABARTI
London

Simon CLARKE
Hong Kong

Sergio UNG
London

Peter WATSON
London
Abraaj Capital is the biggest private equity group in the Middle East, North Africa and South Asia Region. Set up in 2002, it has raised some USD7 billion and distributed nearly USD3 billion to its investors. Fred Sicre joined the group from the World Economic Forum, where he served as managing director. He heads up the Abraaj Strategic Stakeholder Engagement Track (ASSET) which not only fosters dialogue with governments, the private sector and all stakeholders but also steers Abraaj’s own innovative corporate citizenship activities.

Global view

The best way for businesses and policy-makers to get their bearings at this time of instability and change is to keep recognising that the long-term growth fundamentals of the Middle East and North Africa region remain strong.

We account for 60% of the world’s hydro-carbon reserves but are only pumping about 30% of them right now. The Gulf countries’ cumulative oil revenues are expected to reach close to USD9 trillion by 2020.

We also have the youngest population on planet Earth, with close to 50% of the people under 25. If we can manage the current political transformations and take these economies to the next level, these demographics create a huge base from which a middle-class can emerge, stimulating massive consumer-led growth.

In the last 10 years a new generation of policymakers has emerged in countries across the region. They have orchestrated a series of economic reforms that have made the region a very interesting investment destination. But now what’s being acknowledged in the so-called Arab Spring is the fact that you can’t have economic reforms without eventually facing the need for political reform as well.

Businesses here need to buy into long-term value creation and engage in a different way from the past. They need to recognise they have a role in a stakeholder society – it’s no longer just the shareholder that matters.

That means engaging with governments, with local entrepreneurs and academia.

It means playing a role in tackling infrastructure challenges, achieving global standards of governance and transparency and helping to address the huge social inequalities here. To get your moral and social licence to operate you have to be active in this community dimension.

Small and medium-sized enterprises (SMEs) and entrepreneurs will play a vital role in economic development. Both
have been a focus for Abraaj since we were created in 2002 – our first USD116 million buy-out fund was primarily aimed at investing in SMes.

Seven out of 10 people in the region earn their living working for an SME. But there’s a huge productivity gap between them and their counterparts in the US. As a private equity firm, we see a huge opportunity to address that gap and scale these companies to a regional or even a global dimension.

SMes will play a vital role in addressing the unemployment issue in the region. Just to maintain unemployment at current levels, we need to create an estimated 50 million jobs in the years to come. No other region has managed to do that. But our research says that between 1980 and 2000 the US did create 40 million jobs and they were mostly in companies that were less than five years old.

That employment potential explains why entrepreneurship is such an important word in emerging markets right now.

Infrastructure also provides huge investment potential and is an absolute necessity in terms of building a sustainable future for the region. We define infrastructure as the quantum of investment needed to take an economy to the next level of development. It’s not just about airports and bridges, it’s also about softer infrastructure. As an example, it’s estimated the region needs to build 5,000 hospitals by 2017.

But governments can’t do all this on their own – they need the help of the private sector.

Am I an optimist or a pessimist? I’d like to choose a third option. We all have to be trust-builders. We’ve seen a loss of values and trust right across the world in recent years. If businesses and governments can work at rebuilding trust, that is what will provide the bedrock for all of us to be optimistic moving forward.”

Fred Sicre was interviewed by Simon Beavis
July 2011
When natural disaster strikes, the response must be immediate. Any delays can increase loss of life and the rapid spread of disease. We are helping the Red Cross promote new laws that can help speed up the delivery of vital aid across the world.

The world has become increasingly used to seeing the devastating effects of natural disasters – not only in desperately poor countries like Haiti, but also in developed economies like Japan and New Zealand.

We’re also used to seeing the extraordinary difference aid agencies and charities can make when natural disaster strikes. Yet mobilising that effort – whether it’s deploying search and rescue teams to an earthquake zone, flying in medical teams or delivering food, drugs, clothing and temporary shelter – is fraught with difficulties, many of them legal.

Stories from this year’s earthquake in Japan indicate some of the problems that can occur. A UK medical team arrives in the country to find that the doctors’ qualifications are not recognised locally. A search and rescue team is forced to fly home because of an apparent confusion over permissions from the British Embassy.

The International Federation of Red Cross and Red Crescent Societies (IFRC) set about tackling some of these issues more than a decade ago. It developed a set of guidelines to improve facilitation and regulation of international disaster relief efforts. These were unanimously adopted in 2007 by an international conference that includes among its members all 194 state parties to the Geneva Conventions.

It was an important step. But the IFRC wanted to go further. With the help of Allen & Overy, other law firms and partner agencies, it has been investigating whether a model Act could be devised to help countries adjust and amend their own legislation in readiness should disaster strike.

As Susan Hazledine, A&O’s head of social investment, explains: “The IFRC, through its 186 national societies, has a unique position with many people on the ground with expert local knowledge and a special position of neutrality. Often they are the first into a disaster zone and the last to leave. They have a huge amount of front-line experience of what works and what doesn’t.”

The IFRC’s plan to create a model Act is, she says, highly ambitious but very realistic. “Every country has its own sovereign laws that apply and work well in normal times, but that may not work so well during emergencies when you need to get core supplies, services and personnel into the country.”

Thanks to our partnership with the Red Cross – it has been A&O’s global charity since 2009 – we were one of the law firms asked to help frame the model Act.

Jake Lee, pro bono manager, says the work took two forms. First we mobilised more than 100 volunteers from 10 of our offices and from our Indian associate, Trilegal, to research current disaster relief legislation across Asia. Secondly we drafted four sections of the
model Act, focusing on:
- Personnel – entry visas, work permits, employing local staff, qualifications
- Temporary legal status – making sure experienced aid organisations are recognised and able to operate in disaster zones, even if temporarily
- Transport – permissions to land, dock and drive
- Tax – simplifying the direct and indirect taxes paid by agencies on the goods and services they buy.

“There have been a number of examples recently where existing laws are complicating matters,” says Jake. “The idea of the model Act is to provide countries with a template to identify where they can amend these laws or to provide them with something they can adopt in their own legislation.”

The IFRC and its partners on the project met in Geneva in May this year to review progress on the Act, now in first draft form.

In the coming months it will be reviewed and redrafted ready to be presented to the next four-yearly international conference in the autumn where the tool will be shared with the 194 state parties to the Geneva Convention.

Susan attended the May meeting and took part in what remains a delicate and complex debate.

Discussion focused not only on what changes can be made in recipient countries to smooth disaster relief efforts. It also looked at the role of transit countries through which aid might have to travel, for instance the vital part played by the Dominican Republic in the Haiti crisis.

And it looked at what those countries giving assistance can do to help smooth the process in making sure not only that the right goods and people are sent, but also that the fine details are right, such as labelling consignments of cargo properly and ensuring medicines and food have the right use-by dates.

“If donor countries exercise more control they can take a huge burden off the receiving country,” Susan says.

The work is sensitive. It can often be politically difficult for a country to declare a disaster and sometimes the temptation is to call the end of crisis too soon. Making sure aid agencies and disaster relief teams can make an orderly entry and an orderly exit are both equally important.

“We hope the Act can demonstrate that having the right planning in place is a sign of strength”, says Susan. “It’s an indication of foresight and preparedness.”

Contributors
Susan HAZLEDINE
London
Jake LEE
London
For many firms, recession is a time of retrenchment; doing everything to make sure that an inevitable squeeze on profits is kept under tight control. A&O has taken a slightly different tack, consciously choosing to invest in its network through the downturn by opening key new offices in Australia, Qatar, Washington, D.C. and Morocco – and making key lateral hires in France and Germany. “It’s not a size game; it’s a quality game,” says Jason Haines at the end of his first year combining the roles of finance director and IT director. “That means offering the best legal advice, having the best lawyers and being able to offer an on-the-ground presence in the places our clients want to be.”

Results for the year to the end of April 2011 show the fruits of this strategy. Turnover rose by just under 7% to £1.12 billion with our fast growing Asia-Pacific region registering an astonishing 46% increase in revenues, indicating that the firm has hit the ground running in new markets.

There was strong growth too in New York (a notoriously tough but crucial market for international law firms), Central and Eastern Europe and the Middle East. Turnover in Western Europe (including the UK) remained relatively flat, in sterling terms.

Across the network the firm was consistently busier during the year, particularly in the second half, and the trend has continued into the new financial year. The Banking and Litigation practices posted particularly strong growth.

“The great challenge for us is this: if you don’t seize opportunities to grow now, then – when the market comes back and we are completely through the recession – it becomes more difficult and more expensive to invest,” says Jason.

“In our view you’ve got to invest a certain amount of your current profits to build for the future. So for the last few years we’ve taken some of the returns from our established European offices and invested them in key markets like Asia and New York to generate a long-term return.”

That has an inevitable short-term impact on the bottom line, where profit before taxation was flat at around £431 million. But new offices tend to follow a two to three-year journey from start-up to profitability. “Next year we expect a much stronger bottom line,” he says.

The investment programme has been coupled with a concerted effort to control central costs. The Canary Wharf office in London was closed and some support services are being relocated to a new centre in Belfast. Around £4 million was invested in Belfast during the year with a further investment due in 2012. Jason predicts these decisions will produce “substantial returns” from 2013 onwards.

Efforts to manage working capital more efficiently during the year reduced the average “lock up” time – the gap between work being done for the client and payment – from 138 to 131 days. “That 7-day difference has an important impact; it means we have something like an extra £21 million of cash in the bank. That is cash we can use to make further investments in our future.”

With a background in accounting and technology consulting, Jason Haines joined Allen & Overy as IT director in 2007 before also becoming finance director last August. Here he describes how our decision to invest through the downturn and controlling costs are beginning to show results.
Financial history

Shown below is summary financial data derived from Allen & Overy’s audited consolidated Financial Statements.

To access the complete version of the Financial Statements to 30 April 2011, please go to www.allenovery.com/annualreview.

The Financial Statements for the last five years have been produced in accordance with International Financial Reporting Standards as adopted for use in the European Union.

<table>
<thead>
<tr>
<th></th>
<th>FY11 £m</th>
<th>FY10 £m</th>
<th>FY09 £m</th>
<th>FY08 £m</th>
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<td>(431)</td>
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<td>(237)</td>
<td>(229)</td>
<td>(207)</td>
<td>(169)</td>
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<td>429</td>
<td>431</td>
<td>448</td>
<td>395</td>
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<td>Profit allocated to full partners</td>
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<td>390</td>
<td>406</td>
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Headcount

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<tr>
<td>Full partners</td>
<td>398</td>
<td>355</td>
<td>372</td>
<td>362</td>
<td>354</td>
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<tr>
<td>Other partners</td>
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<td>451</td>
<td>490</td>
<td>474</td>
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<td>Lawyers</td>
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<td>2,297</td>
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<td>Profit per full partner</td>
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<td>£1.1m</td>
<td>£1.0m</td>
<td>£1.1m</td>
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‘Other partners’ comprises those in their initial years of partnership where their remuneration is predominantly fixed.

Summarised balance sheet

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<tr>
<th></th>
<th>FY11 £m</th>
<th>FY10 £m</th>
<th>FY09 £m</th>
<th>FY08 £m</th>
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<tr>
<td>Assets</td>
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<tr>
<td>Non-current assets</td>
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<td>133</td>
<td>153</td>
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<td>Client and other receivables</td>
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<td>439</td>
<td>438</td>
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<td>Cash and cash equivalents</td>
<td>106</td>
<td>91</td>
<td>53</td>
<td>83</td>
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<td>Total non-partner assets</td>
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<td>671</td>
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<td>Liabilities</td>
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<td>Trade and other payables</td>
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<td>(237)</td>
<td>(204)</td>
<td>(252)</td>
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<td>Provisions</td>
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<td>(131)</td>
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<tr>
<td>Total non-partner liabilities</td>
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<td>(317)</td>
<td>(335)</td>
<td>(325)</td>
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<td>Assets less liabilities</td>
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<td>354</td>
<td>310</td>
<td>344</td>
<td>291</td>
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<tr>
<td>Total partners’ interests</td>
<td>380</td>
<td>354</td>
<td>310</td>
<td>344</td>
<td>291</td>
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For full Financial Statements please visit www.allenovery.com/annualreview.
Responsible business practices

Our people

Geographical split by number of staff

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<thead>
<tr>
<th>Region</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Change</th>
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<td>Western Europe</td>
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<td>30%</td>
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<tr>
<td>Asia</td>
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<tr>
<td>Central and Eastern Europe</td>
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<td>7%</td>
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<tr>
<td>US</td>
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<tr>
<td>Middle East</td>
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Ratio of men to women

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<tbody>
<tr>
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<td>Trainees</td>
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<td>Support</td>
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Global headcount

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<th>2010</th>
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<td>Partners</td>
<td>487</td>
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<tr>
<td>Associates</td>
<td>1,624</td>
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<tr>
<td>Trainees</td>
<td>528</td>
<td>528</td>
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<tr>
<td>Support</td>
<td>2,137</td>
<td>2,137</td>
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</tr>
<tr>
<td>Total</td>
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Average ages

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<td>Partners</td>
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<td>45</td>
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<tr>
<td>Associates</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>0%</td>
</tr>
<tr>
<td>Trainees</td>
<td>26</td>
<td>26</td>
<td>26</td>
<td>0%</td>
</tr>
<tr>
<td>Support</td>
<td>38</td>
<td>38</td>
<td>38</td>
<td>0%</td>
</tr>
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Environment

In May 2011, we achieved our aim of > 70% recycling within the first year of a new waste and recycling contract in London with a 72% reduction. We have also introduced a food waste stream and replaced all plastic cups with compostable equivalents as part of a revised building management strategy.

With new offices in Belfast and Washington, D.C. and one opening in Casablanca the firm is continuing to grow and this will undoubtedly challenge us to ensure that our environmental impacts do not grow at the same rate.

Carbon Reduction Commitment

Within our London offices, the building related carbon dioxide emissions1 have reduced from 21,906 (CY2007) to 19,291 tCO22 (CY2010), representing a 11.9% reduction.

To facilitate compliance with the UK’s CEEES Order 20103, we are also measuring our emission reduction across the financial year. For FY 2011/2012, we are aspiring to further reduce our London emissions by 7%. This will be achieved by changes to the air conditioning operating settings, lighting strategy, lighting specifications and the Bishops Square Building Management System. The opening of our Belfast office will change our UK emissions profile.

Pro bono and community affairs

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of hours spent on pro bono and community affairs work by our lawyers</td>
<td>41,718</td>
</tr>
<tr>
<td>Percentage of our lawyers who recorded time on pro bono work</td>
<td>30%</td>
</tr>
<tr>
<td>Total value of hours spent on pro bono and community affairs work (equivalent to billable time)</td>
<td>£14.31m</td>
</tr>
<tr>
<td>Average number of hours spent on pro bono and community affairs work per lawyer</td>
<td>20.6 hours</td>
</tr>
</tbody>
</table>

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**1 On-site combustion and purchased electricity**

**2 Based upon submissions to the Legal Sector Alliance and calculations of 2010 emissions from our Bishops Square and Bank Street offices**

**3 Carbon Reduction Commitment Energy Efficiency Scheme Order 2010**

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* People numbers are the average for 12 months ended 30 April 2011. **‘Associates’ here means consultants, counsel, senior associates and associates. ‘Trainees’ includes paralegals and other fee earners. *** Ethnicity statistics are for the UK and US only. We are not able to monitor ethnicity in other offices, principally for legal reasons. **** Unknown includes those who have declined to state.
News in brief

Allen & Overy is an international legal practice comprising Allen & Overy LLP and its affiliated undertakings. Each undertaking is a separate and distinct business. The global organisation, Allen & Overy, is not a legal entity nor a partnership and does not itself provide (directly or indirectly) any legal or other client services. Neither Allen & Overy nor any person accepts any duty of care or liability for any loss incurred by any person acting or refraining from acting as a result of any material in the Annual Review 2011. The term ‘partner’ in the Annual Review 2011 is used to refer to a member of Allen & Overy LLP, a partner in an affiliated undertaking, a director, an employee or a consultant with equivalent standing and qualification or an individual with equivalent status in one of Allen & Overy LLP’s subsidiary undertakings. The term ‘member’ in the Annual Review is used to refer to a member of Allen & Overy LLP. For more information visit our website at www.allenovery.com.

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Allen & Overy announces three new offices

Morocco
In July 2011 we announced the launch of an office in Casablanca which made us the first of the global elite law firms to establish a presence on the African continent and underlines our commitment to continued growth in emerging markets.

Washington, D.C.
In July 2011, we announced and opened an office in Washington, D.C. with three new partners joining the firm to bolster our leading US Regulatory practice. Washington, D.C. is an important location as the hub of US government and this new office demonstrates our continued commitment to expand our presence in the US.

Belfast
In February 2011, we announced plans to open an office in Belfast in autumn 2011. The office will contain a Support Services Centre delivering some core internal business support processes, as well as a Legal Services Centre delivering some of the routine or less complex elements of legal work. It will ensure we can deliver the efficiencies and cost-effectiveness of a global business of our size and help us meet client demand for alternative resourcing models, without compromising service quality.

New partners 2011
In April 2011, 21 promotions to partner took place across 13 offices; 15 of these were based outside London.

- Abu Dhabi
  Nick Stuart – Corporate
- Amsterdam
  Brechtje van der Velden – Litigation
- Antwerp
  Tom Schoors – Litigation
- Beijing
  Jane Jiang – International Capital Markets
- Bratislava
  Renáts Kollár – Banking
- Dubai
  Seth Jones – Corporate
- Frankfurt
  Thomas Neubaum – Banking
- Hamburg
  Nicolas Ascherfeld – Corporate
- Jakarta
  Andrew Digges – Banking

London
Simon Fuge – Risk Management
Sachin Davé – International Capital Markets
Jamie Durham – International Capital Markets
Duncan Bellamy – Corporate
Anthony Sinclair – Litigation
Christopher Woolf – Real Estate

Luxembourg
Frank Mausen – International Capital Markets

Munich
Alexander Veith – Corporate

New York
John Kibler – Banking
David Lucking – International Capital Markets
Erwin Dweck – Real Estate

Paris
Brice Henry – International Capital Markets

Strengthening the practice
Existing offices and practices were bolstered with market-leading talent during the financial year through 16 lateral hires in key financial centres, including France and Germany, in addition to 47 in Australia.

Improving access to law
In February 2011, the Smart Start experience, A&O’s UK work experience scheme, featured in a BBC documentary: ‘Who gets the best jobs?’. In addition to raising the profile of the scheme, which is now in its third year, the programme gave A&O’s senior partner, David Morley, the opportunity to share his views on ways that law firms can improve access to the legal profession.

* Andrew has partner equivalent status. He is currently seconded to Allen & Overy’s associate firm Ginting & Reksodiputro in Jakarta where, for regulatory reasons, he practises as a foreign legal consultant.
Deal highlights

Perth
We advised Equinox Minerals on the AUD1.8 billion Citadel Resource Group takeover, their AUD4.8 billion bid for Lundin Mining, proposed takeover by Minmetals, and the Barrick Gold offer to purchase all Equinox shares for AUD7.1 billion.

Brussels
We advised C-Power and its sponsors on the EUR1,289 million phase II and III financing for the construction and operation of its offshore wind farm project off the Belgian coast near Zeebrugge. This is the largest financing in the offshore sector ever and will bring a capacity of 295 MW, bringing the total capacity of the wind farm to 325 MW upon completion.

Hong Kong
We acted for Wanhua Industrial Group, a majority owned entity of the Yantai Municipal government of the PRC, its acquisition of Hungarian chemicals company BorsodChem, creating the world’s third largest isocyanate manufacturer. The innovative acquisition strategy involved lawyers from our offices in Beijing, Budapest, Hong Kong, London, Prague and Warsaw.

We also advised Asian Development Bank on its RM1.2 billion offshore bond offering, the first of its kind to be issued by a supranational issuer.

Milan/Rome
We advised Andromeda PV S.r.l, a project company sponsored by SunPower Corporation on the banking, securitisation and underlying project finance elements of the world’s first publicly listed and rated solar bond and Italy’s first rated project bond. We also advised on tax matters. This was the first time that Italian securitisation law had been used in the context of a project bond structure and an underlying project financing.

Amsterdam
We scored a major victory for the Dutch energy company Delta in a procedure before The Hague Court of Appeal against the State of The Netherlands. In a ground-breaking judgment the Court of Appeal ruled that certain provisions of the Electricity Act and the Gas Act relating to the mandatory split up of production, supply and trading of electricity and gas on the one hand and the network activities (the distribution grids of electricity and gas) on the other hand were found to be in violation of the Treaty on the Functioning of the European Union, more specifically the free movement of capital.

Warsaw
We advised the Warsaw Stock Exchange on its IPO which is regarded as one of the most significant transactions in the history of the Polish capital market.

Riyadh
We advised Saudi Aramco Total Refining and Petrochemical Company (SATORP) on the award-winning USD14.2 billion Jubail Refinery and Petrochemical project.

Singapore
We advised the underwriters on the USD5.8 billion Singapore-listed IPO by Hutchinson Port Holdings Trust. This IPO is the largest in Southeast Asia to date.

London
We acted for the joint bookrunners on the EUR3.4 billion increaseable and extendable letter of credit facility for transportation manufacturer Bombardier. The facility differs from a standard letter of credit facility by giving Bombardier the flexibility to increase its value or extend the terms with all or some of the banks or by bringing in new banks. As far as we or any of the banks are aware, this is the first time a letter of credit facility as flexible as this has been done.

We also advised on a deal to bring high-speed internet access to the world’s ‘other three billion’ not served by current broadband structure. O3b Networks, the satellite venture backed by investors, including Google and SES S.A., the world’s largest satellite operator, has secured USD1.2 billion funding needed to launch eight satellites closer to earth (Medium Earth Orbiting Satellites), providing a stronger signal than existing commercial satellites.

New York
We advised the Depository Trust and Clearing Corporation (DTCC) on the formation of its joint venture with NYSE Euronext to form New York Portfolio Clearing (NYPC). NYPC is the first clearing solution to “bridge” the securities and futures worlds.

We also advised Novartis, the fifth largest pharmaceutical company in the world, on its complex USD50 billion acquisition of the global leading eye-care company, Alcon. It was the largest acquisition in Novartis’ history and the biggest ever in Switzerland.
“On the Job” by Shaoqing Bian, China. This image was taken from the Royal Photographic Society’s 154th International Print Exhibition, sponsored by Allen & Overy. This is the longest standing exhibition of its kind in the world and it has gained a reputation for showcasing a wide range of genres and styles of photography. Each year the exhibition is hosted at Allen & Overy’s London office before being taken on tour.

To see all the images from the exhibition visit www.rps.org