

ONCE AN INFLEXIBLE STATE-OWNED ENTERPRISE, AUSTRIAN STEELMAKER VOESTALPINE IS NOW ONE OF EUROPE'S MOST DYNAMIC BUSINESSES. BRIGITTE WIMMER, SENIOR VICE PRESIDENT OF TREASURY, TELLS **GRAHAM BUCK** HOW THE COMPANY TRANSFORMED ITSELF.

PHOTOGRAPHER: ROGER HARRIS

# Steel appeal

For an example of a former state-owned entity keen to promote the benefits of privatisation, you could do worse than study the history of Austria's leading steelmaker, voestalpine. The company's plant in the city of Linz was built 70 years ago, as part of the National Socialist regime's defence industry on the eve of the Second World War, while the group itself was established as the United Austrian Iron and Steelworks (Vöest) in 1945 and nationalised a year later.

In the 1970s, a merger with Alpine Montan created Vöest-Alpine. As the group's website frankly states, the enlarged company "became synonymous with all the negative connotations of nationalised industry", with party politics taking priority over profitability and efficiency.

It was this tightly controlled state-owned entity that Brigitte Wimmer, Senior Vice President, Treasury, at voestalpine, joined 25 years ago after studying economics while based at one of Austria's local banks.

The steady transformation of the group since the 1980s from state producer to one of Europe's most efficient and profitable manufacturers has consistently offered her a challenging and rewarding position. So much so, that she has never been seriously tempted to move elsewhere. Today's voestalpine is Austria's second-biggest industrial group, and Europe's third-biggest steelmaker after Arcelor Mittal and Thyssen Krupp.

"In addition to liking the company, I like the people I work with," Wimmer says.

Her work with the group divides into two periods. The first, which preceded the group's part-privatisation in October 1995, comprised working in various positions within the finance department. Any treasury functions were carried out by the state-owned steelmaker's holding company.

The process of change began in 1985, when Vöest-Alpine's trading company burned its fingers in the London oil market. The entire board resigned and the company restructured to become part of state-owned steel and oil conglomerate Austrian Industries. It pulled out of the US market the same year. These events marked the beginning of a modernisation process that led to what was the country's largest privatisation a decade later.

In 1993, the group, which was by then known as Vöest-Alpine Stahl, had three separate divisions. Two years later, a heavily oversubscribed initial public offering (IPO) reduced the state's holding in the group to less than 40%. Wimmer was given the task of setting up a treasury division for the newly privatised voestalpine.

This was also a slimmer entity, as the specialist steel division had

already been hived off through a separate IPO. However, the wheel turned full circle last year when voestalpine acquired a majority stake in Böhler Uddeholm. The friendly takeover saw the group see off rival bidder private equity firm CVC Capital Partners, which had made an unsolicited approach, and effectively reunited the group with its former specialist steels division.

**HEAD OF TREASURY** In the 13 years since the group's privatisation, Wimmer has presided over a group that has steadily increased in size, assisted by several takeovers. Group sales for the business year 2007/08 are expected to comfortably exceed €10bn, compared with €2.5bn at the time of privatisation, while the total workforce has more than doubled over the period to more than 40,000.

"My job has also changed considerably over the same period. We're not just much bigger, but also much more diversified as a group than we were in the mid-1990s, with additions such as our automotive parts division to look after now."

She says this diversity makes the group very different in composition and strategy from Europe's two other steel giants.

"We're much more of a specialist producer, working further with the steel to produce high-quality products and serving very different customers."

With Böhler Uddeholm back within the group, voestalpine now has five main units:

- flat-rolled steel products and processing;
- specialist steel products used in industries such as automotive, power generation, petrochemicals and aircraft;
- railway systems: rails, switches/turnout systems, railway infrastructure, tubes and wire;
- automotive: providing parts and components to car makers; and
- sophisticated steel sections and tubes.

Although the steelmaking industry has traditionally been male-dominated, Wimmer says that this dominance is less marked in finance, including treasury.

"Women may not have equality, but there are still good opportunities for them to establish themselves when they are ready to invest the same time and energy for the job."

Her own team has "a good mix" of men and women and she believes this makes for the best combination of talents.

While voestalpine's treasury division has expanded over the years, its growth has been more modest than that of the group's turnover and





activities. Wimmer says she began with a team of seven; today she heads nine full-time workers and another two home-based workers who are part-time. "Treasury software has grown so much more sophisticated than it was when the department was first set up that we haven't needed a bigger increase in the size of the team," she explains.

In recent years, the team has been involved in a number of fundraising activities. The privatisation process was completed in 2005, when the state gave up its remaining stake and the group was fully in the hands of private shareholders for the first time.

What the group describes as "the largest industrial investment programme in Austrian history", dubbed Linz 2010, was stepped up following this further privatisation. In the same year voestalpine launched a €250m convertible bond.

This same period has also seen a steady and relentless rise in the price of commodities ranging from oils to base metals. The group responded two years ago by establishing a risk management team specifically for its raw materials purchases and contracts. The unit manages and hedges commodity and currency risks, as well as the group's energy requirements. However, Wimmer adds that the group is unable to hedge against iron ore and coal, two of the group's most basic requirements.

Fortunately, the group has a long-term deal with the Erzberg iron ore mine, in close proximity to its Linz plant. This produces a third of its iron ore requirements and has enough reserves to keep producing for another 30 to 50 years. Supplies are further assured through long-term contracts with iron ore producers in Ukraine, and supplies are imported via the Black Sea and the Danube to the group's riverside plant. Coal is supplied through contracts with mines in Poland.

"We've certainly felt the impact of higher commodity prices," says Wimmer. "Fortunately, we've been able to mitigate the effects in our own prices by passing on some of these higher costs."

**IN THE PRESS** The group was back in the pages of the financial press last autumn, when it was among the first to venture back into the European bond markets after the credit crunch. In early October it ambitiously tested the water with a €1bn hybrid bond, to part-finance the Böhler Uddeholm acquisition; it was the largest hybrid ever brought to the market by an unrated company.

"The hybrid was a new and interesting instrument that we are proud to have used," says Wimmer. "Although the timing was difficult, with retrospect it turns out to have been ideal."

"It was only a few months ago. We wouldn't try to attempt something similar now as it would be much more expensive."

She adds that the group opted for a hybrid rather than a standard bond as it could be accounted for as equity, with less impact on the gearing ratio.

"It also enabled us to peg the interest rate. The disadvantage is that, at a rate of 7.125%, it was a little more expensive than a normal bond, but still compared fairly well with the cost of equity."

Looking to the future, Wimmer believes that bringing a similar-sized offering to the market in 2008 will prove tough. "Although the recent very difficult conditions are likely to ease before too long, it's likely to take a long time before we ever get back to the conditions that prevailed until last summer."

Although voestalpine is not a major exporter to North America, the darkening economic clouds in the US are still a concern. The group's diversity is some comfort and it expects the newer member countries of the EU to grow in importance as customers. Privatisation has also introduced a focus on cost savings and efficiencies that has further increased the company's attraction to investors.

Another "tough issue" for the group is the EU's increasingly demanding requirements on emission levels, which the group's Chief Executive has indicated could see it locating new production facilities outside Europe.

"Our plant was established right in the very centre of Linz, which means it has invested heavily over the years to limit its pollution levels," says Wimmer. "We have an excellent track record compared with many of our peers, but the new requirements don't appear to differentiate between groups that have devised a strategy for limiting their emissions and those that do not."

**CONSERVATIVE STANCE** Wimmer says the treasury department adopts a fairly conservative stance in both its appetite for risk and its investment strategy.

"We restrict our investment to good-quality bonds rather than shares and complicated constructions."

"On risks such as interest rate hedging and foreign exchange, our appetite is restricted to measures that are simple and can be understood by everyone, including our colleagues in the group's accounting and legal departments."

Not surprisingly, this policy may dismay the banks as it restricts their opportunities for earning fees. But she says that the strategy has paid off for the group especially in the recent volatile conditions.

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