

A VIEW FROM GERMANY

WITH UK-BASED THAMES WATER FOR MORE THAN 10 YEARS, **PETER MATZA** OF RWE NOW LIVES AND WORKS IN ESSEN, GERMANY. HERE IS HIS FASCINATING ACCOUNT OF LIFE 'OVER THERE'.

Travel, they say, broadens the mind. What they don't tell you, though, is what happens when you get where you want to be and then stop. That's where the Editor appears – briefly – in this tale. "Do you know a treasurer working in Europe who can tell us all about what it's like working 'over there'?" he asked. "Yes," came the reply, "we know just the right man you're after." So, with thanks to my sponsor and with a light heart, let us see if I am that 'right man'.

Before I begin, a few words of caution: by its nature a commentary such as this is both personal and selective and may contain generalisations that conflict with others' experiences.

THE THAMES TO THE RHINE. I shall start with a little history. In October 2000, Thames Water plc was acquired by RWE AG, one of Europe's leading energy utilities – itself enlarged by a domestic merger in January 2003. RWE's intention was to create a fourth core business to add to its existing utility offerings in power (electricity), gas and environmental services. At that time, Thames Water was the world's third largest water company – albeit some distance behind the leading two French water businesses, Lyonnaise des Eaux and Vivendi Environnement. The more recent acquisition of the US's largest investor-owned water business, American Water (completed for \$8.6bn in January 2003), has significantly closed the gap.

I had been with Thames for more than 10 years at that stage, helping to create a modern treasury operation following privatisation in October 1989. Our small team had grown both in size and experience, and felt itself to be centrally involved in the development of Thames Waters' business, especially its international expansion. Latterly, I had responsibilities for treasury operations internationally and capital markets activity on a centralised basis.

During the late 1990s, I had travelled extensively to southeast Asia, the US and Chile, and relished the contact with other cultures and business practices, so far removed from the cosy world of the Thames Valley. However, the arrival of RWE was to have a significant impact on my career. In particular, the centralisation of capital markets activity – a sensible 'one brand' approach to debt management – led to an opportunity for me to join the RWE finance team in Essen, Germany. My post was created following the merger,



The RWE Tower in Essen 'The Glass Giant' ©RWE

- **Electricity**
No. 1 in Germany,
No. 3 in UK,
No. 3 in Europe
- **Gas**
No. 2 in Germany,
No. 3 in UK,
No. 6 in Europe
- **Water & Wastewater**
No. 1 in UK/Germany,
No. 1 in US
No. 3 Worldwide
- **Waste**
No. 1 in Germany

BUSINESS PROFILE



requiring the knowledge and aptitude of a seasoned corporate treasurer with comprehensive capital markets and debt experience. I now have responsibilities for public and private debt issuance at the RWE Group level through a €20bn medium term note (MTN) programme and a range of related treasury activities.

Since I joined RWE in August 2001, the RWE Capital Markets team has been responsible for the first utility 30-year Eurobond (January 2003), the largest 15-year Eurobond to date (July 2003) and the largest non-UK corporate sterling bond financing (April 2002). In 2002, alone RWE issued more than €10bn worth of public and private bonds.

DIFFERENT CULTURES. At a recent intra-company seminar involving colleagues from the UK, Germany and the US, our facilitator used careful analogies to explain the differences between these cultures.

The English may be reflected in their apparent passion for gardening – a mainly private occupation. Americans, by contrast, may best be summed up in the quarter-back of a US football team – hours of study and practice, changed in 18 seconds of personal decision-making and responsibility-taking. Germans, however, might best be seen as the audience of a symphony orchestra – when the concert is over, the conversation is not on the emotion generated from the music, rather on how well or how badly the playing was.

RWE is based in Essen, in the heart of Germany's most populous and one of its most prosperous states, North-Rhein Westphalia. Essen lies at the heart of Germany's traditional 'smokestack' industry region, the Ruhr, but that emphasis has changed over the years as coal and 'metal-bashing' industries have restructured. However, it is comfortably the centre of Europe's power industry, with RWE, E.ON (owner of Powergen), Ruhrcoal AG and a host of medium-sized players all based within a 30-mile (48km) radius. Mainly coal-fired – but increasingly cleaner and greener – power stations (*Kraftwerke*) dot the horizon in all directions. Essen also boasts the head offices of Aldi, the discount supermarket, and Karstadt, the retail department store chain.

While Essen does not completely suggest itself to the traditional British view of Germany – *lederhosen*, beer and sausages and dour citizens with little or no sense of humour – nor does it fully represent the modern image of Germany – shiny BMWs, high-tech engineering and Bundesliga (equivalent to the Premiership) football teams as cosmopolitan as any in Europe. (For those of you who know me, the fact that there are six Bundesliga teams within one hour's train journey of my apartment might think I would never be seen in the office.)

There is no doubt, however, that this part of Europe has a substantive standard of living built through enormous effort over the past 50 or so years. However, it is clear to this 'expat' observer that Germany is at a political, social and economic crossroads which, in British terms, resembles the early 1980s. The future of the social welfare and pension systems especially are generating intense debate in economic and political circles.

SOCIALISING. In British social terms, office life in Germany might appear dull. Little after-work socialising is done and the concept of a beer or two at Friday lunchtime has taken me many thirsty hours to explain. Individuals may well work in single offices or, in my case, share with one colleague, so the casual conversation and greeting of colleagues is mainly done during a definite lunch hour – roughly 12.15-13.15. (I regret to say that I have continued the British habit of often eating a sandwich at my desk.) This independence is reinforced by the relative formality in styles of personal address – all but close colleagues will generally use *Herr Matza* rather than 'Peter'. However,

generally, my eccentricities have been accepted – I don't think I've heard anyone else in the building whistling, for example – and everyone has been as warm and hospitable as I could have hoped. Of course, most speak excellent English and often other languages as well. To their credit, they have been polite enough to listen patiently as I have occasionally mangled their language.

Outside of work, Essen is reasonably self-contained and has pretty much all that one might hope for: plenty of reasonable bars and restaurants (with access to Sky Sports), sports and outdoor facilities (there are probably more tennis courts here than in southeast England), good transport links (even if the local trains are not quite as efficient as you might believe) and culture and history (especially the development of the industrial heritage). Interestingly, the language barrier is more noticeable, especially with locals over the age of 45, but is never really a problem that time and effort cannot resolve.

The modern world is intruding, however – not one but two Starbucks opened in Essen this year as part of a determined effort on colonising Germany. Recent changes in retailing law mean that shops now stay open to 6pm or even 8pm on Saturdays, although Sundays – apart from bakeries – remain quiet. To be fair, retailers are open in the week until 8pm as well. Sundays are for families – window shopping, buffet breakfasts and the *Sunday Telegraph* (€4) from the bookshop in the main station.

Since I have been here, the introduction of the euro has given me a rare opportunity to see if this grand experiment in financial engineering is going to succeed. The actual transition was superbly managed, with no noticeable disruption to ordinary commercial or business life. My colleagues, many of whom still make price comparisons in Deutschmark, are generally of the view that it afforded retailers a one-off price rise but that the current recession has mitigated these effects. Cash portability is useful but hardly critical, although having a bank account in euros has its uses for travel in the euro zone.

On a practical level, it is a currency like any other and has no material impact on daily life. I am not sure, however, that the full political implications of this step have yet been thought through by the German/European electorate.

RWE: KEY TREASURY FACTS

- **Annual turnover.** Financial Year 2002, €46.4 Bn.
- **Gearing.** We do not use a specific figure but Net Debt (31 March 2003) €22.5 bn.
- **Rating.** S&P, Moody's, Fitch – Long-term, senior, unsecured :S & P is A+ (Negative Outlook), Moodys is A1 (Negative Outlook).
- **Number of employees:** Year end 2002, 132,000.
- **Listing:** Frankfurt (Luxembourg for EMTNs).

RWE CORPORATE MILESTONES

RECENT TAKEOVERS/ACQUISITIONS.

- 2000 Merger RWE/VEW
- 2000 Acquisition Thames Water Plc (€7.2 bn).
- 2002 Acquisition Transgas (€4bn) and Innogy plc (€8.5bn).
- 2002 Acquisition American Water Works (Jan 2003, €8.6bn).

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REFRESHINGLY DIRECT. In business terms, Germans are refreshingly direct. If they have a question, they will expect an answer. Meetings are not designed for the purpose of 'fleshing out possibilities' – they have a purpose and everyone will be expected to contribute to the highest level of his or her experience and technical knowledge. They have an eye for detail and ensuring technicalities do not derail a project. Of course, given the nature of our markets, treasury operations must be flexible, but even then the parameters of action will be clearly understood.

One particular difference of note, with respect to UK business practice, which affects all corporate decisions, concerns the position of dual Boards: a Supervisory Board, which is (in UK terms) 'non-executive', but has representatives of all the stakeholders in RWE's business, and an Executive Board made up of the CEO, CFO and two other Executive Directors. In practice, the Supervisory Board exercises considerable executive influence on corporate life. Clearly,

there is a substantial body of commercial law which governs these structures and the authority of corporate officers but, in my opinion, the interplay of these Boards is still critical to the formulation of policy and the strategic direction of major German businesses (for example, witness the recent management problems at Bertelsmann or WestLB). The cult of the CEO is relatively unknown and there are few high social profile business managers to match the Richard Bransons (Virgin) or Chris Gents (Vodafone) in the UK.

Since I have been in Essen, RWE has become one of the leading corporate debt issuers in Europe, vying with the likes of Siemens, EdF, Deutsche Telekom and E.ON for the 'investor wallet'. In some ways this echoes some of my experience in my earlier days at Thames Water, as the treasury team, and the company as a whole, have developed individual and collective skills and experience.

It has been a fascinating two years which I have thoroughly enjoyed – and the task is by no means over yet. Although the company is in a consolidation phase, there are plenty of interesting and difficult finance challenges ahead. Although I had travelled with Thames Water, this opportunity to work overseas – albeit in a familiar European environment – has been a tremendous learning experience. As things currently stand my initial contract terminates in 2004, but I am sure it will prove very difficult not to continue to be a part of RWE's success.

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