NYRSTAR

LOWERING MARKET RISK AND ESTABLISHING A PLATFORM FOR INTEGRATED OPERATIONS

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Maarten de Leeuw,
General Manager of Commercial Operations,
Nyrstar Sales & Marketing AG

QUICK FACTS

Company
- Name: Nyrstar NV
- Location: Balen, Belgium
- Industry: Mining – metals
- Products and services: Zinc, lead, silver, gold, and copper
- Revenue: €2.7 billion
- Employees: Over 4,800
- Web site: www.nyrstar.com

Challenges and Opportunities
- Integrate disparate processes and systems from merged companies
- Gain tighter control over and insight into business risks and processes
- Reduce manual data entry
- Establish the culture of a single, global operating entity

Objectives
- Eliminate the need to work in duplicate systems
- Establish a single IT platform
- Implement a global IT solution to support risk management activities

SAP® Solutions and Services
- SAP® ERP application
- SAP Treasury and Risk Management application
- SAP Best Practices for Mining package
- SAP Consulting

Implementation Highlights
- Finished on time and on budget
- Tapped into SAP expertise and support for best practices

Why SAP
- Proven software solution
- Strong support for processes specific to the mining industry

Benefits
- Simplify IT architecture
- Retire over 10 legacy systems
- Establish a singular, enterprise-wide culture
- Standardize and streamline critical business processes
- Increase insight into the quantities of raw materials and finished goods
- Improve management of risk and working capital
- Empower business to run with fewer resources
- Demonstrate to auditors the ability to fulfill hedge accounting requirements

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When the value of raw materials and finished goods impacts profitability, firms like Nyrstar NV – a mining industry leader – need tightly integrated processes and insight into all business information. By deploying the SAP® ERP and SAP Treasury and Risk Management applications, Nyrstar tightened control over its newly formed business. It also created a culture aligned around a single set of data and processes. "SAP software provides the platform we need to run a successful business," says Phil Palmer, CIO for Nyrstar.

Hampered by Disparate Systems and Processes

Nyrstar, the world's largest producer of zinc, was formed in 2007 through the spin-off of a business by Zinifex and Umicore and the merger of this business into Nyrstar. As a global company, Nyrstar operates smelters and mines on five continents. At each point in its production processes, Nyrstar must track and value the metal units on hand and understand the associated market risks. Not only can the quantity of metal concentrate in raw materials change during manufacturing, but the value of the metal can fluctuate from the time of purchase to the time Nyrstar sells it as a finished good. To inform its daily trading decisions, the firm needs to globally manage its metal sales, purchases, and movements. It must also integrate this information with its metal risk management, hedge management, and metal valuation processes.

After the merger, Nyrstar ran duplicate systems for raw material procurement, sales, hedging, and metal accounting. It also ran two instances of SAP ERP. To calculate the firm's metal price exposure, its finance staff manually entered data into spreadsheets for analysis. Nyrstar couldn't track metal globally, because the information was in different systems. Plus, reliance on manual data entry led to inaccurate data. Without an integrated and accurate hedge book, Nyrstar couldn't track exposures appropriately and would sometimes agree to certain hedges with a broker only to later find out that the exposure had been over- or understated. According to Heinz Eigner, CFO for Nyrstar, "Basing our trading decisions on inaccurate exposure data led to serious consequences for our business."

As a global business, Nyrstar must comply with International Financial Reporting Standards (IFRS). One of the standards under IFRS, International Accounting Standard 39 (IAS 39), requires the application of hedge accounting firms to demonstrate a one-to-one relationship between their items at risk and their hedge. "You can't hedge the cumulative exposure," says Eigner. "Your hedge needs to mirror each commercial transaction. If you are unable to do this, you introduce substantial volatility to your profit and loss performance – making it impossible to evaluate business performance."

Struggling to Establish an Integrated Business

Following the merger, Nyrstar strove to establish a global sales and marketing function. But with duplicate systems and processes for procurement, Nyrstar would sometimes purchase materials from a single supplier using different names and prices for those materials. The firm also lacked a single view of its metal sales. At times, its smelters sold the same metal to a single customer using different names, prices, and delivery dockets. This confusion trickled down through all processes, leading to inefficiencies and a poor business image.

Nyrstar wanted its employees to feel part of a single business, but the company's IT infrastructure reinforced the old culture. "Some employees acted as if they were working for their old company instead of the newly formed Nyrstar," says Palmer. "We wanted our employees to take on global roles and understand the business as a single global entity."

Though Nyrstar was an integrated business, its systems didn't reflect that. "With two different systems, we couldn't easily track the flow of goods within our business," adds Palmer. "This made it difficult to run the business efficiently, track

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Phil Palmer, CIO, Nyrstar NV

metal content throughout our processes to limit our market risk exposure, and manage our working capital." To achieve its goals and reinforce its new identity, Nyrstar decided to build a new IT infrastructure.

Tapping into Industry-Specific Support from SAP

Because both Zinifex and Umicore had been using SAP ERP, it was natural for Nyrstar to consider SAP software as the foundation of its newly formed business. Based on SAP's support for processes specific to the metal commodities industry, Nyrstar chose to implement SAP ERP along with the SAP Best Practices for Mining package and the SAP Treasury and Risk Management application. According to Palmer, "We were impressed with the ability to handle assays and our complex raw materials contracts. In fact, we had not seen that support in a commercial software offering. Moreover, we wanted to leverage the ability of SAP software to capture all transactions within the supply chain and transfer them to our exposure management process."

"Others in our industry insisted there was no software that could support our industry requirements and allow us to manage our flow of raw materials and end products while at the same time providing high-quality risk management information," adds Maarten de Leeuw, general manager of commercial operations for Nyrstar Sales & Marketing AG. "We were pleased to find that SAP software does just that."

Working with SAP, Nyrstar implemented the software on time and on budget. SAP Consulting provided guidance on designing the architecture and supplied expertise for each functional team within Nyrstar, including contract to cash and metal accounting. Nyrstar also took advantage of the SAP Best Practices for Mining package to design its raw materials purchasing and finished goods sales processes.

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Heinz Eigner, CFO, Nyrstar NV

Streamlining IT and Business Processes

With the SAP software deployed, Nyrstar gained a simplified IT architecture and retired more than 10 legacy systems. The new software also enabled improved processes for contract to cash, metal price and currency hedging, metal sales and purchasing, tracking and quantifying risk exposure, tracking raw material and finished goods, and financial closing. "With support for commodity pricing, we streamlined our commodity contract-to-cash process," says de Leeuw. "Contract terms are defined once and then automatically evaluated throughout the process."

Nyrstar has also centralized and globalized its commercial operations. Today a single sales and marketing organization works from one database and integrated processes. The firm has also consolidated the global purchasing function in its headquarters. "We used to have people looking after operations on each continent where we conduct business," explains de Leeuw. "But with SAP software in place, we can run our business with fewer people."

Gaining Enhanced Control over the Business

Now that its employees no longer work in two systems, the company knows the exact amount of metal units on hand at any given time. Nyrstar has also benefited by developing a solution for metal accounting based on new general ledger functions within SAP ERP. "The special ledger functionality lets us create subledgers for each metal type, empowering us to track individual metal elements within a product," says Palmer. "With SAP ERP, we can globally manage our metal sales, purchases, and movements, which are now integrated with our SAP software–supported metal risk management, hedge management, and metal valuation processes across our commercial function."

Nyrstar is now better equipped to manage risk and minimize the impact of metal price volatility on its business. "With the SAP solutions, we gained increased visibility across all our metal flows and centralized management of our global risk exposures," says Eigner. "As a result, we can better manage our primary business risk around commodity price volatility. Plus, we're now in a position to demonstrate to our auditors that we can fulfill the hedge accounting requirements of IAS 39."

The flexibility of Nyrstar's SAP software enables the company to calculate and manage all of its different pricing formulas. This is done by leveraging the relevant link to valuations based on the prices quoted at the London Metal Exchange, including average metal payables, impurity penalties, and treatment and refining charges. "Furthermore, the SAP software provides substantially improved visibility into customer and product profitability," says de Leeuw.

With global visibility into all stock movements, Nyrstar can manage working capital more effectively. "In the middle of the recent financial crisis, we had better control over our capital than we did in the past," adds Palmer.

Focusing on a Strong Future

Through innovative decision making and a foundation based on SAP ERP, Nyrstar has become an integrated company and is now positioned to be the partner of choice in essential resources. Next, Nyrstar plans to take advantage of SAP ERP to support supply chain planning as well as sales and demand forecasting and to model its metal management processes for planning, budgeting, and simulations. "We are pleased to see that SAP is further developing the software we're using," says Palmer. "We will continue to co-innovate with SAP in this area through our engagement in SAP's customer-driven industry advisory council for mining. By operating a lean, efficient, dynamic, and flexible business underpinned by SAP software, we can focus on building a strong and sustainable future and creating value for all our stakeholders."

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