

MANAGING MONEY IN MINING

JOAO LOJA, TREASURER OF SOMINCOR, EXPLAINS HIS ROLE CONTROLLING THE CASHFLOW, DEBT, FOREIGN EXCHANGE AND OTHER FINANCES OF A COPPER AND TIN MINING PROJECT IN SOUTHERN PORTUGAL.

As treasurer of Somincor I am responsible for a wide range of areas including managing financial flows, the planning and execution of hedging programmes, the control of payments and receivables, forex dealing, project finance, global finance planning and reporting, and the management of the mine closure investment fund.

A typical week usually begins at the weekend. I'll use this time to catch up with my reading and keep up to date with the markets. I'll also start planning for the following week. But the real work begins on Monday morning when I meet for an update with the production and commercial departments. I'll also have a discussion with the financial manager about the markets in which Somincor operates.

During the day another member of staff will perform a brief reconciliation between the downloaded information from our bank software and our treasury information system to confirm our cash and bank positions. This is crucial to ensure we have an up to date cashflow model.

Although the cashflow model has an annual outlook, our main concerns are on a short-term basis. The activity during the week in the different markets, foreign exchange or metals, either spot or related to hedging programmes, has this model as a basis. We also use this method in our short-term financing or cash investment decisions.

Somincor operates in the commodities market and, although it has long-term sales contracts, the prices are calculated based on the daily prices of the London Metal Exchange (LME). The proceeds of the sales are US dollar denominated and represent more than 95% of the inflows; however, the same currency only represents 30% of the outflows. In addition, because of our US dollar vs Portuguese escudo exposure, it is periodically necessary to propose to the Board relevant hedging programmes, for both metals and dollar exposure, and as soon as they are approved we start their execution.

FINANCING AND CASHFLOW. The Somincor project was financed 40% by shareholders' equity, 40% by long-term loans with the European Investment Bank (EIB), and the remaining 20% by local Portuguese banks.

Since starting commercial activity in 1989 all new investments

have been financed by a generated cashflow and more recently, due to conditions in the metals markets, by leasing contracts. Our short-term borrowing requirements are, depending on terms, always met by issuing commercial paper issues (these are rated by Portuguese agency, Companhia Portuguesa de Rating), or by setting up a credit line with one or two local banks.

One of my most important roles is the control and management of debts, and in 1998 Somincor changed its debt profile concerning interest rate definitions and currency exposures. Somincor first renegotiated with EIB and then adjusted to our needs with a swap. Receivables control from clients is simplified because of the small number both of shipments and sales and clients. During the 13 years the company has been undertaking commercial business it still doesn't have any bad debts, and payments arrive, to the pre-defined bank accounts, according to our cash plan, with a margin of no more

SOMINCOR

Somincor is the owner and operator of the Neves-Corvo Mine, located in Southern Portugal and the largest copper and tin mine in western Europe. The deposits at Neves Corvo were discovered in May 1977 and after several years of evaluations Somincor was formed in 1980. The mine development project started in 1981, in 1985 Rio Tinto bought 49% of the company and in 1989 commercial activity started. Today we have medium term plans to start producing zinc concentrates that will extend the lifespan of the mine until 2030.

The two shareholders of Somincor are EDM, representing the Portuguese government, with 51%, and the Rio Tinto Group, with 49%, and we have excellent relations and support from both shareholders.

'TREASURY ALSO MANAGES A FUND THAT WILL BE USED WHEN THE MINING PROJECT HAS FINISHED TO RESTORE THE LANDSCAPE AND ENVIRONMENT AFFECTED BY THE MINING OPERATIONS'

than one or two days after maturity date.

Thursday is our busiest day of the week. This is when all payments to our suppliers takes place and it requires a high number of invoices to be processed and reviewed before a payment order can be raised. However, with the recent implementation of SAP systems, we hope to make things easier, improving the use of banking software and internet access to Portuguese and foreign banks. SAP will also reduce bank costs in our payments to foreign suppliers.

The payments to suppliers and those related to capital expenditures are also monitored for the purpose of EU grants and

subsidies (for investment and staff training). This is another important area where the treasurer needs to take control at the beginning, gaining approval from official bodies such as the Portuguese government and EU entities. During the initial phase, for bank loans for specific investments, presentation of documents to ensure the collection of grants and subsidies, and related bank guarantees, until the end of the investment project.

ENVIRONMENTAL FUND. The Treasury department also manages a 'closure fund' that will be used when the mining project comes to an end, which will be used by the company to restore the landscape and environment affected by the mining operations. Monthly provisions are added to the fund and it is important to access what bonds, or securities, we want to add, including rating, maturities and quality of the financial products.

OTHER FUNCTIONS. Another important area for the treasury department is the process of payment of dividends, considering the payment itself in different currencies, all tax issues, and the reporting to official bodies, such as the Central Bank of Portugal, National Statistics Institute (INE) and Institute for National Commerce. This reporting is carried out on a monthly basis and related with foreign exchange deals and movements in accounts held in London.

Three years ago Somincor, then based in Lisbon, faced its first negative financial results and to maintain its competitiveness was forced to reduce operating costs. One of the first things to go was the Lisbon office, which housed both its commercial and financial departments.

The commercial area has now been transferred to the port facilities, located some 45km south of Lisbon and some 160km northwest of the mine location, and the financial department, including accounting, IT, insurance, has relocated to the mine site.

When we initially relocated our business functions we were concerned about our banking relationships, as a result of being far away from the financial centre. We initially thought that we would face a major problem. However, we have overcome this hurdle by increasing our use of electronic banking, which also helps save a lot of time. But we also ensure we maintain our relationships with banking personnel by regularly meeting them either at the mine or in Lisbon far away from the daily routine of work.

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