

SE Business  
HD **Arrium needed the injection: Smedley**

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WC 654 words  
PD 17 November 2014

SN The Australian

SC AUSTLN

ED Australian

PG 21

LA English

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Retiring Arrium chairman Peter Smedley has defended the timing of the group's shock \$754 million equity raising in September, saying the dramatic slump in the iron ore price left the company with no alternative but to raise funds to shore up its balance sheet.

Arrium launched the raising only weeks after revealing its annual profit result in a bid to reduce its debt position as iron ore prices plunged to five-year lows and its steel business floundered.

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"From my point of view and the company's point of view, the timing wasn't in our hands. For the last several months (before the August board meeting for the annual results), the price had been in the US90c-US95c range and that was the basis upon which the board contemplated its results for last year, and what shareholders should get out of that in terms of dividend," Mr Smedley told The Australian ahead of Arrium's annual general meeting in Sydney today, when he will step down as chairman.

"From the time of our board meeting in August to the decision we made in September, the price of iron ore was down to the low \$US80s.

"The mood of the country had changed in relation to iron ore pricing and what was coming out of China. It was quite clear that projecting longer-term scenarios on what this might mean for the company, the thing that we had to do was to plan for an environment that was going to be much tougher than the company and the industry had assumed in the past. Therefore we determined we had to go for a sizeable capital raising. It was the right time to go and it has been a successful raising." The rights issue was snubbed by retail and institutional shareholders, leaving about 20 per cent of Arrium's expanded register in the hands of the underwriters and sub-underwriters.

While their extent will never be publicly known, UBS and its sub-underwriters booked substantial losses on the deal.

But Mr Smedley said that from the company's perspective, the raising had been successful. "Some have commented it has not been successful but the funds are there. We have achieved what we wanted to achieve, which was to strengthen the balance sheet," he said.

While he did not name UBS, he commended Arrium's "bankers" for sticking by the company in "tough times". He said: "One thing about having a banker is that you need them in tough times. The takeout from a banking and commercial point of view as a chairman of a board (is that) I would be looking at the way the banker . . . gave you what you needed. Because that is when you need them.

"This company, one way or another, has had a relationship with its banker for 14 years." Asked if he would change anything about the raising in hindsight, Mr Smedley replied: "No. I think we acted on the information that we had and the reading of the market is what changed." He said if the company had waited to raise capital, it would be confronted with a far more difficult task. "If you look at it now, how difficult would it be to achieve in today's environment?" he said.

Iron ore prices last week slumped to a five-year low of almost \$US75 a tonne. Mr Smedley confirmed he had planned to step down as Arrium chairman in 2011, but was forced to stay on after then chief

executive Geoff Plummer said he wanted to retire. "Ideally, from my point of view, I would have stepped down in 2011," he said. The extension meant he spent 14 years as chairman, which some investor groups have criticised as being too long.

Mr Plummer was eventually replaced by Andrew Roberts. Mr Smedley said Arrium was well placed for the future.

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