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HD **Arrium Plans Share Sale to Pare Debt; Hurt by Drop in Iron-Ore Prices, Miner to Issue \$681 Million in New Stock**
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SYDNEY—Arrium Ltd. decided two years ago to branch out into the **iron-ore** market to offset waning demand for its core product, steel.

Now, with **iron-ore** prices tumbling, the Australian **company** says it will seek to reduce debt by issuing 754 **million** Australian dollars (US\$681 **million**) in new shares.

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The shares will be issued at 48 Australian cents each. That is 26% below the stock's closing price of 65 Australian cents a share on Monday. The amount of cash raised will nearly match the **company's** market value of A\$888 **million**. The **company** had A\$1.71 **billion** in net debt on June 30.

"While the **company** last month reported it had achieved significant progress with debt reduction, **iron-ore** prices have fallen significantly in the last month to five-year lows and there is increased uncertainty over the extent and timing of recovery," Arrium Chairman Peter Smedley said in a written statement Monday.

Prices for **iron ore**, which is used to make steel, have fallen as supply rises and **China's** growth slows. Spot prices are around US\$82 a metric ton, less than half the high of US\$190 reached in 2011, but still more than five times the level of 2004.

Big **mining** companies such as Rio Tinto and BHP Billiton continue to increase production because efficiencies of scale allow them to profit. That makes it harder for smaller operators such as Arrium to break even.

Mining costs at Arrium's Southern **iron** operation in Western Australia are around US\$89 a metric ton, exceeding the current spot price, Credit Suisse estimated this month. Contractual commitments to customers and costs associated with idling the mine could pressure the **company** to keep producing.

"I'm surprised they didn't raise capital earlier," said Tim Schroeders, a fund manager at Pengana Capital, which doesn't hold Arrium stock. "It is probably a forgone opportunity by the board to raise **equity** at a much higher A\$1.40 to A\$1.50 per share."

Arrium shares traded as high as A\$1.80 in January, but have been hurt by the sharp slide in **iron-ore** prices. The **company** in 2012 rejected a takeover bid from South Korean steel producer Posco and commodities trader Noble Group Ltd. pitched at 88 Australian cents a share.

Arrium's decision to raise capital came a week after smaller Australian **mining company** Western Desert Resources Ltd. appointed voluntary administrators.

Other **mining** companies are under pressure as well. Cliffs Natural Resources Inc. has hired bankers to sell its mines in Australia because the **company** has had difficulty competing. Labrador **iron** Mines Holdings Ltd. in Canada this summer halted all **operations**, saying prices were too low to cover costs.

Steel producers, meanwhile, are facing an oversupply as **China**'s construction boom cools.

Australian steelmakers have been further stung by strong a domestic currency, which has made exports less profitable. This month's drop in the Australian dollar to below 90 U.S. cents for the first time since March may offer a glimmer of hope.

CO onestl : Arrium Limited

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