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Four-month outage hurts ArcelorMittal

But the 'real story' in the steel industry remains rising costs

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STEEL maker ArcelorMittal SA yesterday reported a R52m headline loss for the year ended December, compared with headline earnings of R1,4bn previously, with much of the blame falling on unscheduled production outages.

The group said earnings before interest, tax, depreciation and amortisation halved from the earlier period to R1,7bn, mainly on the back of a primary furnace outage at its Newcastle works in KwaZulu-Natal.

Profit from operations plunged 86% and total steel shipments were down 7%, with exports falling 26%.

But poor market conditions and an industry strike also squeezed margins, along with the continuing slump in SA's construction industry, and slow new investments in regional mining.

"(Last year) turned out to be quite a difficult year. We thought the market had bottomed out, but things did not quite go as expected from the second half," CEO Nonkululeko Nyembezi-Heita said yesterday.

She said the operating environment had shown a marked deterioration in the second half due to the euro-zone debt crisis, and continued weakness in South African construction, mining and manufacturing.

But the "real story" in the industry continued to revolve around costs. Operating costs were severely affected by price escalations for raw materials and electricity, which started in 2010 and continued into last year.

"We had to contend with unrelenting pressure on operating margins, as production costs climbed 19%, while steel prices rose only 12% on average," Ms Nyembezi-Heita said.

Nonkululeko Nyembezi-Heita

ARCELORMITTAL SA

Full Year	2011	2010
Revenue (Rbn)	31,5	30,2
Pretax (Rbn)	0,126	1,84
Net Profit (Rbn)	0,008-	1,35
Diluted HEPS (c)	(13)	343
Dividend (c)	55	150

It was the four-month outage from a major structural failure of the blast furnace dust-catcher at Newcastle, though, that really hit production, along with several other stoppages, including a planned repair that took 43 days at the group's Saldanha plant.

The group is also labouring under the suspension of a favourable 6,25-million ton annual supply agreement from Kumba's Sishen iron-ore mine.

In light of protracted court and arbitration proceedings around mining rights, iron-ore prices, one of the company's top input costs, had nearly doubled for the bulk of its supply.

"The results were disappointing but to a certain degree expected, given the operational issues and market conditions," Rubin Renecke, equity analyst at Kagiso Asset Management, said yesterday. "Besides the operational issues, I think the bigger concern is the large increase in raw material costs."

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