Steel

OPERATING REVIEW

The Steel Flow Control results have been negatively impacted by reserves for specific potential bad debts totalling £3 million, including £2 million relating to one of its US customers, which filed for Chapter Eleven bankruptcy protection in May 2012.

The acquisition of Metallurgica was completed on 29 March 2012. Metallurgica is one of the world’s leading suppliers of mould flux used alongside refractory products in the enclosed continuous steel casting process. The business has been integrated into the Steel Flow Control product line and made a positive contribution in 2012, in line with expectations.

Integration of both SERT and Metallurgica continues with increasing benefits from the elimination of agents and commercial responsibility being absorbed by the Vesuvius commercial organisation. In the USA this has allowed us to secure a number of upgrades to Flow Control Systems at thin slab casters.

We have continued to focus our efforts on developing innovative technical solutions around the continuous caster. The latest robot compatible Tundish Tube Changer (SEM3085) and the first products of our new Robotic Casting Technology (“RCT”) range have been launched with contracts already secured in Europe, Asia, South America and the USA.

We have also successfully launched our innovative new concept Ladle Slidegate (LT80) which offers a ‘Plug & Play’ replacement for existing Flow Control Systems.

Construction associated with the project to double the capacity of the existing facility in Trinec, Czech Republic to service more effectively the Eastern Europe and CIS steel market is complete. Equipment installation, commissioning and production ramp-up is ongoing. The new facility in Brazil to improve the efficiency of raw material processing and sourcing is also progressing well and is on schedule to be operational during 2013.

ADVANCED REFRACTORIES

Global iron and steel production represents more than 75% of the end-markets for Advanced Refractory’s products and services, with the remainder arising from a variety of non-steel markets including the cement, lime, aluminium, power generation, petrochemical and waste incineration industries.

Revenue of £476 million represented a 10% decrease compared with 2011 at constant exchange rates. The decrease in revenue was wholly due to a reduction in revenue in Andreco-Hurll, the refractory lining installation operation based in Australia, and a conscious effort to exit low-margin business in other regions. As part of the division’s strategy of exiting low-margin businesses, on 24 July 2012, Andreco-Hurll was sold to Veolia Environmental Services for a cash consideration of approximately Aus$8 million (£5 million). In the first half of 2012, Andreco-Hurll had revenue of £12 million and a trading profit of £0.6 million. Andreco-Hurll revenue in 2011 was £57 million. Excluding the Andreco-Hurll business, revenue in 2012 decreased 1% over 2011. While the installation market has been exited, a refractories manufacturing and sales business has been retained in Australia, with investment being made in a new production facility.
Raw material prices, notably for dead-burned magnesite — the single most important raw material for Advanced Refractories — were largely stable during 2012, following large increases in 2011. The stability of the pricing was due to a large strategic purchase of magnesite, with some of the increase in inventory offset by negotiated extended payment terms.

In addition to the new investment in Australia, a new monolithic Advanced Refractory facility was completed towards the end of 2012 in Ras Al Khaimah, United Arab Emirates at a total cost of £4 million and will serve the fast-growing Middle East market. Local production will facilitate greater penetration of the Advanced Refractories product line allowing short lead times and production flexibility.

An investment was made in the USA to increase capacity by 50% in ELBY production, the revolutionary patented concept of producing cleaner steel and improving customer output yield by up to 2%, as well as reducing the endemic problem steel mills face downgrading steel when producing short-run specialised steels.

In addition, restructuring of the sales and marketing teams in South America, North America and Europe was introduced towards the end of the year, which will bear fruit in 2013. As well as restructuring and management changes, technical and marketing training was also reinvigorated.

Selling price increases were achieved in line with inflation and no margin loss was experienced due to cost increases. Overall, margin percentage for the business increased, although some of this increase was offset as a result of sales reducing by £53 million. The first half of 2012 had shown very positive results, but the sudden downturn in the second half of the year affected overhead recovery and thus reduced second half margins. Operating costs include a bad debt charge of £6 million.