ARRIUM LIMITED

RESULTS FOR ANNOUNCEMENT TO THE MARKET

FINANCIAL YEAR ENDED 30 JUNE 2014

Comparison to previous corresponding period (pcp)	Movement	% Change		A$ million
Total revenue from ordinary activities	up	2.4%	to	7,006.6
Profit from ordinary activities after tax attributable to ordinary equity holders	up	NC*	to	205.4
Net profit for the period attributable to ordinary equity holders	up	NC*	to	205.4

* NC = Not comparable

Dividends	Final Dividend 2014	Interim Dividend 2014
Amount per security	3.0c	6.0c
Franked amount per security	0.0c	0.0c
Amount per security declared to be conduit foreign income	0.0c	0.0c
Total dividend and dividend payment (A$ million)	41.0	81.7

	Date
Ex-dividend date for Final Dividend	10 September 2014
Record date for determining entitlement to Final Dividend	12 September 2014
Last day to elect to participate in the Dividend Reinvestment Plan (DRP)	15 September 2014
Date payable (on or around)	16 October 2014

Net tangible assets	30 June 2014	30 June 2013
Net Tangible Assets per security ($)	1.29	1.19

Details of Associates and Joint Venture Entities

Name of associate or joint venture entity	Associate or Joint Venture Entity	Percentage holding June 2014	Percentage holding June 2013
BOSFA Pty Ltd	Joint Venture	50%	50%
GenAlta Recycling Inc.	Joint Venture	50%	50%

Details of entities over which control was gained during the period

Name of entity	Date
Arrium Mining Sales Asia Limited	30 July 2013
Arrium Mining Services Asia Limited	26 July 2013
Moly-Cop Finance UK Limited	19 May 2014

There were no entities over which control was lost during the period.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan (DRP) provides eligible shareholders with an option to use dividend entitlements to acquire Arrium Limited ordinary shares. Participation is optional.

The DRP price is the arithmetic average of the daily volume weighted average market price during the 10 Trading Days (or any other number of Trading Days as the Board may determine) commencing on second Trading Day immediately after the Record date (rounded to two decimal places).

The DRP will operate for the final dividend. The last date of receipt of DRP election notices is 5.00 pm on 15 September 2014.

No discount applies to the DRP.

Other disclosures

Further ASX Appendix 4E disclosures are located in the Arrium Limited Financial Report and Operating and Financial Review.

This report is based on a Financial Report that has been audited and is not subject to any dispute or qualification.

ASX RELEASE

19 August 2014

STRONG FY14 RESULTS THROUGH SUCCESSFUL STRATEGY EXECUTION

ARRIUM HIGHLIGHTS[i,ii,iii,iv]

- Sales revenue $7,007 million, up 2% pcp
- Underlying NPAT $296 million, up 83% pcp
- Underlying EPS 21.8c, up 79% pcp
- Strong cash generation
  - Statutory operating cash flow $679 million
  - Proceeds from divestments $240 million
- Net debt reduced by $407 million to $1,708 million and leverage ratio[v] substantially improved to 2x
- Record Mining EBITDA $686 million, up 86% pcp
- Mining Consumables continued to deliver strong earnings and cash
- Steel EBITDA and cash positive despite ongoing weakness in domestic demand
- Recycling – significant positive turnaround

ARRIUM FINANCIAL RESULTS

- Record underlying EBITDA $864 million, up 38% pcp
- Underlying NPAT $296 million, up 83% from $162 million pcp
- Underlying EPS 21.8c up 79% from 12.2c pcp
- Record statutory EBITDA $781 million, up 47% pcp
- Statutory NPAT $205 million, up from NLAT $701 million pcp
- Statutory EPS 15.1c up from -52.0c pcp
- Statutory operating cash flow $679 million, up 4% from $653 million pcp
- Statutory net debt $1,708 million, reduced $407 million from $2,115 million end FY13
- Statutory gearing 31.4%, down 5.3 percentage points from 36.7% end FY13
- Underlying leverage ratio 2x down from 3.4x pcp
- Final dividend 3 cents per share

Arrium Mining

- Full benefits of recent Mining and Whyalla Port expansions
- Record export hematite sales of 12.5Mt, up 51% from 8.3Mt pcp
- Record EBITDA of $686 million, up 86% from $368 million pcp
- Average loaded cash cost[vi] A$48/wmt
- Realised average price US$111/dmt (91% of average Platts 62% Fe index price)
- Average grade ~60% Fe
- Completed $86 million magnetite project on time and on budget
- Expect to be at ~13Mtpa run rate in Q1 FY15

Arrium Mining Consumables

- Underlying EBITDA $187 million – strong earnings and cash
- Continued strong demand for grinding media in North and South America
- Maintained stable grinding media margins
- Australasia – weaker demand for rail wheels, grinding media sales impacted by new tax in Indonesia
- Grinding media production in Indonesia now ramping up
- Grinding media capacity expansion at Kamloops, Canada progressing to schedule
- 7% CAGR FY14-19 – expected grinding media demand in North and South America
- Strong customer support for next generation SAG ball

Arrium Steel

- Steel business EBITDA and cash positive despite ongoing weakness in domestic demand
- Underlying Steel EBITDA $51 million, down from $64 million pcp – weaker volumes
- Continued to lower cost base – includes ~$30 million cost synergies from single Steel business
- Well positioned to benefit from increased construction activity, particularly infrastructure
- Underlying Recycling EBITDA from continuing operations $12 million – significant improvement

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RESULTS COMMENTARY

Mining and materials group, Arrium Limited (ASX:ARI) today announced that underlying net profit after tax (NPAT) for the year ended 30 June 2014 was $296 million, an increase of 83% on underlying NPAT for the prior year of $162 million. Statutory NPAT for the year was $205 million[1], up from a statutory net loss after tax (NLAT) of $701 million for the prior year. Statutory operating cash flow was strong at $679 million.

The strong cash outcome led to a $407 million reduction in net debt to $1,708 million, from $2,115 million at the end of the prior year. The lower net debt and record EBITDA significantly improved the company's leverage ratio to 2 times, from 3.4 times for the prior year.

Arrium Managing Director and CEO, Mr Andrew Roberts said: "The marked increase in earnings and cash generation for the year reflects the ongoing successful execution of our growth strategy, including the recent expansion of our Mining business. This enabled pleasing outcomes on our priority of reducing debt and improving leverage."

The substantially higher underlying NPAT was due primarily to record earnings in the Mining business, which achieved record and above target export hematite iron ore sales of 12.5 million tonnes.

"We are now realising the full benefits from our Mining expansion, and this has underpinned a 79% lift in underlying earnings per share to 21.8 cents, the company's highest since FY08.

"Underlying EBITDA for the year was a record, increasing 38% to $864 million primarily reflecting record earnings in Mining and another strong contribution from the Mining Consumables business. Underlying operating cash flow was strong at $746 million, and an additional $240 million was generated from the sale of non-integrated assets and properties.

"Operationally, our Mining business delivered EBITDA of $686 million, an increase of 86% on the prior year and a record for the business. Export hematite iron ore sales were up 51% to 12.5 million tonnes, which was above our post expansion target rate of 12 million tonnes per annum. This was a very pleasing outcome, and one that demonstrates the benefit of increased flexibility in our mining operations and supply chain as a result of the recent expansion.

"Our Mining Consumables business contributed a solid $187 million of underlying EBITDA, underpinned by continued strong demand for grinding media in North and South America. In Australasia, earnings were adversely affected by weaker grinding media sales related to the new minerals value added tax in Indonesia, and a decrease in rail wheel sales due to delayed capital investment and maintenance expenditure in the mining sector, and sales to South Africa. Grinding media sales in Indonesia are now ramping up following our major customer placing orders with Moly-Cop Australasia in August 2014 after it reached an agreement with the Indonesian Government on the new tax.

"Our Steel business continued to be adversely affected by ongoing weakness in domestic construction markets and a high Australian dollar, however sales volumes increased towards the end of the financial year, and this has continued into the current financial year. The business lowered its cost base further and again delivered a positive underlying EBITDA and cash outcome for the year. The lower cost base positions the business well for increased domestic construction activity, particularly increased infrastructure investment. In Recycling, further cost and operational improvements including repositioning our facility footprint led to a significant lift in underlying EBITDA for the year.

"It has been a very pleasing year with the delivery of much stronger earnings, record cash, lower net debt and an improved leverage ratio. Going forward, we remain focused on maximising value for shareholders," Mr Roberts said.

[1] Includes $36m restructuring costs, $8m asset impairment primarily related to discontinued operations, $28m tax adjustments (mainly adjustment to MRRT deferred tax asset) and $19m associated with discontinuance of the Steel Transformation Plan. Details of the reconciliation between statutory and underlying results can be found in the attachment to this announcement.

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RESULTS SUMMARY

Statutory	Jun-14 $m	Jun-13 $m	% Change
Total Operations			
Sales revenue	7,007	6,841	2%
EBITDA	781	532	47%
EBIT	401	(715)	156%
Net profit/(loss) after tax	205	(701)	129%
Operating cash flow	679	653	4%
Net debt	1,708	2,115	(19%)
Gearing (net debt / net debt + equity)	31.4%	36.7%	-5.3pp
Earnings per share (weighted average) - cents	15.1	(52.0)	129%

Underlying	Jun-14 $m	Jun-13 $m	% Change
Total Operations			
Sales revenue	7,007	6,841	2%
EBITDA	864	625	38%
EBIT	497	309	61%
Net profit after tax	296	162	83%
Operating cash flow	746	659	13%
Leverage Ratio (net debt / EBITDA, 12 month rolling basis)	2.0	3.4	(41%)
Earnings per share (weighted average) - cents	21.8	12.2	79%

Details of the reconciliation of non-statutory to statutory results can be found in the attachment to this announcement.

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SEGMENT ANALYSIS

ARRIUM MINING

- **Realising benefits of recent Mining and Whyalla Port expansions**
- **Record export hematite sales of 12.5Mt, up 51% from 8.3Mt pcp**
- **Record EBITDA of $686 million, up 86% from $368 million pcp**
- **Average loaded cash cost A$48/wmt**
- **Average price US$111/dmt (91% of average Platts 62% Fe index price)**
- **Average grade ~60% Fe**
- **Completed $86 million magnetite project on time and on budget**
- **Expect to be at ~13Mtpa rate in Q1 FY15**

The Mining business continued to perform well through the year, realising the benefits of the expansion completed mid last year to double export hematite iron ore sales and the capacity of Arrium's wholly-owned port at Whyalla.

Revenue increased 61% to $1,569 million, from $977 million in the prior year due mainly to a 51% increase in sales volumes from 8.3 million tonnes to 12.5 million tonnes.

The Whyalla Port continued to perform to expectations following completion of the expansion to double its capacity to ~13 million tonnes per annum. In addition to enabling increased export volumes, the expansion has provided sprint capability through the new infrastructure, as well as increased shed capacity that provides good coverage for product blending. A new tug fleet was commissioned in May which provides greater weather resilience and faster barge towage. A number of new records were established, particularly in the second half of the year including a record loading month of 1.3 million tonnes in August 2013, a record vessel loading of 201k tonnes in April 2014, and a record cape vessel loading rate of 3.9 days in May 2014.

Demand for iron ore remained strong during the year, underpinned by continued strong steel production in China. The average Platts 62% CFR index price for the year was US$123/wmt, down 3% on the prior year average of US$127/wmt. Market prices were relatively strong through to December before trending down over the balance of the year. The decline was due to factors including an increased supply of iron ore, the tightening of credit in China, higher port stocks, and increased discounting, particularly related to an increase in supply of lower grade ores in the fourth quarter.

Arrium's average price for the year was US$111/dmt CFR, down on the prior year average of US$117/dmt. This represents 91% of the average Platts CFR 62% index price for the 2014 financial year. In Australian dollars, Arrium's average price was $123/dmt. The average grade for total sales of 12.5 million tonnes was ~60% Fe. The average loaded cash costs for the year was lower than both the prior year and guidance at A$48/wmt.

EBITDA for the year was a record $686 million, up 86% on the prior year's EBITDA of $368 million due largely to increased export volumes. EBIT increased 93% to $481 million, from $249 million for the prior year.

The business completed its $86 million magnetite project at the end of the first half, on time and on budget. This included installation of a tertiary crusher and modifications to the existing grinding circuit to allow the concentrator to treat a wider range of ores, as well as maximize product recovery. The project is expected to deliver an additional ~400 thousand tonnes per annum of magnetite concentrate.

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ARRIUM MINING CONSUMABLES

- **Underlying EBITDA $187 million – strong earnings and cash**
- **Continued strong demand for grinding media in North and South America**
- **Maintained stable grinding media margins**
- **Australasia – weaker rail wheels demand, grinding media impacted by new tax in Indonesia**
- **Grinding media production in Indonesia now ramping up**
- **Grinding media capacity expansion at Kamloops, Canada progressing to schedule**
- **7% CAGR FY14-19 – expected grinding media demand in North and South America**
- **Strong customer support for next generation SAG ball**

Mining Consumables continued to be a strong contributor to the company's earnings and cash outcome for the year. The Moly-Cop grinding media businesses in North and South America, which accounts for the majority of segment sales, continued to perform well.

Total revenue for the year was $1,538 million, down 2% on the prior year largely due to lower sales in Australasia. Total grinding media sales were down 2% on the prior year at 980 thousand tonnes, almost entirely related to Australasia. Sales volumes for North and South America were relatively flat compared to the prior year which included the business deciding to forgo some sales in the first half. A greater focus by customers on 'value in use' in the second half saw the business win more than its market share of new projects and expansions in that period, with volume benefits expected to flow from FY15.

Demand for grinding media remained strong during the year underpinned by high levels of mining activity, particularly copper, gold and iron ore in our key markets of North America and South America, despite softer commodity prices compared to the prior year. Arrium expects strong demand in North and South America to continue with its analysis indicating a compound annual growth rate of 7% for the period FY14 to FY19.

In Australasia, grinding media sales in Indonesia for the second half were significantly lower than the first half as mining customers reacted to a new minerals value added tax by winding back production of copper and gold concentrate, and therefore demand for grinding media. Demand for rail wheels continued to be affected by delayed capital investment and maintenance expenditure in the mining sector, including lower sales into South Africa. Weaker demand in Australasia led to restructuring of the Waratah, Newcastle facility in the second half, which is expected to deliver annualised cost savings of ~$15 million.

The business commenced the roll out of its next generation large grinding media (SAG ball) during the year. This next generation ball wears at a slower rate and is expected to further strengthen the business' strong competitive position, and deliver benefits through a volume/price trade-off.

Mining Consumables maintained stable grinding media margins and continued to generate strong earnings and cash. Underlying EBITDA for the year was $187 million, and EBIT was $140 million.

The two capacity expansions in Peru and Indonesia were completed on time and budget during the financial year, providing a total of 90,000 tonnes of additional capacity.

The 120 thousand tonne capacity expansion at Kamloops, Canada is continuing to progress in line with schedule and budget for completion mid-2015.

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ARRIUM STEEL

- **Steel business EBITDA and cash positive despite ongoing weakness in domestic demand**
- **Underlying Steel EBITDA $51 million, down from $64 million pcp – weaker volumes**
- **Continued to lower cost base – includes ~$30m cost synergies from single steel business**
- **Well positioned to benefit from increased construction activity, particularly infrastructure**
- **Recycling repositioned around Australian south and east coast, and Asia non ferrous**
- **Underlying Recycling EBITDA from continuing operations $12m – significant improvement**

The Steel business continued to be adversely affected by ongoing weakness in domestic construction markets and a high Australian dollar, however sales volumes improved towards the end of the financial year, and this has continued into the current financial year. The business delivered a positive EBITDA and cash outcome for the year, incorporating the benefit of synergy benefits related to the establishment of a single steel business at the end of the prior financial year. The business' lower cost base positions it well for increased domestic construction activity, particularly increased infrastructure investment.

Across the segments, there were signs of improvement in residential construction activity, particularly high density residential apartment construction in capital cities. In non-residential construction, overall activity remained relatively flat and well below pre GFC levels despite an increase in commercial project activity in NSW. Engineering construction related to mining investment declined as a number of large projects were delayed or cancelled, but mining production as well as government funded infrastructure activity continued at solid levels.

Steel revenue decreased 3% compared to the prior year to $2,875 million due to the impact of lower domestic sales volumes, partly offset by a higher average sales price. Total sales volumes for the year were flat at 2.07 million tonnes, and included increased sales in the wholesale business mainly related to reinforcing and structural products, but lower sales in the retail business.

Underlying EBITDA of $51 million was down compared to $64 million for the prior year. Improved margins, synergy benefits from the establishment of a single steel business and underlying profit from asset sales were offset by the impact of lower sales volumes.

The business has had anti-dumping applications accepted by the Anti-Dumping Commission for structural steel products and rod in coil, and investigations are now underway. Combined, these products account for approximately 30% of total sales in the wholesale business. The business is continuing to assess whether it will lodge further anti-dumping applications with the Commission.

In Recycling, there was a significant transformation of its facility portfolio during the year to focus principally on the south and east coast of Australia, as well as improving its Asian non-ferrous business. The business achieved cost and operational improvements, including increased downstream recoveries, and together with improved volumes and margins in non-ferrous delivered a significant turnaround in earnings. Underlying EBITDA from continuing operations for the year was $12 million, up from an underlying EBITDA loss of $3 million for the prior year.

DIVIDEND

The Board announced today a final dividend of 3 cents per share unfranked. This brings total dividends for the year to 9 cents per share, and increase of 4 cents on the prior year. The company previously indicated that it has insufficient franking credits for paying franked dividends due to factors such as prior year tax adjustments and deductible research and development allowances. The extent which Arrium is able to frank dividends will depend on future earnings and the level of franking credits generated from tax paid in Australia.

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OUTLOOK

Mining

The demand for seaborne iron ore is expected to remain strong due to continued growth in crude steel production in China and declining production of higher cost Chinese ores. Market prices for iron ore are expected to better reflect their iron content and 'value in use' once the current increase of lower grade ores are absorbed.

Arrium's export iron ore sales for FY15 are expected to be ~13 million tonnes, with an average grade of ~60% Fe and a loaded cash cost in the range of A$48-$50/wmt.

Arrium has operational flexibility to maximize earnings and cash through varying grade, volume and cost. The business has increased its focus on cost reductions, as well as work to access lower cost ores from the Middleback Ranges sooner.

Mining Consumables

We expect continued strong demand for grinding media underpinned by high levels of copper and gold production, particularly in North and South America. Grinding media volumes in FY15 are expected to benefit from capturing at least our strong market share of the expected growth in demand for grinding media, as well as from the ramp up of sales in Indonesia. We also expect a modest improvement in demand for rail wheels in the Australasian business.

Earnings in Mining Consumables are expected to benefit from increased grinding media volumes, continued stable grinding media margins, as well as the annualised benefit of 'right-sizing' the Waratah, Newcastle operation.

Arrium Steel

In Steel, the stronger sales volumes at the end of FY14 due to the commencement of delayed projects and increased infrastructure and residential construction have continued into the current financial year. We expect earnings in the first half of FY15 to remain subject to margin pressure from ongoing weakness in international and domestic steel markets, but benefit from increased sales volumes, the annualised benefit of cost reduction in FY14, further cost and operational improvements in FY15.

In Recycling, the business is well positioned to build on its stronger FY14 performance through leveraging its repositioned footprint, further cost and operational improvements and from the impact of a stronger non-ferrous market leading into FY15.

ENDS

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Further information about Arrium Limited can be accessed via the website **www.arrium.com**.

Unless otherwise stated, this announcement contains certain non-statutory financial measures including underlying EBIT, underlying EBITDA, underlying NPAT, underlying earnings per share, underlying operating cash flow, underlying gearing and underlying effective tax rate. These measures are used to assist the reader understand the financial performance of the Group's operations. Non-statutory financial information has not been audited or reviewed as part of KPMG's report on the 2014 Financial Report. However, KPMG have undertaken a set of procedures to agree the financial information in this announcement to underlying information supplied by the Company. Details of the reconciliation between non-statutory and statutory financial measures can be found attached to this announcement. The ASX Release forms part of a package of information about the Group's Full Financial Results for the financial year ended 30 June 2014 and should be read in conjunction with the other 2014 financial results materials including the 2014 Full Year Results Presentation and the 2014 Financial Report.

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[i] Except as otherwise expressed, references in this document to net profit/loss after tax refer to net profit/loss attributable to equity holders of the parent.

[ii] Unless otherwise stated, certain financial measures referred to in this document, including underlying results and ratios based on underlying results are non-statutory financial measures, which have not been audited or reviewed as part of KPMG's audit report on the full year financial report. However, KPMG have undertaken a set of procedures to agree the financial information in this document to underlying information supplied by the Company. The Directors believe that using these non-statutory financial measures appropriately represents the financial performance of the Group's total operations including continuing and discontinued operations. All balance sheet items are based on statutory financial information. Details of the reconciliation of non-statutory to statutory results can be found attached to this document.

[iii] Segment results referred to throughout this release are those reported in the 2014 Financial Report. They are equivalent to segment underlying results.

[iv] Unless otherwise stated, June 2013 comparatives have been restated to reflect the application of the new Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and the revised AASB 119 Employee Benefits. Details of the impact of these accounting standards and interpretations can be found in Note 1 to the 2014 Financial Report.

[v] Net debt / underlying EBITDA, 12 month rolling basis

[vi] Includes mining, crushing, beneficiation, rail, road haulage and transhipping costs. Excludes capitalised costs (infrastructure, pre-stripping and mining licences) and depreciation and amortisation charges in respect of those costs, royalties, sales and marketing and corporate costs.

ATTACHMENT

Reconciliation between Underlying and Statutory Results

Year ended 30 June 2014	Statutory Results			Underlying Results				
Reconciliation between Underlying and Statutory Results	Continuing operations	Discontinued operations[1]	**Total Operations Statutory**	Restructuring costs[2]	Impairment[3]	Steel Transformation Plan[4]	Tax adjustments & Other items[5]	**Total Operations Underlying**
Sales revenue	6,562.0	444.6	**7,006.6**	-	-	-	-	**7,006.6**
Other revenue/income	112.0	13.5	**125.5**	-	-	-	-	**125.5**
Total revenue/income	6,674.0	458.1	**7,132.1**	-	-	-	-	**7,132.1**
Gross profit/(loss)	1,251.3	(71.3)	**1,180.0**	-	-	-	-	**1,180.0**
EBITDA	906.4	(125.3)	**781.1**	51.0	-	26.5	5.6	**864.2**
Depreciation and amortisation	(367.5)	-	**(367.5)**	-	-	-	-	**(367.5)**
Impairment	(8.7)	(4.4)	**(13.1)**	-	13.2	-	-	**0.1**
EBIT	530.2	(129.7)	**400.5**	51.0	13.2	26.5	5.6	**496.8**
Finance costs	(117.5)	-	**(117.5)**	-	-	-	-	**(117.5)**
Profit/(loss) before tax	412.7	(129.7)	**283.0**	51.0	13.2	26.5	5.6	**379.3**
Tax (expense)/benefit	(124.9)	48.5	**(76.4)**	(15.2)	(5.1)	(7.9)	22.8	**(81.8)**
Profit/(loss) after tax	287.8	(81.2)	**206.6**	35.8	8.1	18.6	28.4	**297.5**
Non-controlling interests	(1.2)	-	**(1.2)**	-	-	-	-	**(1.2)**
Net profit/(loss) after tax	286.6	(81.2)	**205.4**	35.8	8.1	18.6	28.4	**296.3**

1 Relating to the results of Australian Tube Mills, Merchandising and US Recycling businesses. Excludes intercompany transactions. Statutory EBITDA and statutory net profit after tax including intercompany transactions are $18.0m loss and $6.1m loss respectively.
2 Related to redundancies from organisational changes and other direct expenditure associated with business restructures.
3 Impairment of property, plant and equipment in Mining Consumables, Steel and Recycling and discontinued operations.
4 Relates to the write-off of outstanding grant receivable under the Steel Transformation Plan Act 2011 in Steel segment due to the repeal of the carbon tax from 1 July 2014 under the Clean Energy Legislation (Carbon Tax Repeal) Act 2014.
5 Relates to tax adjustments related to prior years, the net impact of Mineral Resource Rent Tax and other non-recurring costs.

Year ended 30 June 2013	Statutory Results			Underlying Results			
Reconciliation between Underlying and Statutory Results	Continuing operations	Discontinued operations[1]	**Total Operations Statutory**	Restructuring costs[2]	Impairment[3]	Tax adjustments & other items[4]	**Total Operations Underlying**
Sales revenue	6,084.9	756.1	**6,841.0**	-	-	-	**6,841.0**
Other revenue/income	92.5	21.4	**113.9**	-	-	-	**113.9**
Total revenue/income	6,177.4	777.5	**6,954.9**	-	-	-	**6,954.9**
Gross profit/(loss)	1,070.0	(18.3)	**1,051.7**	-	-	-	**1,051.7**
EBITDA	661.2	(129.5)	**531.7**	93.8	-	(0.7)	**624.8**
Depreciation and amortisation	(299.9)	(16.8)	**(316.7)**	-	-	-	**(316.7)**
Impairment	(245.4)	(684.7)	**(930.1)**	-	930.7	-	**0.6**
EBIT	115.9	(831.0)	**(715.1)**	93.8	930.7	(0.7)	**308.7**
Finance costs	(119.0)	(0.7)	**(119.7)**	-	-	-	**(119.7)**
(Loss)/profit before tax	(3.1)	(831.7)	**(834.8)**	93.8	930.7	(0.7)	**189.0**
Tax benefit/(expense)	67.2	68.6	**135.8**	(28.1)	(35.4)	(97.3)	**(25.0)**
Profit/(loss) after tax	64.1	(763.1)	**(699.0)**	65.7	895.3	(98.0)	**164.0**
Non-controlling interests	(2.1)	-	**(2.1)**	-	-	-	**(2.1)**
Net profit/(loss) after tax	62.0	(763.1)	**(701.1)**	65.7	895.3	(98.0)	**161.9**

1 Relating to the results of Australian Tube Mills, Merchandising and US Recycling businesses. Excludes intercompany transactions. Statutory EBITDA and statutory net profit after tax including intercompany transactions are $17.9m loss and $685.0m loss respectively.
2 Related to redundancies from organisational changes and other direct expenditure associated with business restructures.
3 Impairment of property, plant and equipment and intangible assets in the Recycling and Steel segments.
4 Relates to tax adjustments related to prior years, the net impact of Mineral Resource Rent Tax, gain on disposal of Steel and Tube Holdings and other non-recurring costs.

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![arrium MINING AND MATERIALS]

ATTACHMENT

FINANCIAL RATIOS

$A millions	FY14	Jun-14	Dec-13	FY13	FY12	FY11	FY10	FY09	FY08	FY07	FY06	FY05	Jun-14 to Jun-13
Group Results[1]													
Sales revenue	7,006.6	3,364.1	3,642.5	6,841.0	7,594.5	7,133.0	6,204.6	7,241.5	7,434.3	4,300.6	4,004.6	3,938.5	2.4%
Other revenue/income	125.5	51.1	74.4	113.9	121.8	44.2	56.3	66.3	50.5	33.9	39.0	34.6	10.2%
Total income	7,132.1	3,415.2	3,716.9	6,954.9	7,716.3	7,177.2	6,260.9	7,307.8	7,484.8	4,334.5	4,043.6	3,973.1	2.5%
Gross profit	1,180.0	485.9	694.1	1,051.7	1,197.7	1,484.6	1,234.0	1,587.5	1,681.2	837.2	798.7	787.0	12.2%
EBITDA	864.2	360.8	503.4	624.8	581.0	642.0	617.6	661.2	807.7	436.1	396.7	377.1	38.3%
Depreciation, amortisation & impairment	(367.4)	(186.4)	(181.0)	(316.1)	(221.4)	(213.5)	(203.9)	(199.5)	(194.9)	(96.2)	(94.0)	(97.5)	16.2%
EBIT	496.8	174.4	322.4	308.7	359.6	428.5	413.7	461.7	612.8	339.9	302.7	279.6	60.9%
Finance costs	(117.5)	(55.5)	(62.0)	(119.7)	(121.1)	(101.1)	(89.2)	(172.2)	(159.6)	(55.8)	(56.7)	(53.6)	(1.8%)
Profit before tax	379.3	118.9	260.4	189.0	238.5	327.4	324.5	289.5	453.2	284.1	246.0	226.0	100.7%
Tax expense	(81.8)	(22.5)	(59.3)	(25.0)	(37.5)	(84.8)	(81.6)	(64.1)	(128.0)	(74.7)	(60.8)	(55.4)	227.2%
Profit after tax	297.5	96.4	201.1	164.0	201.0	242.6	242.9	225.4	325.2	209.4	185.2	170.6	81.4%
Non-controlling interests	(1.2)	(0.7)	(0.5)	(2.1)	(5.9)	(7.2)	(2.3)	(10.1)	(10.2)	(11.9)	(13.6)	(17.5)	(42.9%)
Net profit after tax	296.3	95.7	200.6	161.9	195.1	235.4	240.6	215.3	315.0	197.5	171.6	153.1	83.0%
Non-trading items, net of tax													
- Restructuring costs	*(35.8)*	*(32.6)*	*(3.2)*	*(65.7)*	*(29.8)*	*(6.2)*	*(1.2)*	*(46.8)*	*(58.1)*	-	-	-	(45.5%)
- Impairment	*(8.1)*	*(7.4)*	*(0.7)*	*(895.3)*	*(125.4)*	*(1.5)*	-	-	*(12.0)*	-	-	*49.7*	(99.1%)
- Transaction costs	-	*0.0*	-	-	*(18.7)*	*(13.9)*	-	-	-	-	-	-	0.0%
- Steel Transformation Plan	*(18.6)*	*(18.6)*	*0.0*	-	-	-	-	-	-	-	-	-	100.0%
- Tax adjustments & other items	*(28.4)*	*(52.1)*	*23.7*	*98.0*	*36.5*	*16.5*	*19.0*	*61.0*	-	*9.5*	*15.9*	-	(129.0%)
Net profit after tax - statutory	205.4	(15.0)	220.4	(701.1)	57.7	230.3	258.4	229.5	244.9	207.0	187.5	202.8	(129.3%)
Total assets	8,002.3	8,002.3	7,921.7	8,168.8	8,931.4	8,343.3	7,067.7	6,933.1	7,291.5	3,569.5	3,138.8	3,087.1	(2.0%)
Total liabilities	4,271.4	4,271.4	4,044.4	4,517.6	4,430.8	3,837.6	2,575.0	2,596.8	3,862.1	1,919.5	1,637.2	1,698.8	(5.4%)
Total equity	3,730.9	3,730.9	3,877.3	3,651.2	4,500.6	4,505.7	4,492.7	4,336.3	3,429.4	1,650.0	1,501.6	1,388.3	2.2%
Net debt	1,707.7	1,707.7	1,975.4	2,114.9	2,143.3	1,728.4	963.7	1,223.9	1,947.2	769.8	638.8	645.3	(19.3%)
Funds employed	5,438.6	5,438.6	5,852.7	5,766.1	6,643.9	6,234.1	5,456.4	5,560.2	5,376.6	2,419.8	2,140.4	2,033.6	(5.7%)
Number of shares on issue (millions)	1,366.2	1,366.2	1,361.5	1,355.4	1,345.7	1,338.1	1,331.6	1,325.8	878.7	575.7	569.3	563.8	0.8%
Operating cash flow	746.1	367.2	378.9	658.5	519.5	463.1	653.2	370.8	522.2	515.3	417.8	235.9	13.3%
Free cash flow	310.8	141.5	169.3	136.5	68.8	225.7	480.0	183.2	215.3	157.4	203.4	109.0	127.7%
Capital and investment expenditure	435.3	225.7	209.6	522.0	719.0	1,244.2	206.8	190.9	2,475.0	360.5	227.6	127.5	(16.6%)
Return on equity (%) (PAT/average total equity)	8.1%	5.1%	10.7%	4.0%	4.5%	5.4%	5.5%	5.8%	9.5%	13.3%	12.8%	12.4%	4.1pp
Return on funds employed (%) (EBIT/average funds employed)	8.9%	6.2%	11.1%	5.0%	5.6%	7.3%	7.5%	8.4%	11.4%	14.9%	14.5%	13.7%	3.9pp
Sales margin (%)	7.1%	5.2%	8.9%	4.5%	4.7%	6.0%	6.7%	6.4%	8.2%	7.9%	7.6%	7.1%	2.6pp
Gross profit margin (%)	16.8%	14.4%	19.1%	15.4%	15.8%	20.8%	19.9%	21.9%	22.6%	19.5%	19.9%	20.0%	1.4pp
Earnings per share (cents)	21.8	7.1	14.8	12.2	14.6	17.7	18.2	21.2	34.9	34.7	30.5	27.5	78.7%
Dividends per share (cents)	9.0	3.0	6.0	5.0	6.0	10.0	11.0	10.0	21.5	18.5	17.0	13.5	4cents
Dividend payout ratio (%)	41.4%	42.8%	40.7%	41.8%	41.4%	56.8%	60.9%	49.2%	59.9%	69.6%	56.3%	49.6%	-0.4pp
Gearing (%)	31.4%	31.4%	33.8%	36.7%	32.3%	27.7%	17.7%	22.0%	36.2%	31.8%	29.8%	31.7%	-5.3pp
Interest cover (times EBITDA, 12 months rolling basis)	7.4	7.4	7.1	5.2	4.8	6.4	6.9	3.8	5.1	7.8	7.0	7.0	2.2 times
Leverage ratio (net debt/EBITDA,12 months rolling basis)	2.0	2.0	2.2	3.4	3.7	2.7	1.6	1.9	2.4	1.8	1.6	1.7	(41.2%)
Leverage ratio (net debt/EBITDA,12 months rolling basis) - statutory	2.2	2.2	2.5	4.0	4.3	2.8	1.5	2.1	2.7	1.8	1.6	1.5	(45.0%)
Net tangible assets per share ($)	1.29	1.29	1.34	1.19	1.20	1.39	1.77	1.66	1.53	2.38	2.15	1.95	8.4%
Employees	9,269	9,269	9,606	10,078	11,007	11,598	10,598	11,104	11,678	7,526	7,527	7,395	(8.0%)
Sales per employee ($000s)	756	363	379	679	690	615	585	652	637	571	532	533	11.3%
Iron ore tonnes sold (Mt)	12.47	6.35	6.12	8.28	6.29	6.04	6.03	5.07	4.46				50.6%
Raw steel production (Mt)	2.36	1.14	1.22	2.50	2.50	2.32	2.15	2.03	2.70	1.73	1.63	1.35	(5.6%)
Steel tonnes despatched (Mt)	3.20	1.48	1.72	3.26	3.31	3.19	2.75	2.76	3.53	2.28	2.27	2.26	(1.8%)

1 Unless otherwise stated, certain financial measures referred to in this document, including underlying results and ratios based on underlying results are non-statutory financial measures, which have not been audited or reviewed as part of KPMG's audit report on the 2014 Full Year Financial Report. However, KPMG have undertaken a set of procedures to agree the financial information in this document to underlying information supplied by the Company. The directors believe that using these non-statutory financial measures appropriately represents the financial performance of the Group's total operations including continuing and discontinued operations. Details of the reconciliation of non-statutory to statutory results can be found in the Attachment to this document. All balance sheet items are based on statutory financial information.

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Operating and Financial Review

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Financial Overview

The company delivered an underlying net profit after tax (NPAT) for the year of $296 million[1], compared to $162 million[2] for the prior year. Statutory NPAT was $205 million compared to a loss of $701 million for the prior year, and includes restructuring costs of $36 million, asset impairments of $8 million, tax adjustments of $28 million and $19 million associated with the discontinuance of the Steel Transformation Plan.

The $134 million increase in underlying NPAT was primarily due to stronger earnings in the Mining business as it achieved record export iron ore sales of 12.5 million tonnes, following completion mid last year of its expansion to double sales and the capacity of the company's wholly owned Port at Whyalla, South Australia.

Sales revenue for the year was $7,007 million, up 2% on the prior year due mainly to increased export iron ore sales, partly offset by lower sales in Steel.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) was $864 million, up 38% on the prior year due mainly to a significant increase in EBITDA for the Mining business, which was up 86% on the prior year to $686 million.

The Mining Consumables businesses continued to be a strong contributor to earnings delivering $187 million EBITDA for the year, while our Steel business maintained its positive EBITDA position, delivering $51 million despite weaker domestic and international steel markets. In Recycling, EBITDA from continuing operations improved significantly to $12 million from an EBITDA loss of $3 million in the prior year.

The sales margin for the year increased to 7.1% from 4.5% in the prior financial year due to higher sales margins in the Mining and Recycling businesses.

Finance costs were $118 million, down slightly from $120 million in the prior year.

Underlying earnings per share (weighted average) increased 79% from 12 cents in the prior year to 22 cents.

The underlying effective tax rate was 22% and largely reflects the company tax rate of 30% less the benefit of research and development tax allowances and overseas tax rate differences.

Underlying operating cash flow for the year was a record at $746 million. The company also generated $240 million from the divestment of non-integrated businesses and properties. The continued focus on cash generation, including initiatives such as tighter working capital management and asset sales led to net debt decreasing by $407 million to $1,708 million, from $2,115 million at the end of the prior financial year. Gearing decreased 5.3 percentage points to 31.4%, and the underlying interest cover was 7.4 times[3].

Total liabilities decreased 5% compared to the previous financial year, to $4,271 million, largely reflecting lower net debt.

The company successfully refinanced US$994 million of debt facilities during the year. The average interest rate for total drawn and undrawn funding is approximately 4%.

Total assets at year end were $8,002 million, down 2% on the prior year largely reflecting divestments made during the year.

1. Unless otherwise stated, financial measures in the Operating and Financial Review are underlying financial measures. A reconciliation of non-statutory to statutory results can be found on page 19.
2. The June 2013 comparatives have been restated to reflect the application of the new Interpretation 20 Stripping Cost in the Production Phase of a Surface Mine and the revised AASB 119 Employee Benefits. These details can be found in the 2014 Financial Report.
3. Underlying interest cover reflects underlying EBITDA divided by finance costs, on an actual 12-month rolling basis.




Strong results through successful strategy execution

Segment Overview

Arrium Mining

The Mining business continued to perform well through the year, realising the benefits of the expansion completed mid last year to double export hematite iron ore sales, as well as the capacity of its wholly-owned port at Whyalla.

Revenue increased 61% to $1,569 million, from $977 million in the prior year due to an increase in sales volumes, which increased 51% from 8.3 million tonnes to 12.5 million tonnes.

The Whyalla Port has continued to perform to expectations following completion of the expansion to double its capacity to ~13 million tonnes per annum. In addition to enabling increased export volumes, the expansion has provided sprint capability through the new infrastructure, as well as increased shed capacity that provides good coverage for product blending. A new tug fleet was commissioned in May which also provides greater weather resilience and faster barge towage. A number of new records were established, particularly in the second half of the year including a record loading month of 1.3 million tonnes in August 2013, a record vessel loading of 201k tonnes in April 2014, and a record cape vessel loading rate of 3.9 days in May 2014.

Demand for iron ore remained strong during the year, underpinned by continued strong steel production in China. The average Platts 62% CFR index price was US$123/wmt, down 3% on the average for the prior year of US$127/wmt. Market prices were relatively strong through to December 2013 before trending down over the balance of the year. The decline in price was due to factors including an increased supply of iron ore, the tightening of credit in China, higher port stocks, and increased discounting, particularly related to an increase in supply of lower grade ores in the fourth quarter.

Arrium's average price for the year was US$111/dmt CFR, down on the prior year average of US$117/dmt. This represents 91% of the average Platts CFR 62% index price for the 2014 financial year. In Australian dollars, the average price was $123/dmt. The average grade for total sales of 12.5 million tonnes was ~60% Fe. The average loaded cash costs for the year was down on the prior year at A$48/wmt[1].

EBITDA for the year was a record $686 million, up 86% on the EBITDA for the prior year of $368 million due largely to increased export volumes. EBIT was $481 million, up 93% on EBIT for the prior year of $249 million[2].

The business completed its $86 million Magnetite project at the end of the first half on time and on budget. This included installation of a tertiary crusher and modifications to the existing grinding circuit to allow the concentrator to treat a wider range of ores, as well as maximising product recovery. Project benefits include delivery of an additional 400 thousand tonnes per annum of magnetite concentrate.

1. Includes mining, crushing, beneficiation, railroad haulage and transhipping costs. Excludes capitalised costs (infrastructure, pre-stripping and mining licences) and depreciation and amortisation charges in respect of those costs, royalties, sales and marketing and corporate costs.
2. Segment results referred in the Operating and Financial Review are those reported in the 2014 Financial Report. They are equivalent to segment results for total continuing operations. For a reconciliation of consolidated results, refer to the 2014 Financial Report.

Arrium Mining Consumables

Mining Consumables continued to be a strong contributor to the company's earnings and cash outcome for the year. The Moly-Cop grinding media businesses in North and South America, which accounts for the majority of segment sales, continued to perform well.

Total revenue for the year was $1,538 million, down 2% on the prior year largely due to lower sales in Australasia. Total grinding media sales were down 2% on the prior year at 980 thousand tonnes, primarily related to Australasia. Sales volumes for North and South America were relatively flat compared to the prior year which included the business deciding to forgo some sales in the first half. A greater focus by customers on 'value in use' in the second half saw the business win more than its strong market share of new projects and expansions in that period, with volume benefits expected to flow from FY15.

Demand for grinding media remained strong during the year underpinned by high levels of mining activity, particularly copper, gold and iron ore in our key markets of North America and South America, despite softer commodity prices compared to the prior year. Arrium expects strong demand in North and South America to continue with its analysis indicating a compound annual growth rate of 7% for the period FY14 to FY19.

In Australasia, grinding media sales in Indonesia for the second half were significantly lower than the first half as mining customers reacted to the introduction of a new minerals value added tax by winding back production of various metals including copper and gold concentrate, and therefore demand for grinding media. Demand for rail wheels continued to be affected by delayed capital investment and maintenance expenditure in the mining sector, and sales to South Africa. Weaker demand in Australasia led to restructuring of the Waratah, Newcastle facility in the second half, which is expected to deliver annualised cost savings of ~$15 million.

During the year the business was progressively rolling out its next generation of large grinding media (SAG ball). This next generation ball wears at a slower rate and is expected to further strengthen the business' strong competitive position, and deliver benefits through a volume/ price trade-off.

Mining Consumables maintained stable grinding media margins and continued to generate strong earnings and cash. Underlying EBITDA for the year was $187 million, and EBIT was $140 million. The two capacity expansions in Peru and Indonesia were completed on time and budget during the financial year, providing a total of 90,000 tonnes of additional capacity.

The 120 thousand tonne capacity expansion at Kamloops, Canada is continuing to progress to schedule for completion mid-2015.

Arrium Steel

The Steel business continued to be adversely affected by ongoing weakness in domestic construction markets and a high Australian dollar, however sales volumes improved towards the end of the financial year and this has continued into the current financial year. The business again delivered a positive EBITDA and cash outcome for the year, incorporating the benefit of cost synergies related to the establishment of a single steel business at the end of the prior financial year. The business' lower cost base positions it well for increased domestic construction activity, particularly increased infrastructure investment.

Across the segments, there were signs of improvement in residential construction activity, particularly high rise residential apartment construction in capital cities. In non-residential construction, overall activity remained relatively flat and well below pre GFC levels despite an increase in commercial project activity in NSW. Engineering construction related to mining investment declined as a number of large projects were delayed or cancelled, but mining production as well as government funded infrastructure activity continued at solid levels.

Steel revenue decreased 3% compared to the prior year to $2,875 million due to the impact of lower domestic sales volumes, partly offset by a higher average sales price. Total sales for the year were flat at 2.07 million tonnes, and included increased sales in the wholesale business mainly related to reinforcing and structural products, but lower sales in the retail business.

Underlying EBITDA of $51 million was down compared to $64 million for the prior year. Improved margins, synergy benefits from the establishment of a single steel business and underlying profit from asset sales were offset by the impact of lower sales volumes.

The business has had anti-dumping applications accepted by the Anti-Dumping Commission for structural steel products and rod in coil, and investigations are now underway. Combined, these products account for approximately 30% of total sales in the wholesale business. The business is continuing to assess whether it will lodge further anti-dumping applications with the Commission.

In Recycling, the business underwent a significant transformation of its facility portfolio during the year to focus principally on the south and east coast of Australia, as well as maintaining its Asian non-ferrous business. The business achieved cost and operational improvements, including increased downstream recoveries, and together with improved volumes and margins in non-ferrous delivered a significant turnaround in earnings. Underlying EBITDA from continuing operations for the year was $12 million, up from an EBITDA loss of $3 million for the prior year.

Arrium Financial Ratios – Year ended 30 June

	FY14	FY13	Change
	$m	$m	%
Sales	7,007	6,841	2%
Other revenue/income	125	114	10%
Total income	7,132	6,955	3%
Gross profit	1,180	1,052	12%
EBITDA	864	625	38%
Depreciation, Amortisation & Impairment	(367)	(316)	16%
EBIT	497	309	61%
Finance costs	(118)	(120)	(2%)
Profit before tax	379	189	101%
Tax expense	(82)	(25)	228%
Profit after tax	297	164	81%
Non-controlling interests	(1)	(2)	50%
Net profit after tax	296	162	83%
Total assets*	8,002	8,169	(2%)
Total liabilities*	4,271	4,518	(5%)
Total equity*	3,731	3,651	2%
Net debt*	1,708	2,115	(19%)
Funds employed*	5,439	5,766	(6%)
Number of shares issued (millions)	1,366	1,355	1%
Operating cash flow	746	659	13%
Free cash flow	311	137	127%
Capital and Investment Expenditure	(435)	(522)	(17%)

	FY14	FY13	Change
Return on equity % PAT / average total equity)	8%	4%	4pp
Return on funds employed % (EBIT / average funds employed)	9%	5%	4pp
Sales margin %	7%	5%	2pp
Gross profit margin %	17%	15%	2pp
Earnings per share (cents)	21.8	12.2	79%
Dividends per share (cents)	9	5	4 cents
Dividend payout ratio (dividend / NPAT)	41.4%	41.8%	(0.4pp)
Leverage Ratio (net debt / EBITDA, 12m rolling basis)	2.0	3.4	(41%)
Gearing (%) (net debt / net debt + equity)	31.4	36.7	-5.3 pp
Interest cover (times EBITDA, 12m rolling basis)	7.4	5.2	2.2 times
Net tangible assets per share ($)	1.30	1.20	8%
Employees	9,269	10,078	(8%)
Sales per employee ($000s)	756	679	11%
Iron ore tonnes sold (mt)	12.47	8.28	51%
Raw steel production (mt)	2.36	2.50	(6%)
Steel tonnes despatched (mt)	3.20	3.26	(2%)

* Based on statutory balances

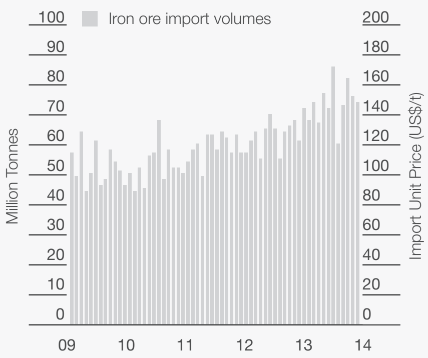
Key Business Drivers

The information included in the following charts illustrates trends in major drivers of Arrium's businesses including iron ore demand, world copper production and gold production costs, key sectors of the Australian economy, domestic steel prices, international steel prices and key inputs into steelmaking. The strength in the markets of our international and resource focused businesses, as well as the weakness in Australian Steel markets are evident in the following charts.

FIGURE 1

Iron ore imports into China

July 2009 to June 2014



Source: Text Report

Iron ore imports into China

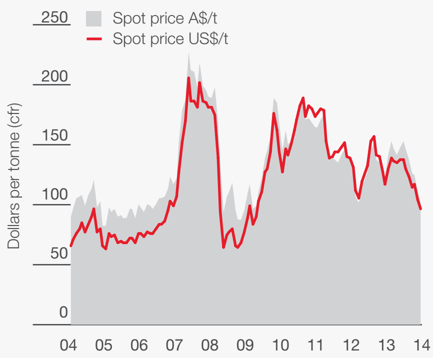
Figure 1 shows the volume of iron ore imported by China. Imports in FY14 were 893 million tonnes, an increase of 17% compared to the prior year. On a monthly basis, average monthly imports were 74 million tonnes compared to 64 million tonnes in the prior year.

Arrium exported 12.5 million tonnes of hematite iron ore during the year.

FIGURE 2

Iron Ore Fines (62% Fe) – Spot Prices (cfr N China)

July 2009 to June 2014



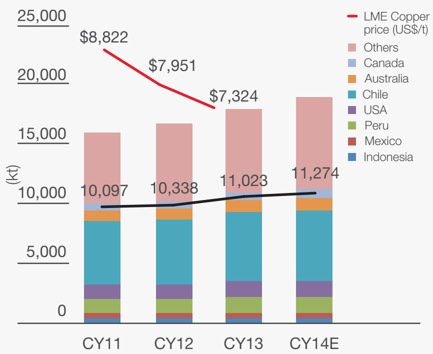
Source: CRU, Platts

Figure 2 represents the movement in spot iron ore fines (62% Fe) index prices in both US and Australian dollars. Average spot prices in US dollars terms decreased 4% compared to the prior year, but average spot prices in Australian dollars increased 8%. Prices were stronger in the first half with daily prices reaching a high of US$143/t, and a low of US$117/t. In the second half the high was US$134/t and the low US$89/t.

FIGURE 3

World Copper Production (kt) and Copper Prices

January 2011 to December 2014



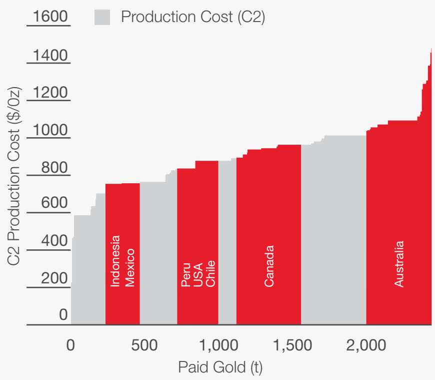
Source: Wood Mackenzie, LME

World copper production

Figure 3 shows world copper production and LME prices in US dollars. Arrium's grinding media business is leveraged to copper and gold mining, and has operations in Canada, USA, Peru, Mexico, Chile, Australia and Indonesia. Copper production in these countries accounts for around 60% of total world production. Total copper production for the 2013 calendar year increased 7% compared to the prior year.

FIGURE 4

2014 Gold Mine Composite C2 Production Cost Grouped By Country and Ranked By Production Cost (C2)



Source: Wood Mackenzie Ltd. Dataset 2014 Q2

World gold production

Figure 4 shows the production costs (C2) for gold mines by country, and that the average gold price for the year was US$1,296/oz. Production costs for Arrium Mining Consumables gold mine customers are estimated to range from US$743/oz to US$997/oz. Significant volumes of these customers are in the lower cost countries as highlighted in Figure 4.

FIGURE 5

Hard Coking Coal Price (fob)

September 2006 to June 2014

Source: CRU

Coal Prices

Figure 5 represents the movement in spot hard coking coal prices in both US and Australian dollars. Average spot prices in US dollars decreased 19% compared to prior year, ranging from US$107/t to US$152/t compared to a range of US$136/t to US$214/t in the prior year. The lower prices were attributable to lower production costs by the major producers and increased supply to the seaborne market amid weak demand.

FIGURE 6

Korean HM1 Scrap Price (c&f)

July 2004 to June 2014

Source: Text Report

Scrap prices

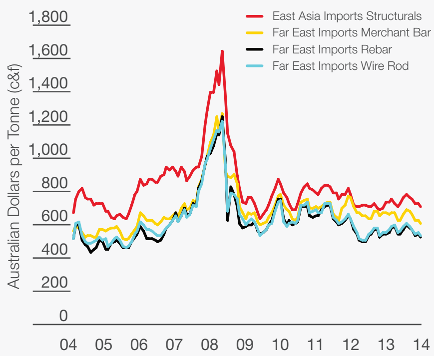
Figure 6 shows prices for Korean ferrous scrap in US and Australian dollars. The Korean benchmark average price for HM1 scrap in US dollars decreased 4% compared to the prior year, ranging from US$363/t to US$410/t compared to a low of US$362/t and a high of US$423/t in the prior year. In Australian dollars, average scrap prices increased 7% compared to the prior year.

OneSteel Recycling sold 1.19 million tonnes of ferrous scrap to internal and external customers during the year. Non-ferrous sales were 0.25 million tonnes.

FIGURE 7

Long Products International Prices

July 2004 to June 2014



Source: CRU (Merchant Bar, Rebar, Wire Rod), SBB (Beams)

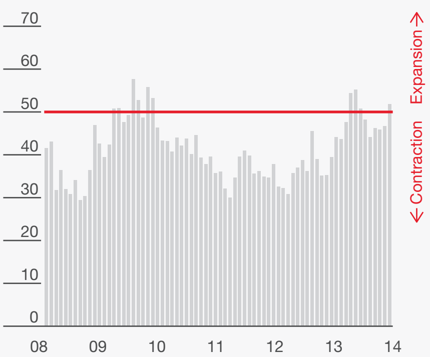
Long products international prices

Figure 7 presents the international benchmark prices for structural beams, merchant bar, reinforcing bar and wire rod. Australian dollar average prices for structural steel increased 4%, merchant bar decreased 2% and reinforcing bar and wire rod increased 4% compared to the prior year. Prices in US dollars have been affected by lower raw materials costs, as well as the over-supply of steel and weak demand in the Asian region. The lower Australian dollar exchange rate has provided a slight buffer to the drop in prices.

FIGURE 8

Australian Performance of Construction Index (PCI)

July 2008 to June 2014



Source: Australian Industry Group

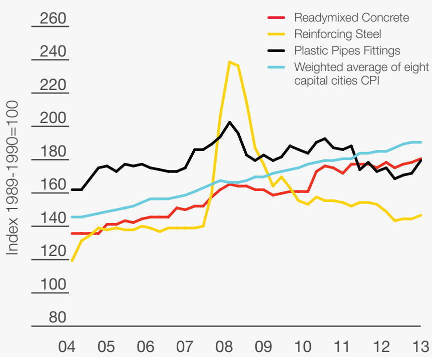
Australian Performance of Construction index

Figure 8 shows that the Australian Performance of Construction Index (PCI) has improved compared to the previous year. The PCI was in expansion from October 2013 to December 2013 and in June 2014. Residential construction strengthened from September 2013 to June 2014. Both house & apartment building construction indices averaged above 50 for FY14.

FIGURE 9

Prices for Steel Residential Construction Materials

June quarter 2004 to June quarter 2014



Source: ABS

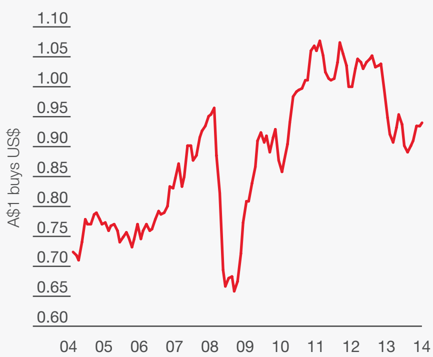
Prices for steel residential construction materials

Figure 9 represents the movement in prices of residential construction materials indexed to 1989/90 prices. The index for reinforcing steel decreased by 1.5% in the June 2014 quarter compared to the June 2013 quarter.

FIGURE 10

Australian versus US Dollar (Monthly Average)

July 2004 to June 2014



Source: RBA

US dollar exchange rates

Figure 10 represents the Australian dollar exchange rate against the US dollar. Daily exchange rates ranged from $0.87 to $0.97 with an average of $0.92, down 10% on the prior year. The Australian dollar was below $0.90 from January to mid-March, but was in the $0.92 to $0.94 range over the balance of the year.

Strategic Framework & Scorecard

Arrium's vision is to be a leading mining and materials company which delivers superior returns for our shareholders. We aim to achieve this through a portfolio of mining and materials businesses that are diversified across commodities, geographies and markets, and by utilising our unique infrastructure, capabilities, customer relations and market positions, as well as by investing in opportunities that provide the best return on shareholder funds.

The strategy for our businesses to deliver this vision has been focused on continuing to grow our Mining and Mining Consumables businesses, as well as cash generation and achieving acceptable returns in our Steel and Recycling businesses.

Our level of debt reflects recent investments to significantly grow the Mining and Mining Consumables businesses. We are now focused on reducing debt and improving our leverage ratio for enhancing shareholder value, and we expect to achieve this through the ongoing execution of our strategy, including the divestment of businesses and properties.

The success of our strategy execution to date has led to a substantial lift in underlying EBITDA for the year, to $864 million – a company record. This, together with strong operating cash, and divestments of $240 million ensured the company made good progress against its priority.

The company provided guidance at its fully year results announcement in August 2013 that it anticipated proceeds from divestments for the year in the range of $200 - $250 million, and delivered at the upper end of this range. Divestments included businesses in Steel Merchandising, Recycling USA as well as property.

Net debt was reduced by $407 million to $1,708 million, from $2,115 million at the end of the prior financial year, and the leverage ratio improved to 2 times, down from 3.4 times.

The current strategic priorities and performance scorecard for each of our businesses are as follows:

Arrium Mining

Strategic priorities

– Utilise full capacity of wholly-owned Whyalla Port
– Conversion of hematite resource to reserve
– Increased exploration program

Performance

– Record export hematite sales of 12.5Mt, up 51% from 8.3Mt pcp
– Record EBITDA of $686 million, up 86% from $368 million pcp
– Completed $86 million magnetite project on time and on budget
– Expect to be at ~13Mtpa sales rate in Q1 FY15
– Commenced step-up of exploration program – 11Mt hematite reserves added

Mining Consumables

Strategic priorities

– Capture strong share of grinding media growth
– Maintain stable margins
– Expand capacity ahead of market
– Roll out next generation of SAG ball

Performance

– Underlying EBITDA $187 million – strong earnings and cash
– Maintained strong share of Moly Cop's grinding media markets
– Maintained stable grinding media margins
– Roll out of next generation SAG ball progressing well
– Grinding media capacity expansion in Peru and Indonesia completed on time and budget
– Capacity expansion in Canada tracking to plan
– Australasia – 'right sized' to match demand

Arrium Steel

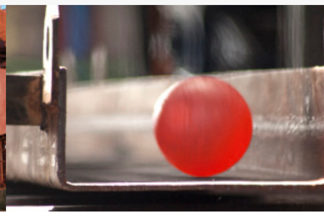
Strategic priorities

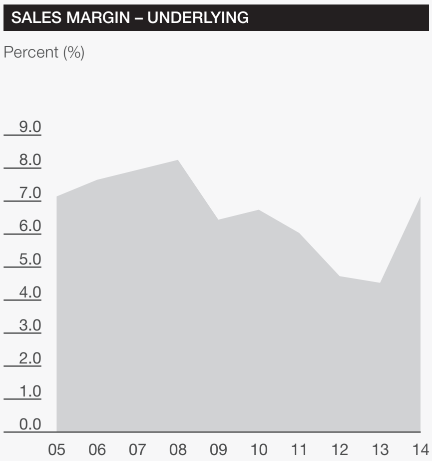
– Focusing on markets in which we have a sustainable competitive advantage
– Building our leading market positions
– Maintaining flexible capacity to meet demand cycles
– Ongoing cost and operational improvements
– Rationalise Recycling footprint

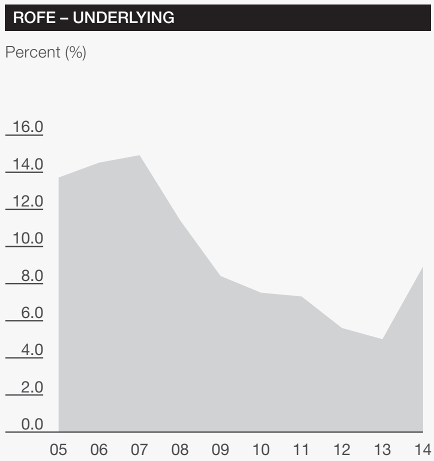
Performance

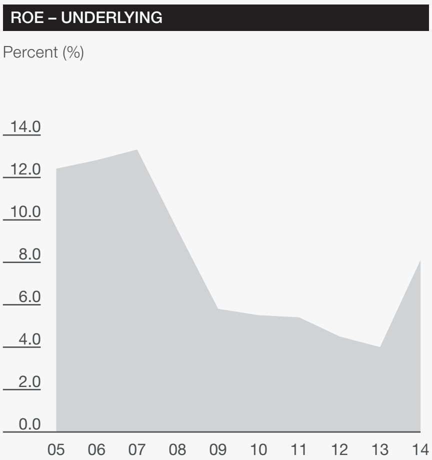
– Steel EBITDA and cash positive despite ongoing weakness in domestic markets
– Steel portfolio simplified to focus on integrated long products supply chain
– Delivered targeted synergies from establishment of single steel business
– Other cost and operational improvements
– Improved leverage to expected increase in construction activity, particularly infrastructure
– Significant turnaround in Recycling – repositioned around Australian south and east coast and Asia trading

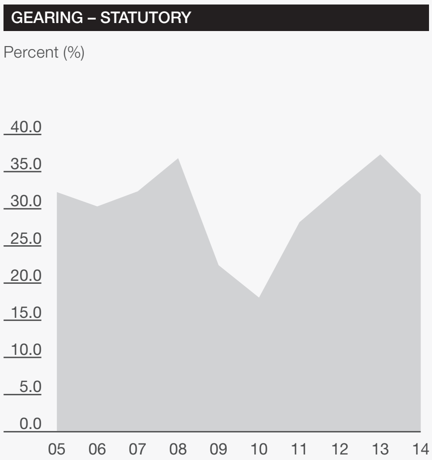


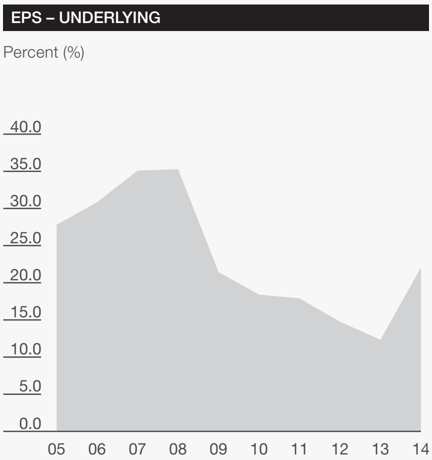


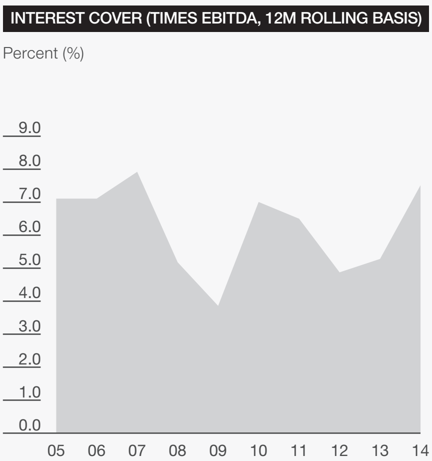

SALES MARGIN – UNDERLYING
Percent (%)
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
05 06 07 08 09 10 11 12 13 14

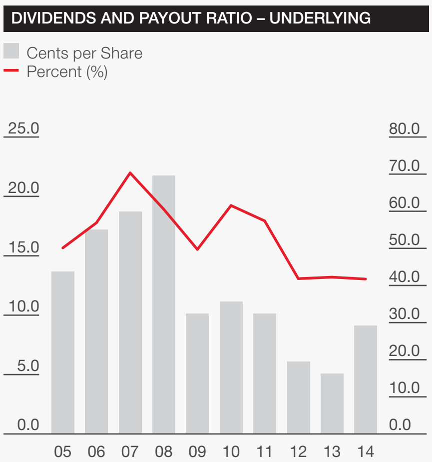

ROFE – UNDERLYING
Percent (%)
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
05 06 07 08 09 10 11 12 13 14

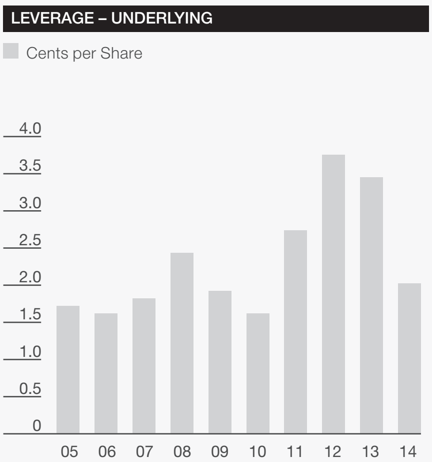

ROE – UNDERLYING
Percent (%)
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
05 06 07 08 09 10 11 12 13 14


GEARING – STATUTORY
Percent (%)
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
05 06 07 08 09 10 11 12 13 14


EPS – UNDERLYING
Percent (%)
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
05 06 07 08 09 10 11 12 13 14


INTEREST COVER (TIMES EBITDA, 12M ROLLING BASIS)
Percent (%)
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
05 06 07 08 09 10 11 12 13 14


DIVIDENDS AND PAYOUT RATIO – UNDERLYING
Cents per Share
Percent (%)
25.0
20.0
15.0
10.0
5.0
0.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
05 06 07 08 09 10 11 12 13 14


LEVERAGE – UNDERLYING
Cents per Share
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0
05 06 07 08 09 10 11 12 13 14

Mining

Following completion of its expansion mid last year to double export iron ore sales and the capacity of its Whyalla Port, the business has continued to perform well and achieved above target sales for the year of 12.5 million tonnes.

In addition to its export sales business, Mining also provides iron ore feed for the Whyalla Steelworks.

Operational performance

Revenue for the year increased 61% to $1,569 million due to significantly higher sales volumes which increased 51% compared to the prior year. Iron ore continues to be sold through a combination of sales to long-term contract customers (approximately 75%) and spot customers (approximately 25%).

During the year, Arrium Mining opened its main marketing office in Hong Kong which is supported by offices in Beijing and Shanghai. Customer support for the Whyalla Blend and Opal Blend products was very strong, leading to an expansion in the customer base to include North Asian destinations, as well as China.

EBIT for the year doubled to $481 million with the increased sales volume partially offset by higher depreciation and amortisation costs associated with the Southern Iron assets and the completion of the Southern Iron and Whyalla Port infrastructure. Average prices for the year were impacted by the decline in market prices for iron ore from December 2013. Overall, Arrium Mining again provided significant earnings and cash contribution to the company.

Mining costs for our Middleback Ranges and Southern Iron operations averaged A$48/wmt[1] with increased shipments of higher graded ores from Southern Iron and maximum volumes from both beneficiating plants reflected in the cost. Mining costs were lower than guidance and include the benefits of increased productivity across the chain and cost management actions.

Exploration

The business' exploration and drilling program was expanded during the year to support a focus on increasing hematite ore reserves at both the Middleback Ranges and the Southern Iron operations. With an Indigenous Land Use Agreement (ILUA) now agreed at the Middleback Ranges, this enabled the business to commence drilling in early 2014 in locations around the Middleback Ranges previously not available. Infill drilling within the present pits is also

MINING – HISTORICAL INFORMATION

	FY14	FY13[2]	FY12[2]	FY11	FY10
Total revenue/income ($m)	1,568.6	976.9	819.0	948.4	782.3
EBITDA ($m)	685.9	367.8	343.7	554.2	361.2
EBIT ($m)	481.3	248.9	302.9	523.5	333.4
Sales margin (%)	30.7	25.5	37.0	55.2	42.6
Assets ($m)	2,161.8	2,068.7	1,685.9	948.4	816.7
Funds employed ($m)	1,644.7	1,568.1	1,379.7	776.3	717.4
Return on funds employed (%)	30.0	16.9	28.1	70.1	47.4
Employees (number)	552	571	532	367	339
External lump and fines iron ore sales (Mt)	12.47	8.28	6.29	6.04	6.03
Pellets, other ore and by-products (Mt)[3]	0.43	0.57	0.44	0.72	0.81

The financial measures displayed in this table are based on underlying results.

1. Includes mining, crushing, beneficiation, rail, road haulage and transhipping costs. Excludes capitalised costs (infrastructure, pre-stripping and mining licences) and depreciation and amortisation charges in respect of those costs, royalties, sales and marketing and corporate costs.
2. These statistics include results relating to the WPG subsidiaries acquired on 6 October 2011.
3. Ore by-products include dolomite, centrix, filter cake and pellet chips.

delivering additional materials for export.

At Middleback Ranges, 5.7Mt of reserves were either depleted (exported) or removed from the reserve statement. This was offset by additions of 13.0Mt, resulting in a net 7.3Mt increase from the previous year, which delivered total reserves of 49.5Mt at just over 57% Fe. At Southern Iron, after all the necessary approvals to explore within the Woomera Restricted zone were achieved in 2013, drill rigs commenced a broader survey and sampling at the Hawks Nest tenement as well as infill drilling at Peculiar Knob. The net decrease of reserves at Southern Iron from exports and other depletions was 4.8Mt. Newly declared ore reserves derived from beneficiation of stockpiles at the Middleback Ranges added 8.6Mt during the year. Overall reserves increased to 77.8Mt at approximately 59% Fe, an increase of 11.1Mt compared to reserves at the end of the prior financial year.

Exploration of the Magnetite resource and non-ferrous is a smaller component of the overall exploration program. Importantly, magnetite ore provides longer term options for the supply of feed to the Whyalla Steelworks feed, as well as providing an ability to increase export volumes and grade through blending magnetite concentrate with export products. Longer term, the non-ferrous exploration supports opportunities outside of iron ore. Both these activities have a longer window of review than the current focus on conversion of hematite resource to reserve.

Further information in relation to our reserves and resources for the Middleback Ranges and Southern Iron operations can be found in our 2014 Ore Reserves and Mineral Resources Statement.

Growth

Major achievements for the year included delivering the ability to rail in excess of 13Mt (wet) from the Middleback Ranges and Southern Iron operations; the completion of the Whyalla Port expansion on time and budget in July 2013; and completion of the Magnetite Expansion program to increase magnetite concentrate production, ahead of time in November 2013 and on budget.

Removing key bottlenecks on the Southern Iron rail corridor has increased volumes from Southern Iron to just over 3.8Mt (wet) for the year.

Congestion on the Tarcoola to Augusta section of the National Grid had initially limited the ability to expand volumes from Southern Iron, but support from Australian Rail Track Corporation (ARTC) and our rail partner GWA to increase rail paths and volumes per train has enabled the increase.

The Middleback Ranges operations also performed well during the year despite the impact of some adverse weather conditions (heat and rain). Increased volumes per train and faster turnarounds generated a lift in volumes, with just over 9.5 million tonnes (wet) being railed to the Port during the year. The business achieved a record monthly Port ‘load out’ in August 2013 of 1.3 million tonnes (wet).

As noted above, the Magnetite Expansion Program was completed in November 2013. This project included the installation of a tertiary grinder and modifications to the existing grinding circuit to allow the concentrator to treat a wider range of ores, as well as maximise product recovery through fine grinding technology. The project benefits include additional output (pellets, lump or concentrate) of around 400 thousand tonnes per annum, with reduced mining activity due to the consumption of stockpiled materials. Focus is now on delivering further operational benefits including increased output of magnetite concentrate.

The Whyalla Port completed commissioning of its ship loader at the inner harbour in July 2013. The Port set a number of new records during the year, including loading its largest ship (201 thousand tonnes of iron ore) in May 2014. We expect to continue utilising larger vessels to assist with lowering total freight costs.

Major achievements included record iron ore exports of 12.5 million tonnes and record EBITDA $686 million

A new towage fleet with greater towing power was introduced in May 2014. This will enable increased scheduling flexibility and help to counter adverse weather conditions.

Safety

The business achieved improved safety results for the year, including recording only two lost time injuries in Mining and no medically treated injuries at the Port. Initiatives in the year included increased training of key leaders and the completion of five new Codes of Practice. These Codes will be used to assist personnel to eliminate /mitigate risks across the Mining business, as well as being used in conjunction with Arrium’s Codes of Practice.

Community and sustainability

We are proud of our wider community relationships around Whyalla and the Coober Pedy regions. With our increased volumes we are now one of the largest employers (direct and indirect) in regional South Australia. We continue to sponsor local events and sporting and other community groups. Our key focus on assisting the youth and the underprivileged remains important to us.

Equally, our relationships with the Barngaral and Amyac people in both regions enable longer term sustainable employment and training of indigenous youth.

Outlook

The demand for seaborne iron ore is expected to remain strong due to continued growth in crude steel production in China and declining production of higher cost Chinese ores. Market prices for iron ore are expected to better reflect their iron content and ‘value in use’ once the current increase of lower grade ores are absorbed.

Arrium’s export iron ore sales for FY15 are expected to be ~13 million tonnes, with an average grade of ~60% Fe and a loaded cash cost in the range of A$48-$50/wmt.

Arrium has operational flexibility to maximize earnings and cash through varying grade, volume and cost. The business has increased its focus on cost reductions, as well as work to access lower cost ores from the Middleback Ranges sooner.

Mining Consumables

Arrium Mining Consumables comprises the Moly-Cop international grinding media business, Moly- Cop Ropes, AltaSteel Steel Mill and the Waratah Steel Mill, with businesses located in Canada, the USA, Mexico, Peru, Chile, Indonesia and Australia.

The business delivers reliable, high quality mining consumable products to the mining industry from its 11 manufacturing facilities and 18 sales offices. It produces grinding media, grinding rods, wire rope, railway wheels and axles, bar stock (grinding media feed), rebar and chemicals, and employs around 2,000 people globally.

During the year, the business continued to execute its long-term strategy of expanding capacity ahead of forecast demand for known projects, and providing the highest quality products to promote our “value in use” benefits to customers.

Capacity expansions were completed in Lima, Peru providing an additional 40,000 tonnes per annum of SAG product and in Cilegon, Indonesia for 50,000 tonnes per annum of ball mill sized product. The business is also well advanced on a 120ktpa expansion in Kamloops, Canada with completion scheduled for mid 2015.

Additionally, investments are being made in North and South America to produce the new “Next Generation” SAG grinding media product, designed to provide the highest quality ball for SAG Mill applications for these important markets.

Sales revenue was $1,538 million, down 2% on the prior year due mainly to lower sales in the Australasian business where demand reduced for railway wheels and axles, and for grinding media in Indonesia due the new Minerals Value Added tax. However, sales revenue in North and South America remained strong underpinned by robust and growing copper and gold production in these regions.

Mining Consumables continued to deliver strong earnings with underlying EBITDA for the year $187 million. The North and South American grinding media businesses again performed very well with combined EBITDA for these businesses up 4% on the prior year. In Australasia, the lower sales volumes of grinding media and rail wheels reduced the financial outcomes compared to the prior year.

Continued robust demand for grinding media in North and South America led to strong earnings of $187 million EBITDA

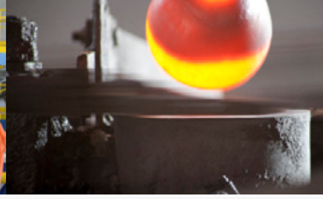
Moly-Cop

The business continued to execute its growth strategy for creating shareholder value. The strategy has three key pillars; being close to the market and customers, expanding capacity ahead of the future demand and selling our products on a “value in use” basis. Globally, demand for copper and gold remains strong and this underpins continued strong demand for grinding media.

Moly-Cop has the capacity to produce approximately 1.4 million tonnes per annum of grinding media, including both roll formed and forged grinding media products, in a range of different sizes. With the completion of the plant expansions in Peru and Indonesia, and along with the Canadian expansion project, the Moly-Cop business remains well positioned in all regions to capture at least its strong share of the expected market growth.

Moly-Cop has an unparalleled supply chain and is able to service its customers locally in-market, through its extensive network of facilities and sales offices in locations including Canada, the USA, Mexico, Chile, Peru, Australia and Indonesia.





Moly-Cop Ropes

Moly-Cop Ropes produces a range of wire rope products predominantly for mining rope and industrial ropes markets. The business has a long and proud history of rope making in Australia, with more than 85 years of experience as a trusted manufacturer and supplier to the mining industry. The business has capacity to produce approximately 20,000 tonnes per annum.

Through its innovation and new product development program, Moly-Cop Ropes continues to be the market leader for mining ropes for draglines and electric shoves.

AltaSteel

AltaSteel is a leading supplier of heat-treated grinding rod to America's mining industry and grinding media bar feed for the production of forged grinding balls, predominantly to Moly Cop Canada, Moly-Cop USA and Moly-Cop Mexico. AltaSteel has capacity to produce around 350,000 tonnes of product per annum.

AltaSteel operates from its production facility in Edmonton, Canada. The business provides grinding media bar feed, grinding rod, rebar products and merchant bar sections to customers in Canada, the USA and Mexico. AltaSteel's facility comprises steelmaking, bar rolling mills and heat treating operations.

The main steelmaking input is scrap, supplied through its recycling businesses, Maple Leaf Metals (100% ownership) and GenAlta (50% joint venture), and through external suppliers located in Edmonton, Canada.

During the year, AltaSteel continued to work closely with the Moly-Cop businesses on product development initiatives as part of Moly-Cop's research and development program.

Waratah Steel Mill (including Rail products)

Waratah Steel Mill is a ferrous scrap based producer of high quality steel products operating in Newcastle, NSW. It is a leading domestic supplier of rail wheels, axles and wheel sets for the rail transport and mining sectors. Annual steelmaking capacity is approximately 300,000 tonnes. The steel mill processes ferrous scrap metal through the electric arc furnace (EAF), converting the steel into a wide range of products including bar feed for grinding media, rail wheels and axles and bar products.

The Waratah Steel Mill includes the Moly-Cop Australia grinding media facilities, with capacity to manufacture approximately 250,000 tonnes of grinding media per annum.

Comsteel Railway Wheels is a supplier of rail wheel products to the Australian as well as select international rail markets. Operating for more than 80 years, the business provides a range of wheels, axles and wheel sets predominantly for heavy haul rail systems. The business is at the forefront of high hardness heavy haul wheel technology, where Comsteel railway wheels are subject to the highest axle loads in some of the world's most demanding environments.

Railway wheel sales volumes were down significantly compared to the prior year driven by delayed investment in new capital wagon fleets and wheel maintenance, and a reduction in exports.

Safety

Moly-Cop Peru experienced a fatality to a contractor in our Arequipa facility in October 2013. This tragic incident continues to reinforce and remind the business on the need to identify, assess and eliminate/mitigate high consequence hazards.

Despite this, there was a significant improvement in the business' safety metrics for Medically Treated Injury Frequency Rate (MTIFR) and All Works Injury Frequency Rate (AWIFR) with a reduction of 31% and 41% respectively compared to the prior year. These results reflected the work to ensure an improved safety performance, given the additional construction work associated with the expansion activities across all regions. The business is continuing to focus on eliminating high consequence as well as high frequency risk by building capability within all our employees and sharing best practice across all international businesses.

Outlook

We expect continued strong demand for grinding media underpinned by high levels of copper and gold production, particularly in North and South America. Grinding media volumes in FY15 are expected to benefit from capturing at least our strong market share of the expected growth in demand for grinding media, as well as from the ramp up of sales in Indonesia. We also expect a modest improvement in demand for rail wheels in the Australasian business.

Earnings in Mining Consumables are expected to benefit from increased grinding media volumes, continued stable grinding media margins, as well as the annualised benefit of 'right-sizing' the Waratah, Newcastle operation.

MINING CONSUMABLES – HISTORICAL INFORMATION

	FY14	FY13	FY12	FY11[1]	FY10
Total revenue/income ($m)	1,538.1	1,566.7	1,540.6	1,079.3	680.1
EBITDA ($m)	187.1	195.3	171.6	97.7	83.2
EBIT ($m)	139.8	150.7	135.2	65.3	62.3
Sales margin (%)	9.1	9.6	8.8	6.1	9.2
Assets ($m)	2,438.6	2,460.5	2,310.3	2,286.4	1,158.5
Funds employed ($m)	2,024.4	2,060.2	1,947.5	1,944.9	1,053.6
Return on funds employed (%)	6.8	7.5	6.9	4.4	6.0
Employees (number)	2,005	2,031	1,973	1,864	924
External tonnes despatched (Mt)[2]	1.13	1.14	1.06	0.73	–
Internal tonnes despatched (Mt)	0.07	0.09	0.09	0.09	0.10
Steel tonnes produced (Mt)	0.45	0.51	0.50	0.40	0.24

The financial measures displayed in this table are based on underlying results.

1. These statistics include the results of the Moly-Cop Group from 31 December 2010. Assets and liabilities have been restated to reflect the final fair value adjustments arising on acquisition of the Moly-Cop Group in December 2010.
2. Excludes scrap sales.

Arrium Steel

Arrium Steel includes both the Steel and Recycling businesses.

Steel continued to be challenged by the difficult external environment, including a high Australian dollar and generally weak construction and manufacturing markets. Domestically, large infrastructure projects in the engineering construction sector continued to support demand for steel reinforcing products, but deterioration in commodity prices adversely affected demand from the resources sector as companies reduced maintenance and some project expenditure. In the non-residential and residential construction sectors, activity levels remained generally weak due to credit availability issues and soft business and consumer sentiment. Some residential activity improvement has been seen in recent months.

Total Steel revenue was $2,875 million, down 3% compared to the prior financial year. The decrease was due mainly to reduced sales volumes, including an 7% reduction in domestic sales volumes compared to the prior year. Despite the weaker market, underlying EBITDA was again positive, at $51 million as the business continued to reduce costs including realising the synergy benefits related to the establishment of a single steel business late in the prior financial year. This included combining Steel Manufacturing and Steel Distribution into a single business which delivered $30 million of cost savings, and $44m of inventory reductions. The strategic focus for Steel is on cash generation and its integrated value chain, and in line with this, the majority of Steel's non-integrated Merchandising businesses were either divested or closed during the year.

Arrium Steel includes:

Manufacturing facilities: The Whyalla Steelworks, two electric arc furnaces (Sydney, NSW and Laverton, Victoria) and several rolling mills and wire mills.

The Whyalla Steelworks is located at Whyalla, South Australia, approximately 400 kilometres north-west of Adelaide. It is an integrated steelworks using mainly magnetite iron ore-based feed, sourced from Arrium's iron ore mines in the region. It produces billet for rolling in other manufacturing sites, together with rail and structural steel products.

It produces common and special grade billet as feedstock for the downstream rod and bar mills, as well as producing rail and structural steel products for sale and, sales of slab and billet are made to external customers on an opportunistic basis. Raw steel production from Whyalla during the year was 1.1 million tonnes.

Billets produced from Whyalla and the Sydney and Laverton electric arc furnaces are rolled into a wide range of long products that are sold directly to external customers, as well as to Arrium's internal customers: ARC, OneSteel Reinforcing, Metalcentre and Wire.

The Rod and Bar business produces a wide range of products and services for a diverse range of markets including the construction, rural, mining and manufacturing segments. Products include bar and rod for the reinforcing market, merchant bar, and rod feed for the wire industry.

These products are produced from facilities in Sydney and Newcastle, NSW and Laverton, Victoria. The electric arc furnaces and billet casting facilities at the Laverton and Sydney steel mills have a combined capacity of approximately 1.3 million tonnes per annum. Additionally, approximately 650,000 tonnes of billet is supplied from the Whyalla Steelworks.

Sales volumes of reinforcing bar and mesh improved on the prior financial year, contributing to an overall increase in sales volumes for Rod and Bar.

The Wire business consists of wire mills in Newcastle and Jindera, NSW and Geelong, Victoria. The business predominantly services the rural fencing markets (via its Waratah and Cyclone brands), domestic reinforcing and manufacturing segments, as well as Arrium's Moly-Cop Ropes business. Wire sales volumes decreased slightly compared to the prior year, driven by unfavorable market conditions.

Steel's down-stream (retail) business includes OneSteel Metalcentre and Reinforcing. These businesses serve the construction, manufacturing and resources markets with a diverse range of steel and metal products including structural steel sections, steel plate, angles, channels, reinforcing steel and flat products. The business distributes products sourced from its manufacturing businesses as well as externally purchased products.

OneSteel Metalcentre: This business processes and distributes a broad range of structural steel and related steel products, and is the leading steel distribution business in Australia (the business was rebranded from OneSteel Metaland | Steel & Tube during the year). There are over 70 outlets that service mining projects and non-residential and engineering construction, fabrication, manufacturing and agricultural segments.

Sales volumes decreased compared to the prior financial year due to softer demand from markets exposed to the resources sector in Queensland and Western Australia.

Reinforcing: Reinforcing steel is used for concrete reinforcement, mining strata control, agriculture and industrial mesh products, as well as reinforcing steel fibres. It is supplied to large and small builders, concreters, form-workers, pre-casters and mining companies.

Reinforcing is represented by two separate and competing businesses. OneSteel Reinforcing offers the construction and mining segments, in particular, a range of innovative reinforcing solutions. ARC (the Australian Reinforcing Company) has leading market positions in most segments complemented by strong customer relationships and flexible offers.

Safety

Arrium Steel achieved a 15% reduction in MTIFR with several businesses achieving their best ever results. LTIFR was <1. The major focus for the year was on mitigation strategies for high consequence hazards. In addition, we are seeing a positive impact on safety from the development and capability build of business leaders in the single steel business. Prevention of Falls and Molten Material incidents remains a prime focus for the current year.

Outlook

In Steel, the stronger sales volumes at the end of FY14 due to the commencement of delayed projects and increased infrastructure and residential construction have continued into the current financial year. We expect earnings in the first half of FY15 to remain subject to margin pressure from ongoing weakness in international and domestic steel markets, but benefit from increased sales volumes, the annualised benefit of cost reduction in FY14, further cost and operational improvements in FY15.

The business has a much lower cost base and is well positioned for increased construction activity, particularly infrastructure

STEEL – HISTORICAL INFORMATION

	FY14[1]	FY13[1]	FY12[1]	FY11	FY10[1]
Total revenue/income ($m)	2,875.2	2,973.6	3,292.3	3,950.4	4,993.5
EBITDA ($m)	50.8	64.0	73.1	(37.1)	188.3
EBIT ($m)	(52.8)	(44.4)	(30.3)	(164.6)	56.8
Sales margin (%)	(1.8)	(1.5)	(0.9)	(4.2)	1.1
Assets ($m)	2,109.7	2,287.6	2,692.6	3,966.9	4,132.9
Funds employed ($m)	1,544.1	1,717.7	2,109.0	3,171.9	3,183.0
Return on funds employed (%)	(3.2)	(2.3)	(1.1)	(5.2)	1.7
Employees (number)	5,116	5,285	5,369	6,922	7,020
External tonnes despatched (Mt)	2.07	2.36	2.57	2.44	2.36
Steel tonnes produced (Mt)	1.91	1.99	2.00	1.92	1.91

The financial measures displayed in this table are based on underlying results.

1. Excludes discontinued operations.

Arrium Steel continued

Recycling

The OneSteel Recycling business supplies steelmaking raw materials to domestic and international steel mills, as well as non-ferrous metals for recycling. The business operates in nine countries through a combination of physical operations in the form of collection sites and trading offices that supply raw materials to foundries, smelters and steel mills in Australia and globally.

Recyclable material is sourced from the rural, mining, demolition and manufacturing industries and the general public. The OneSteel Recycling business also sells raw materials to Arrium's Steel business. All sales between OneSteel Recycling and the Steel businesses are conducted on commercial terms equivalent to those negotiated with external parties.

In Australia, Recycling is principally a south and east coast and South Australian focused business operating from 24 locations, including four ferrous shredder production facilities. Recycling also has an Asian non-ferrous business which operates physical sites in three countries, and carries out the Group's global non-ferrous trading.

Market Conditions

The year saw continued periods of volatility in global scrap prices reflecting shifting market sentiment, particularly ferrous scrap. Average ferrous prices were 4% lower than the average for the prior year. Ferrous prices peaked in December 2014 as US domestic prices accelerated to recent highs, but decreased over the second half as global scrap flows normalised. Non-ferrous prices were relatively steady in the first half, but the second half saw LME Nickel scrap prices experience a sharp increase driven by export bans of nickel in Indonesia which created supply tightness. Nickel prices, year on year traded down 7%, although the second half was considerably stronger with quarter four up 13% against the prior year average. The availability of scrap continued to be tight in Australia due to weak manufacturing and construction activity.

Operational Performance

Total revenue decreased 3% to $1,132 million compared to the prior year due to lower average prices and lower volumes for ferrous scrap. Underlying EBITDA from continuing operations was up significantly on the prior year at $12 million and EBIT was $1 million, a turnaround from loss of $16 million on the prior year. This result was underpinned by the closure of loss making operations; cost and operational improvements; enhanced metal recoveries and improved trading performance across Australia and Asia. The Recycling business is well positioned to capitalise on improved demand and a lower Australian dollar.

Initiatives

There was a significant transformation of Recycling's portfolio during the year. This included the closure of operations in Western Australia and Tasmania, and a divestment program focused on the US operating assets. Divestments included both the Florida and Maine US operations. The business also continued to focus on cost and operational improvements across the Australian and Asian regions. This included simplifying the business' operating model to yield further Recycling head office savings. In Australia, asset investments in downstream recovery technologies contributed significant productivity gains to the shredding operations, and a focus on waste recovery optimisation commenced during the year and is continuing into FY15. In the Asian business, a new trading system was implemented during the year which is delivering back office administrative benefits, as well as enhanced order management capabilities for our trading operation.

Safety

The focus across all the Recycling businesses was on high consequence as well as high frequency risk reduction, in particular load restraint and containment and Line of Fire interactions. Notwithstanding significant progress across these initiatives, MTIFR closed at 11 for the year. To ensure sustainability in our Safety and Environment platform, a new training and competency system was implemented in the Australian business and will be rolled out in the coming year for our International operations.

Outlook

In Recycling, the business is well positioned to build on its stronger FY14 performance through leveraging its repositioned footprint, further cost and operational improvements and from the impact of a stronger non-ferrous market leading into FY15.

In Recycling, a rationalised footprint and lower cost base underpinned a significant turnaround

RECYCLING – HISTORICAL INFORMATION

	FY14[1]	FY13[1]	FY12	FY11	FY10
Total revenue/income ($m)	1,132	1,165.3	1,362.5	1,507.2	1,123.7
EBITDA ($m)	12.1	(3.4)	5.6	37.6	22.9
EBIT ($m)	1.3	(15.6)	(8.4)	20.9	7.7
Sales margin (%)	0.1	(1.3)	(0.6)	1.4	0.7
Assets ($m)	393.9	400.2	577.5	652.5	710.7
Funds employed ($m)	296.9	301.0	472.5	554.3	618.4
Return on funds employed (%)	0.4	(4.0)	(1.6)	3.6	1.3
Employees (number)	641	685	804	1,033	1,019
Ferrous tonnes	1.19	1.25	1.40	1.91	1.70
Non-ferrous tonnes (Mt)[2]	0.25	0.23	0.24	0.25	0.19

The financial measures displayed in this table are based on underlying results.

1. Excludes discontinued operations.

Risk Management

Arrium manages its exposure to key financial risks, including interest rate and currency risk, in accordance with its financial risk management policy.

The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

Debt management

Arrium's statutory gearing level at the end of June 2014 was 31.4%. Arrium's core debt facilities at the end of June 2014 comprised $2,542 million of syndicated loans provided by a group of banks, with tranches expiring from 2016 to 2019, $410 million of bi-laterals expiring in 2015 to 2019, and $586 million of US privately placed debt, with tranches expiring from 2015 to 2023. At the end of June 2014, net debt was $1,708 million.

Interest rate management

Arrium's objective when managing interest rate risk is to minimise interest expense while ensuring that an appropriate level of flexibility exists to accommodate changes in funding requirements. To achieve this, Arrium uses a mix of "fixed" and "floating" interest rate instruments where "fixed" is defined as 12 months or longer. Further information regarding Arrium's interest rate management can be found in Note 32 to the Financial Statements.

Foreign exchange exposure

The Group's primary sources of foreign currency risk are sales of product, including iron ore; purchases of inventory and commodity inputs in foreign currency or based on foreign currency prices; capital expenditure in foreign currency; foreign currency denominated debt, and its net investment in foreign currency denominated operations.

The Group seeks to minimise its exposure to foreign currency translation risk arising on USD and CAD denominated operations using USD and CAD denominated debt as a net investment hedge. To manage foreign currency exposure arising on foreign currency denominated debt not designated as hedge of net investments, the Group uses cross currency interest rate swaps. To manage foreign currency transaction risk, the Group enters into forward exchange or option contracts.

Financial reporting control assurance

The company executes a risk-based process for assessing the effectiveness of internal controls. The control focused financial reporting process includes:

- Identifying and analysing the key financial processes
- Assessing the inherent and residual risk of each key financial process
- Identifying key financial controls where a risk gap indicates significant reliance on internal controls
- Performing Control Self Assessment tests of key financial controls and Stewardship reviews on a regular basis.

This process is based on:

- ISO 31000/COSO risk-based identification of key financial controls
- The company's internal auditors' verification of the effectiveness of key financial controls
- Management sign-off to support the Managing Director/Chief Executive Officer and Chief Financial Officer sign-offs.

Risk management at Arrium

Arrium has an established business risk profiling system for identifying, assessing, monitoring and managing material risk. The system is based on ISO 31000/COSO, and provides ongoing risk management that is capable of responding promptly to emerging and evolving risks. The company's risk management system includes comprehensive practices that help ensure that:

- Key risks are identified and mitigating strategies are put in place
- Management systems are monitored and reviewed to achieve high standards of performance and compliance in areas such as safety and environment
- Capital expenditure above a certain threshold obtains prior Board approval
- Internal control weaknesses are identified and reported monthly through the outstanding audit issues scorecard until they are remediated and closed
- Financial exposures are controlled, including the use of derivatives
- Business transactions are properly authorised and executed.

Internal and external audit

Arrium's Internal Audit, Control and Risk (IACR) function is headed by a General Manager reporting to the Chief Financial Officer, with the execution of the internal audit function primarily managed internally.

The Arrium Audit and Compliance Committee oversees this function.

The internal audit program is aimed at providing assurance to management and the Board over the effectiveness of the company's enterprise risk management system, comprising business risk management, compliance and control assurance, and the effectiveness of its implementation. The internal audit function works with the company's external auditor, KPMG, to minimise duplication of effort and to maximise knowledge sharing between the assurance providers.

Arrium material business risks

The following key business risks have been identified as having the potential to impact on the company's earnings stream. Arrium undertakes the necessary steps to ensure that these risks are appropriately managed.

Domestic and global economic environment and capital market conditions

Arrium's financial performance and market capitalisation will fluctuate due to movements in capital markets; broker analyst recommendations; interest rates; exchange rates; inflation; economic conditions; changes in Government fiscal, monetary and regulatory policies; commodity prices; construction, mining and manufacturing industry activity levels; scrap metal prices; global geopolitical events and hostilities and acts of terrorism; investor perceptions and other factors that may affect Arrium's financial position and earnings.

Adverse impact of certain commodity price and demand fluctuations

Arrium is a seller of iron ore and steel and a buyer of various commodities, including coking coal, hot rolled coil and zinc. Significant fluctuations in the iron ore price and demand will impact Arrium's profitability and balance sheet. In addition, supply/demand levels for commodities such as gold, copper etc. could have direct effects on Arrium's Mining Consumables business.

Adverse impact of foreign currency exchange rates

Arrium has exposure to foreign exchange translation risk. Fluctuations in foreign currency exchange rates, in particular, volatility of the US dollar against most major currencies and strengthening of the Australian dollar against the US dollar may have a material adverse impact on the financial position and performance of Arrium.

Operational risk

Arrium Mining's operational risks relate to the continual operation and successful expansion of its supply chain infrastructure.

The production of iron and steel products involves a number of inherent risks relating to the operation of Arrium's manufacturing facilities that involve the use of energy and infrastructure resources, including electricity, gas and water, the production and movement of liquid metal, the hot rolling and cold forming of steel sections and, at times, complicated logistical processes. Operational risks exist with respect to the major units at Whyalla, as well as electric arc furnaces and rolling mills.

Arrium's Recycling business is also exposed to operational risks relating to its supply chain.

Cyclical nature of our industries

Arrium's revenues and earnings are sensitive to the level of activity in the Australian construction, manufacturing, mining, agricultural and automotive industries and are also sensitive to the level of activity in the global mining and rail industries.

Competition

Arrium faces import and domestic competition across our product range. A significant increase in competition, including through imports, could materially affect the future financial position and performance of Arrium by putting downward pressure on steel prices or by reducing Arrium's sales volumes.

Dependence on key customer and supplier relationships

Arrium relies on various key customer and supplier relationships, and the loss or impairment of any of these relationships could have a material adverse effect on Arrium's operations, financial condition and prospects.

Carbon Tax

The Carbon Tax commenced on 1 July 2012, applying a fixed carbon price of $23 per tonne of carbon dioxide equivalent (CO_2-e), increasing to $24.15 per tonne from 1 July 2013. The adverse impacts of the Carbon Tax on Arrium's competitive position were substantially addressed through the Jobs and Competitiveness Program ("JCP") and the Steel Transformation Plan ("STP"). In July 2014, the Carbon Tax was repealed with an effective date of 1 July 2014. The industry assistance under the JCP and STP will cease from that date. Arrium will continue to satisfy its remaining compliance obligations in respect of the 2013/14 compliance period.

The Australian Government is proposing to introduce its Direct Action policy, the centerpiece of which is the Emissions Reduction Fund. Arrium has been engaging with the Government in relation to the development of its carbon emissions reduction policies and will continue to advocate the need for such policies to be designed and operate in a manner which does not adversely impact the international competitiveness of the Australian steel industry.

Insurance

Arrium seeks to maintain a range of insurance covers for business operations including business interruption, property damage, goods in transit and public and product liability. However, Arrium's insurance will not cover every potential risk associated with its operations and, in some cases, will be subject to large deductibles. An ongoing gap analysis is conducted to identify uninsured risks and the potential insurance solutions to address these issues. The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could have a material adverse effect on Arrium's financial condition and financial performance.

Occupational Health and Safety (OHS)

Arrium has been granted self-insurance status for workers' compensation in all eligible Australian states. Arrium's continued safety performance and compliance with OHS systems and practices is a key component to maintaining self–insurance status. If Arrium fails to maintain adequate occupational health and safety systems and practices, Arrium may lose its self-insurance status, which may have a material adverse effect on the financial performance of Arrium.

Product risk

Arrium maintains an internal risk management process and also follows quality assurance procedures in relation to the manufacture of its products and materials. For example, Arrium's steel mills are accredited to internationally recognised standard ISO9001. However, due to the nature of its operations, it is possible that claims against Arrium could arise from defects in materials or products manufactured and/or supplied by Arrium.

Reserve and Resource

Mineral Resources are estimates of mineralisation that has reasonable prospects for economical extraction in the future as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mineral Resource estimates are based largely on geological information. There is no guarantee that all Mineral Resources will convert to Ore Reserves. Ore Reserves are derived from the Group's Ore Resources as defined under the JORC Code. They are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties and represent the economically minable part of the Group's Measured and Indicated Mineral Resources. The Group estimates its Ore Reserves based on information compiled by its Competent Person as defined by the JORC Code. The estimation of Ore Reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body.

Changes in the Ore Reserve or Mineral Resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property plant and equipment, provision for rehabilitation and depreciation and amortisation charges.

Reconciliations

Unless otherwise stated, financial measures referred to in this document, including underlying results and ratios, are non-statutory financial measures, which have not been audited or reviewed as part of KPMG's report on the full year financial statements. However, KPMG has undertaken a set of procedures to agree the financial information in this document to underlying information supplied by the company. The Directors believe that using these non-statutory financial measures appropriately represent the financial performance of the Group's total operations including continuing and discontinued operations.

Reconciliation between Underlying and Statutory Results ($m)

Year ended 30 June 2014	Statutory Results			Underlying Results				
Reconciliation between Underlying and Statutory Results	Continuing operations	Discontinued operations[1]	Total Operations Statutory	Restructuring costs[2]	Impairment[3]	Tax adjustments & Other items[4]	Steel Transformation Plan[5]	Total Operations Underlying
Sales revenue	6,562.0	444.6	**7,006.6**	–	–	–	–	**7,006.6**
Other revenue/income	112.0	13.5	**125.5**	–	–	–	–	**125.5**
Total revenue/income	6,674.0	458.1	**7,132.1**	–	–	–	–	**7,132.1**
Gross profit/(loss)	1,251.3	(71.3)	**1,180.0**	–	–	–	–	**1,180.0**
EBITDA	906.4	(125.3)	**781.1**	51.0	–	5.6	26.5	**864.2**
Depreciation and amortisation	(367.5)	-	**(367.5)**	–	–	–	–	**(367.5)**
Impairment	(8.7)	(4.4)	**(13.1)**	–	13.2	–	–	**0.1**
EBIT	530.2	(129.7)	**400.5**	51.0	13.2	5.6	26.5	**496.8**
Finance costs	(117.5)	–	**(117.5)**	–	–	–	–	**(117.5)**
Profit/(loss) before tax	412.7	(129.7)	**283.0**	51.0	13.2	5.6	26.5	**379.3**
Tax(expense)/benefit	(124.9)	48.5	**(76.4)**	(15.2)	(5.1)	22.8	(7.9)	**(81.8)**
Profit/(loss) after tax	287.8	(81.2)	**206.6**	35.8	8.1	28.4	18.6	**297.5**
Non-controlling interests	(1.2)	–	**(1.2)**	–	–	–	–	**(1.2)**
Net profit/(loss) after tax	286.6	(81.2)	**205.4**	35.8	8.1	28.4	18.6	**296.3**

1. Relating to the results of Australian Tube Mills, Merchandising and US Recycling businesses. Excludes intercompany transactions. Statutory EBITDA and statutory net profit after tax including intercompany transactions are $18.0m loss and $6.1m loss respectively.
2. Related to redundancies from organisational changes and other direct expenditure associated with business restructures.
3. Impairment of property, plant and equipment in Mining Consumables, Steel and Recycling and discontinued operations.
4. Tax adjustment relates to prior years, the net impact of Mineral Resource Rent Tax and other non-recurring costs.
5. Relates to the write-off of outstanding grant receivable under the Steel Transformation Plan Act 2011 in Steel segment due to the repeal of the carbon tax from 1 July 2014 under the Clean Energy Legislation (Carbon Tax Repeal) Act 2014.

Reconciliation between Underlying and Statutory Results ($m)

Year ended 30 June 2013	Statutory Results			Underlying Results			
Reconciliation between Underlying and Statutory Results	Continuing operations	Discontinued operations[1]	Total Operations Statutory	Restructuring costs[2]	Impairment[3]	Tax adjustments & Other items[4]	Total Operations Underlying
Sales revenue	6,084.9	756.1	**6,841.0**	–	–	–	**6,841.0**
Other revenue/income	92.5	21.4	**113.9**	–	–	–	**113.9**
Total revenue/income	6,177.4	777.5	**6,954.9**	–	–	–	**6,954.9**
Gross profit/(loss)	1,070.0	(18.3)	**1,051.7**	–	–	–	**1,051.7**
EBITDA	661.2	(129.5)	**531.7**	93.8	–	(0.7)	**624.8**
Depreciation and amortisation	(299.9)	(16.8)	**(316.7)**	–	–	–	**(316.7)**
Impairment	(245.4)	(684.7)	**(930.1)**	–	930.7	–	**0.6**
EBIT	115.9	(831.0)	**(715.1)**	93.8	930.7	(0.7)	**308.7**
Finance costs	(119.0)	(0.7)	**(119.7)**	–	–	–	**(119.7)**
(Loss)/profit before tax	(3.1)	(831.7)	**(834.8)**	93.8	930.7	(0.7)	**189.0**
Tax benefit/(expense)	67.2	68.6	**135.8**	(28.1)	(35.4)	(97.3)	**(25.0)**
Profit/(loss) after tax	64.1	(763.1)	**(699.0)**	65.7	895.3	(98.0)	**164.0**
Non-controlling interests	(2.1)	–	**(2.1)**	–	–	–	**(2.1)**
Net profit/(loss) after tax	62.0	(763.1)	**(701.1)**	65.7	895.3	(98.0)	**161.9**

1. Relating to the results of Australian Tube Mills, Merchandising and US Recycling businesses. Excludes intercompany transactions. Statutory EBITDA and statutory net profit after tax including intercompany transactions are $17.9m loss and $685.0m loss respectively.
2. Related to redundancies from organisational changes and other direct expenditure associated with business restructures.
3. Impairment of property, plant and equipment and intangible assets in the Recycling and Steel segments.
4. Relates to tax adjustments related to prior years, the net impact of Mineral Resource Rent Tax, gain on disposal of Steel and Tube Holdings and other non-recurring costs.

FY14 Results Presentation

Andrew Roberts, Managing Director & CEO
Robert Bakewell, Chief Financial Officer

This presentation contains certain forward-looking statements with respect to the financial condition, results of operations and business of Arrium and certain plans and objectives of the management of Arrium. Forward-looking statements can generally be identified by the use of words such as ‘project’, ‘foresee’, ‘plan’, ‘expect’, ‘aim’, ‘intend’, ‘anticipate’, ‘believe’, ‘estimate’, ‘may’, ‘should’, ‘will’ or similar expressions. All such forward-looking statements involve known and unknown risks, significant uncertainties, assumptions, contingencies and other factors, many of which are outside the control of Arrium, which may cause the actual results or performance of Arrium to be materially different from any future results or performance expressed or implied by such forward-looking statements. Such forward-looking statements speak only as of the date of this presentation. Factors that could cause actual results or performance to differ materially include without limitation the following: risks and uncertainties associated with the Australian and global economic environment and capital market conditions, the cyclical nature of the steel industry, the level of activity in the construction, manufacturing, mining, agricultural and automotive industries in Australia and North and South America and, to a lesser extent, the same industries in Asia and New Zealand, mining activity in the Americas, commodity price fluctuations, fluctuations in foreign currency exchange and interest rates, competition, Arrium's relationships with, and the financial condition of, its suppliers and customers, legislative changes, regulatory changes or other changes in the laws which affect Arrium's business, including environmental laws, carbon tax, mining tax and operational risk. The foregoing list of important factors is not exhaustive. There can be no assurance that actual outcomes will not differ materially from these statements.

This presentation contains certain non-statutory financial measures including underlying EBIT, underlying EBITDA, underlying NPAT, underlying earnings per share and underlying effective tax rate. These measures are used to assist the reader understand the financial performance of the company’s operations. Non-statutory financial information has not been audited or reviewed as part of KPMG’s report on the 2014 Full Year Financial Report. However, KPMG have undertaken a set of procedures to agree the financial information in this presentation to underlying information supplied by the company. The Directors believe that using these non-statutory financial measures appropriately represents the financial performance of the Group’s total operations including continuing and discontinued operations. Details of the reconciliation between non-statutory and statutory financial measures can be found in the Appendix of this presentation.

All balance sheet items are based on statutory financial information. Except as otherwise expressed, references in this document to net profit/loss after tax refer to net profit/loss attributable to equity holders of the parent. Segment results referred to throughout this presentation are those reported in the 2014 Full Year Financial Report. They are equivalent to segment underlying results.

Unless otherwise stated, the June 2013 comparatives have been restated to reflect application of the new Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and the revised AASB 119 Employee Benefits. These details can be found in the 2014 Full Year Financial Report.

The information in this report that relates to Mineral Resources or Ore Reserves is based on information compiled by Paul Leevers BSc (Hons), MSc Min Eng, a Competent Peron who is a Member of The Australasian Institute of Mining and Metallurgy and is a full-time employee of Arrium. Mr Leevers has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Mr Leevers consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Exploration Results is based on information compiled by Geoff Johnson BSc (Hons), PhD, Grad Dip Env Sc., a Competent Person who is a Fellow of the Australian Institute of Geoscientists and a Fellow of the Australasian Institute of Mining and Metallurgy and is a full-time employee of OneSteel Manufacturing Pty Limited. Dr Johnson has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Dr Johnson consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Contents

FY14 highlights

“Strong results from successful strategy execution”

- Record EBITDA and cash
- $407 million reduction in net debt and leverage ratio improved to 2x
- Benefits of growth investments in Mining and Mining Consumables

Wirrida Crushing & Screening, Southern Iron, SA

arrium MINING AND MATERIALS

Substantial lift in earnings

- Sales revenue $7,007 million
- Record underlying EBITDA[1] $864 million, up 38% pcp
  - Mining – record EBITDA
  - Mining Consumables – strong contribution
  - Steel – EBITDA and cash positive
- Underlying NPAT up 83% to $296 million
- Underlying EPS up 79% to 21.8c
- Final dividend 3 cents per share (unfranked)

Peculiar Knob, Southern Iron, SA

Iron Ore Rail to Whyalla Port, SA

1 A reconciliation of non-statutory underlying results to statutory results can be found in the Appendix to this presentation.

Record cash outcome

- Underlying operating cash flow up 13% to $746 million
- Proceeds from divestments $240 million
- Net debt $1,708 million, down $407 million from $ 2,115 million at FY13
- Gearing 31.4%, down 5.3pp pcp
- Underlying leverage ratio[1] 2x, down from 3.4x pcp

Grinding balls at new Lima plant, Peru

1 Net debt / underlying EBITDA, 12 month rolling basis.

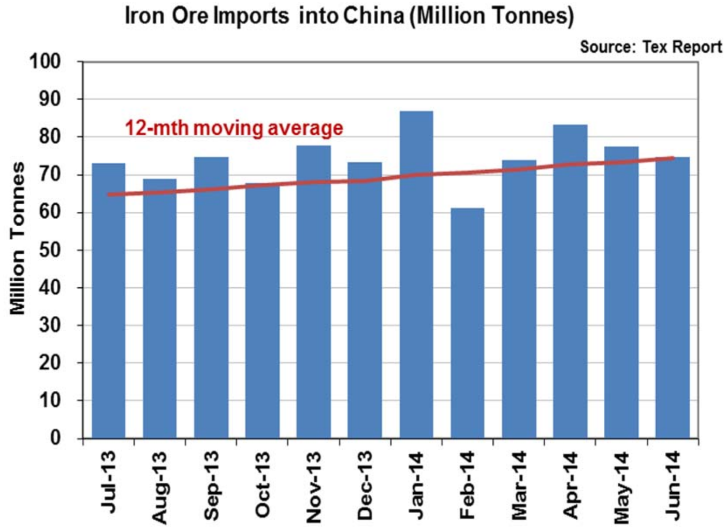
FY14 Segment Analysis

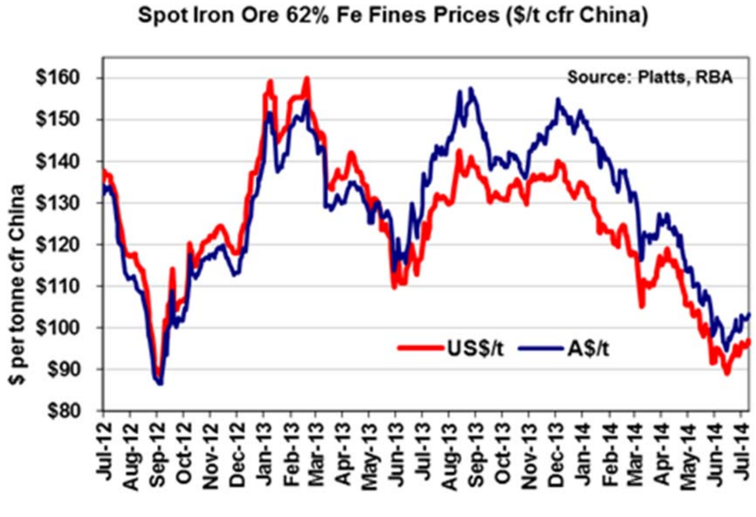
Andrew Roberts, Managing Director & CEO

FY14 Mining

Market conditions and external factors

- Iron ore remained strong – record crude steel production in China
- Chinese imported iron ore up 17% pcp
- Iron ore average spot price US$123/t, down 3% pcp (Platts 62% Fe)
  - Solid prices through to December, but trended down over balance of year
- Rapid price decline in Q4
  - Increased supply of lower grade ore
  - Tightening of credit in China
  - Higher port stock
  - Increased discounting – particularly for lower grade ore
- Average C5 (freight) US$9/t up 22% pcp





FY14 Mining results

	FY14 $m	FY13[1] $m	% change
Total revenue/income	1,569	977	61
EBITDA	686	368	86
EBIT	481	249	93
Sales margin	31%	26%	5 pp
Assets	2,162	2,069	5
Funds employed	1,645	1,568	5
Return on funds employed	30%	17%	13 pp
Employees (number)	552	571	(3)
External lump & fines iron ore sales (Mt)	12.5	8.3	51
Pellets, other ore & by products (Mt)[2]	0.43	0.57	(25)

Unless otherwise stated, financial measures are underlying financial measures.

1 Comparative restated to reflect the application of Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine.
2 Ore by products include dolomite, centrix, filter cake and pellet chips.

FY14 Mining

Record year

- Expanded business and Whyalla Port performing well
- Record and above target hematite export sales 12.5Mt, up 51% (8.3Mt pcp)
- Record EBITDA $686 million, up 86%
- Average AUD realised price $121/dmt ($114/dmt pcp)
  - 91% of Platts 62% Fe average index price (Q4 >90% blended products)
  - Average grade ~60% Fe
  - Mix ~65% fines, ~35% lump
  - Customer mix ~75% contract, ~25% spot
- Average loaded cash cost[1] ~A$48/wmt
- Total cash cost[2] ~A$73/wmt
- Completed $86 million magnetite project on time and budget

South Middleback Ranges, SA

Whyalla Port, SA

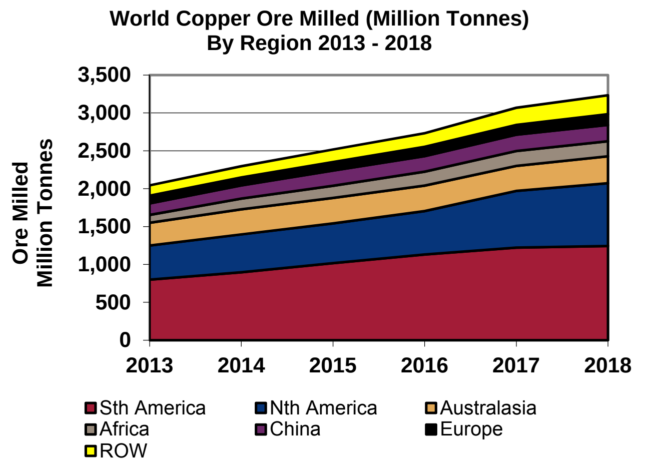
1 Includes mining, crushing, beneficiation, road haulage and transshipping costs. Excludes capitalised costs (infrastructure, pre-stripping & mining licences) & depreciation, amortisation charges in respect of those costs, royalties, sales & marketing and corporate costs.

2 Includes loaded cash cost, royalties, sales and marketing and corporate costs, adjustment for moisture content and freight. Excludes capitalised costs (infrastructure, pre-stripping and mining licences) and depreciation and amortisation charges in respect of those costs.

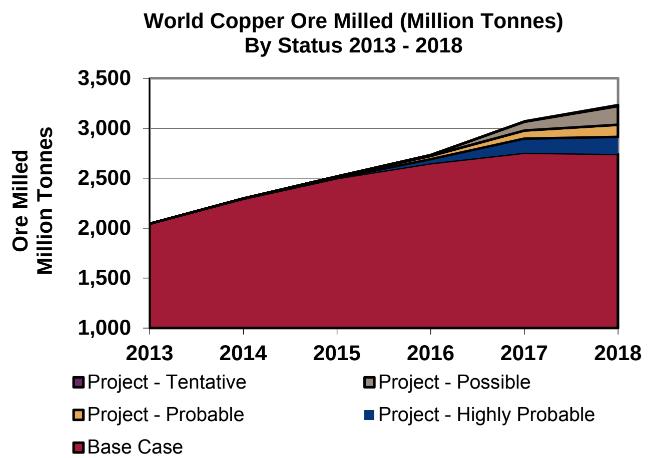
Market conditions and external factors

- Continued strong demand for copper and gold
- Miners focused on cost reductions & conserving cash but still looking to maximise output
- Solid pipeline of new projects and expansions, particularly in North and South America e.g.
  - Cerro Verde
  - Las Bambas
  - Caserones
  - Sierra Gorda
- Head grades of copper and gold continuing to deteriorate – increases grinding media demand

"~80% of Arrium's grinding media sales driven by copper and gold"



Source: Wood Mackenzie (Q2 2014)



Source: Wood Mackenzie (Q2 2014)

FY14 Mining Consumables results

	FY14 $m	FY13[1] $m	% change
Total revenue/income	1,538	1,567	(2)
EBITDA	187	195	(4)
EBIT	140	151	(7)
Sales margin	9%	10%	(1 pp)
Assets	2,439	2,460	(1)
Funds employed	2,024	2,060	(2)
Return on funds employed^	7%	8%	(1 pp)
Employees (number)	2,005	2,031	(1)
External tonnes despatched (Mt)[2]	1.13	1.14	(1)

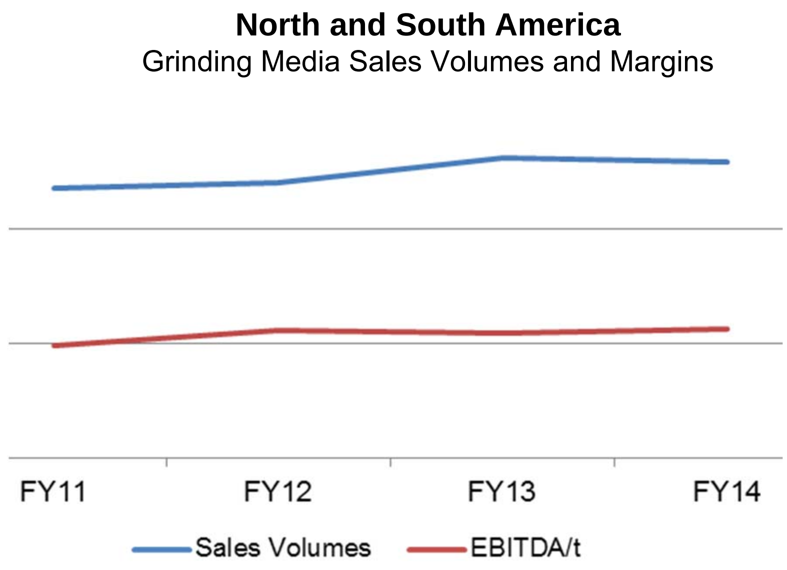
^ FY14 Return on funds employed of Moly-Cop businesses acquired in 2010 is ~14%.

Unless otherwise stated, financial measures are underlying financial measures.

1 Comparative restated to reflect the application of the revised AASB 119 Employee Benefits
2 Excludes scrap sales

Continued strong earnings and cash

- EBITDA $187 million
  - Maintained stable grinding media margins
  - North and South America EBITDA up 10%
  - Australasia EBITDA down 23%
- North and South America – continued strong grinding media demand
  - Volumes flat pcp (decision in 1H to forgo some sales)
  - Won more than our strong market share of new projects / expansions in 2H
- Indonesia and Peru expansions completed on time and budget, Canada tracking to schedule



FY14 Mining Consumables

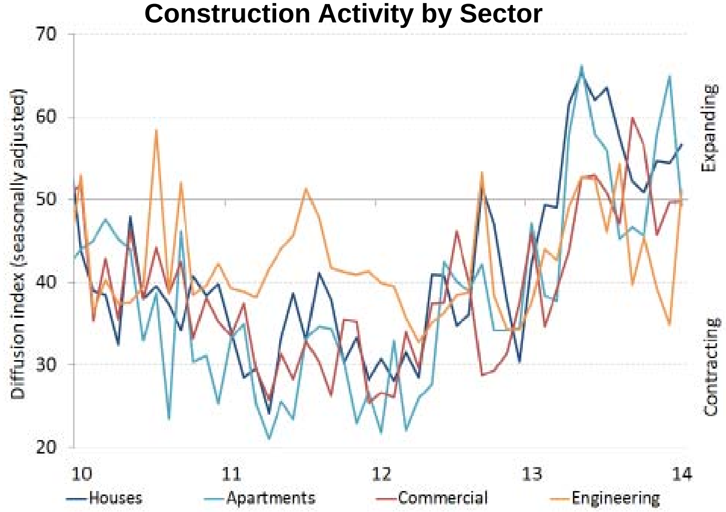
- Australasia – weaker volumes
  - Rail wheels down 46% pcp – delayed investment and maintenance in resource sector, including South Africa
  - Grinding media down 9% – new Indonesian tax
    - Production in Indonesia now ramping up
- Waratah, Newcastle right-sized
  - Production and cost base now better aligned
    - New Indonesian facility operational[1]
    - Weaker rail wheel demand
    - Lower steelmaking requirements
  - Workforce reduced by ~120 people (~20%) in FY14
  - Annualised cost savings ~$15m, Restructuring cost $15m

Rail wheels at Waratah, NSW

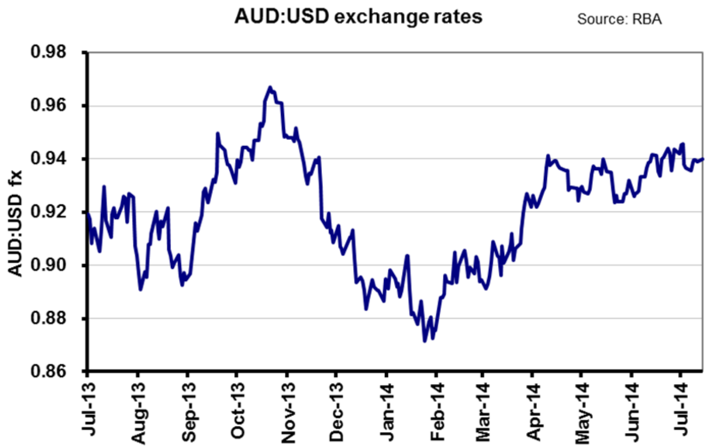
1 Prior Indonesian supply shortfall met by Waratah

Market conditions and external factors

- Continued weakness in domestic construction
  - Some improvement in Residential, particularly high rise dwellings
  - Non-residential construction remained weak, but some lift in privately funded commercial
  - Engineering construction down – reduced coal and iron ore projects, but LNG and government funded infrastructure remained strong
- Excess supply kept international steel prices and margins under pressure
- Continued volatility in AUD/USD



Source: Australian Industry Group



FY14 Steel results

	FY14 $m	FY13 $m	% change
Total revenue/income	2,875	2,974	(3)
EBITDA	51	64	(21)
EBIT	(53)	(44)	(19)
Sales margin	(2%)	(2%)	-
Assets	2,110	2,288	(8)
Funds employed	1,544	1,718	(10)
Return on funds employed	(3%)	(2%)	(1 pp)
Employees (number)	5,116	5,285	(3)
External steel despatched (Mt)	2.07	2.07	-
Steel tonnes produced (Mt)	1.91	1.99	(4)

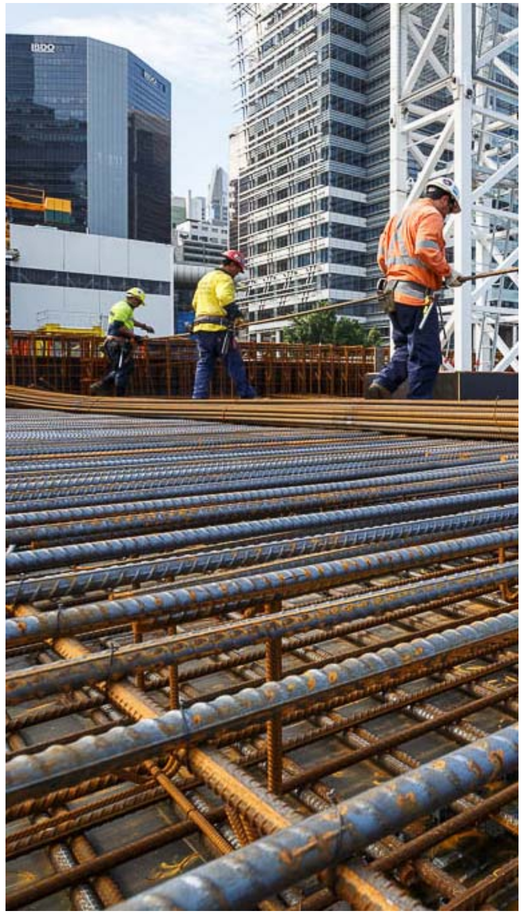
Unless otherwise stated, financial measures are underlying financial measures.

Maintained positive EBITDA and cash

- Continued weakness in domestic construction
- Underlying EBITDA $51 million
  - Further operational cost reductions
  - Cost synergy benefits from single steel business[1]
  - Improved margins
  - Underlying profit on asset sales

  More than offset by:

  - Weaker domestic volumes, down 5% (~$71m unfavourable compared to FY13)
    - 2H included delays to new projects and projects underway (e.g. Barangaroo)

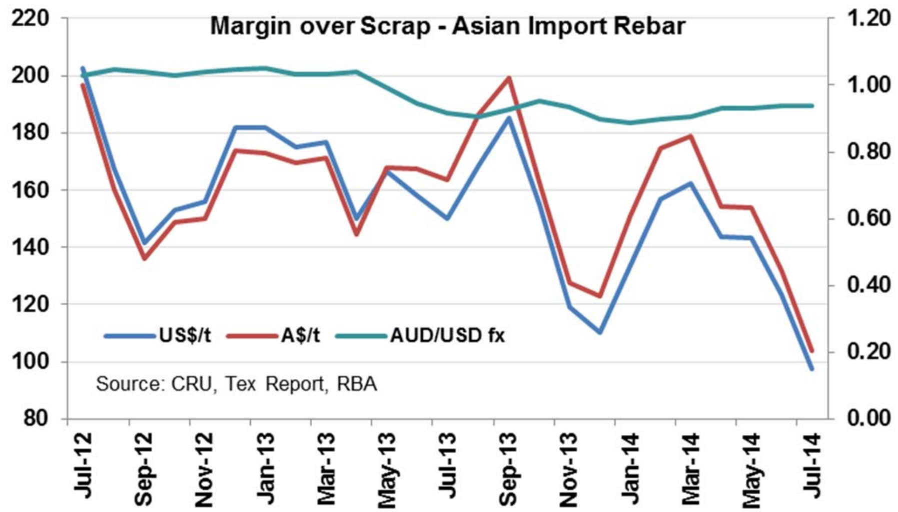


Barangaroo development, Sydney, NSW

1 FY14 delivered ~$30 million per guidance (annualised $40 million FY15).

FY14 Steel

- Benefit of lower AUD on prices and margins partly offset by:
  - Lower SE Asian steel margins
  - Volatility in AUD/USD
- Anti-dumping investigations in progress for structural steel (HRS) and rod in coils
  - Accounts for ~30% total steel volumes
  - Structural steel interim up to 20%
  - Rod in coils under investigation
- Lodgement of further anti-dumping applications being considered



FY14 Recycling results

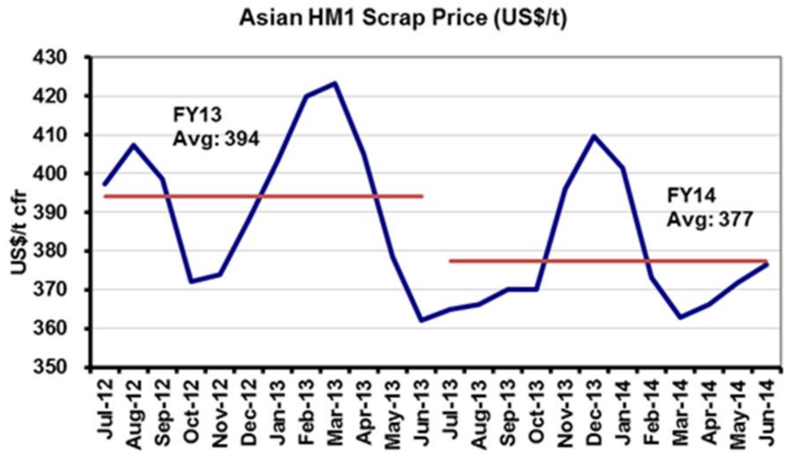
	FY14 $m	FY13 $m	% change
Total revenue/income	1,132	1,165	(3)
EBITDA	12	(3)	-
EBIT	1	(16)	-
Sales margin	0.1%	(1.3%)	1.4 pp
Assets	394	400	(2)
Funds employed	297	301	(1)
Return on funds employed	0.4%	(4.0%)	4.4 pp
Employees (number)	641	685	(6)
Total scrap recycling tonnes (Mt)	1.44	1.48	(3)

Unless otherwise stated, financial measures are underlying financial measures from continuing operations.

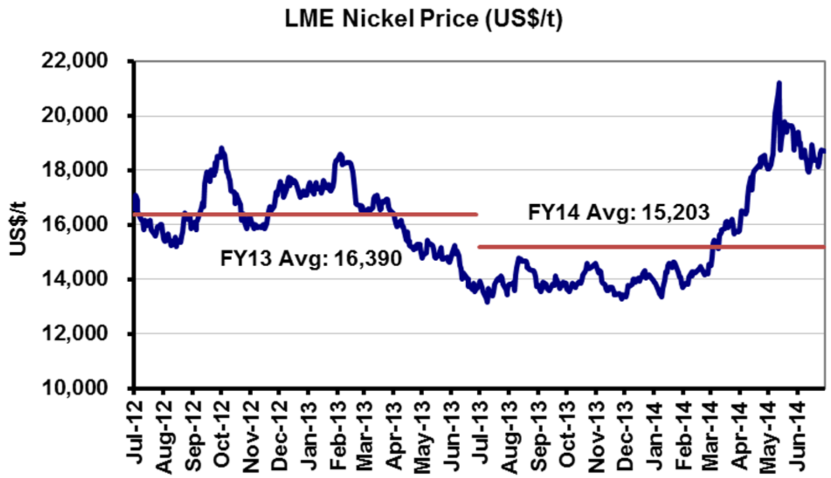
FY14 Recycling

Business repositioned

- Facility portfolio focused on Australian mid and east coast, and Asian non-ferrous
- Significant turnaround in underlying earnings despite lower prices
  - Cost reductions and operational improvements, including increased shredder non ferrous downstream recoveries
  - Improved non ferrous volumes and margins



Source: Tex Report



Source: LME

FY14 Financial Overview

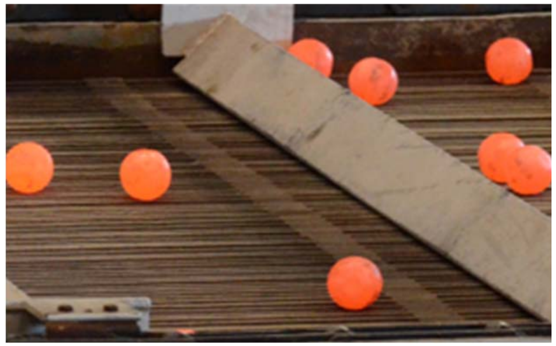
Robert Bakewell, Chief Financial Officer

arrium MINING AND MATERIALS

Strong earnings driven by Mining and Mining Consumables

- Sales revenue $7,007 million
- Record underlying EBITDA $864 million, up 38%
- Underlying NPAT $296 million, up 83%
- Statutory NPAT $205 million
- Underlying EPS 21.8c, up 79%

Iron Duke, SA



Grinding balls at our new Cilegon plant, Indonesia

Record cash and lower net debt

- Record statutory operating cash flow $679 million
- Divestment proceeds $240m – upper end of guidance
- Net debt $1,708m, down $407m from $2,115m FY13
- Statutory gearing down 5.3 pp to 31.4%
- Leverage ratio improved to 2x, from 3.4x FY13
- Refinanced ~$1 billion debt facilities
- Average funding cost ~4% over total drawn and undrawn facilities

Grinding balls at Mejillones, Chile

FY14 financial overview

Reconciliation of statutory to underlying results[1]

	FY14 $m	FY13 $m
Statutory net profit / (loss) after tax	**205**	**(701)**
Add back significant items, after tax		
Restructuring costs	36	66
Impairment	8	895
Steel Transformation Plan	19	-
Tax and other adjustments - includes MRRT	28	(98)
Underlying net profit after tax	**296**	**162**

1 Full details of this reconciliation can be found in the Appendix to this presentation.

FY14 financial overview

Statutory results[1]

	FY14 $m	FY13 $m	% change		Comment
Sales revenue	7,007	6,841	↑	2	
EBITDA	781	532	↑	47	Impact of record Mining EBITDA
Depn, amort & impairment	380	1,247	↓	(70)	FY13 includes impairments of $931 million related to Steel and Recycling assets
EBIT	401	(715)	↑	-	
Finance costs	118	120	↓	(2)	In line with guidance
Net profit / (loss) after tax	205	(701)	↑	-	Significant improvement
Operating cash flow	679	653	↑	4	Record strong operating cash flow
Net debt	1,708	2,115	↓	(19)	Significant reduction – $407 million
Gearing (net debt/net debt + equity)	31.4%	36.7%	↓	(5.3 pp)	
Return on funds employed	7%	(12%)	↑	19 pp	
Dividend (cents per share)	9.0	5.0	↑	4.0c	Unfranked

1 For total operations, includes continuing and discontinued operations. A reconciliation of non-statutory underlying results to statutory results can be found in the Appendix to this presentation.

FY14 financial overview

Underlying results[1]

	FY14 $m	FY13 $m	% change		Comment
Sales revenue	7,007	6,841	↑	2	
EBITDA	864	625	↑	38	Impact of record Mining EBITDA
Depn[2], amort & impairment	368	317	↑	16	Commenced depreciation of Port & Southern Iron assets & amortisation of mining rights in 2H13
EBIT	497	309	↑	61	
Finance costs	118	120	↓	(2)	Estimate for FY15 $100-110m
Profit before tax	379	189	↑	101	
Tax expense	82	25	↑	228	Effective tax rate 22%. FY15 est. 20-25%
Net profit after tax	296	162	↑	83	Highest since FY08
Operating cash flow	746	659	↑	13	Record – stronger cash profits and tight working capital management
EPS (cents) – weighted average	21.8	12.2	↑	79	
Return on funds employed	9%	5%	↑	4 pp	
Dividend (cents per share)	9.0	5.0	↑	4.0c	Unfranked

1 Total operations includes continuing and discontinued operations. A reconciliation of non-statutory underlying results to statutory results can be found in the Appendix.
2 Application of Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine is expected to add further ~$60m to FY15 depreciation costs.

FY14 financial overview

Balance sheet summary

	FY14 $m	FY13 $m	% change		Comments
Total assets	8,002	8,169	↓	(2)	Primarily divestments
Total liabilities	4,271	4,518	↓	(5)	Includes impact of FX at balance date,restructuring provisions and tax liabilities
Net assets	3,731	3,651	↑	2	
Net debt	1,708	2,115	↓	(19)	Significant reduction – $407m
Inventories	1,235	1,278	↓	(3)	
Funds employed	5,439	5,766	↓	(6)	
Gearing (net debt/net debt + equity)	31%	37%	↓	(6 pp)	
Interest cover (times EBITDA)[1]	7.4	5.2	↑	2.2 times	
NTA / share ($)	1.3	1.2	↑	8	

1 Underlying interest cover shown here reflects underlying EBITDA divided by finance costs.

Cash flow reconciliation – statutory

	FY14 $m	FY13 $m
Profit/(loss) after tax	207	(699)
Depreciation, amortisation and impairment	380	1,247
Non-cash items	(41)	(33)
Other changes in assets and liabilities including working capital	133	138
Operating cash flow	679	653
Capital expenditure	(435)	(522)
Free cash flow	244	131
Asset and business sales	240	122[1]
Operating and investing cash flow	484	253

1 FY13 includes proceeds from sale of share in Steel and Tube Holdings Limited.

FY14 financial overview

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Capital expenditure – cash basis

	FY13 $m	FY14 $m	FY14 Est $m
Mining	337	199	245-270
Mining Consumables	50	71	65-75
Steel & Recycling	72	70	70-75
Total capital expenditure (excluding stripping activity asset)	**459**	**340**	**380-420**[1]
Mining stripping activity asset	63	95	90
Total	**522**	**435**	**470-510**

- Strong focus on management of capital expenditure
- FY14 capital expenditure includes:
  - Mining PPE ~$120m, cutbacks ~$59m, exploration ~$20m
  - Mining Consumables capacity expansions ~$40m
  - Steel & Recycling ~50% D&A

1 As provided in February 2014.

FY15 capital expenditure

Capital expenditure – cash basis

	FY15 Est $m
Mining	200-240[1]
Mining Consumables	80-85
Steel & Recycling	70-75
Total capital expenditure (excluding stripping asset)	**350-400**
Mining stripping activity asset	40-50[1]
Total	**390-450**

- Ongoing strong management of capital expenditure
- Mining
  - Focus on access to lower cost ores at IKMA (MBR) faster. Cut backs ~$135m
  - Ongoing exploration program to step up conversion of resource to reserve with focus on MBR ~$25m
  - Completion of SI haul road (commenced 2H14) ~$15m
  - FY16 – FY19 Capital Plan estimated to average ~$6/t[2,3]
- Mining Consumables
  - Expansions in Canada & Peru to facilitate known forecast & contracted grinding media growth (growth capex ~75%)
- Steel & Recycling ~50% D&A

1 Total Mining capital cash spend including stripping activity asset managed to a range of $240-290m.
2 Excludes exploration and capitalised stripping.
3 Based on current operations, business plan & forecast sales. Includes investing & sustaining capex; excludes exploration and capitalised stripping. Wholly underpinned by Ore Reserves (8.3Mt Proved and 69.5Mt Probable) in 2014 Reserves & Resources statement (prepared by a Competent Person under JORC 2012).

Asset divestment program

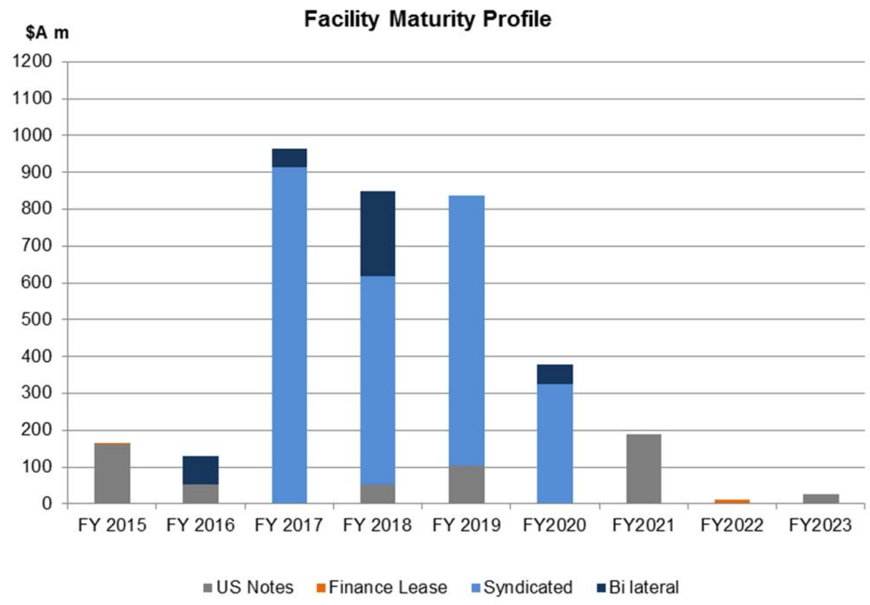
arrium MINING AND MATERIALS

- FY14 proceeds $240 million – top end of $200-250 million guidance
  - Merchandising: Building Services, Aluminium, Fagersta, Sheet & Coil
  - Recycling USA
  - Properties

- Further divestments expected in FY15
  - Non-integrated Steel businesses held for sale – Australian Tube Mills
  - Other opportunities – continuing to examine business and property portfolio
  - Targeting ~$100 million proceeds FY15

Funding

- Total facilities A$3.5 billion at year-end
- Net debt $1,708 million at year-end
- Successfully refinanced 2015 maturities
- Investigating opportunities to diversify existing debt finance
- Average interest rate for total drawn and undrawn funding ~4%
- Next significant maturity FY17
- Covenants include gearing ratio < 50% and interest cover between 3.0 and 3.5 times



arrium MINING AND MATERIALS

Strategy, Opportunities & Outlook

Andrew Roberts, Managing Director & CEO

Opportunities for ongoing growth

- On track for increasing export iron ore sales to ~13Mtpa rate Q1 FY15
- Opportunity through ‘sweating supply chain’
  - Major infrastructure in place – progressing further efficiencies
  - Iron Knob mine development – shorter ‘turn time’ to Port
  - Southern Iron improvements – haul road, rail bottlenecks and scheduling improvements
  - Port capacity
    - Increased flexibility
    - Inner Harbour berth utilisation ~45%
    - New tug fleet provides greater weather resilience and faster barge towage
    - Annualised benefit from operational improvements in 2H14 (many performance records set incl. record vessel lift, record cape loading)

Good basis for sales longevity

- Increased focus on adding reserves
- Hematite opportunities
  - Expect positive results from 2 year exploration program (commenced in FY14)
  - Hematite reserves increased to 78Mt (after depletions), from 67Mt pcp
  - Hematite resource increased to 210Mt, from 184Mt pcp
  - New prospective greenfield opportunities at MBR through Indigenous Land Use Agreements
- Magnetite opportunities
  - Additional ~400ktpa of concentrate
  - Further opportunities from completed $86m project
  - MBR magnetite resource 183Mt
  - Pre 2011 WPG identified Southern Iron inferred magnetite opportunity 569Mt[1]

Magnetite Expansion Project,
South Middleback Ranges, SA

1 As disclosed by WPG in their 2010 Annual Report prior to acquisition of iron ore assets by Arrium. Arrium has not completed work to confirm this.

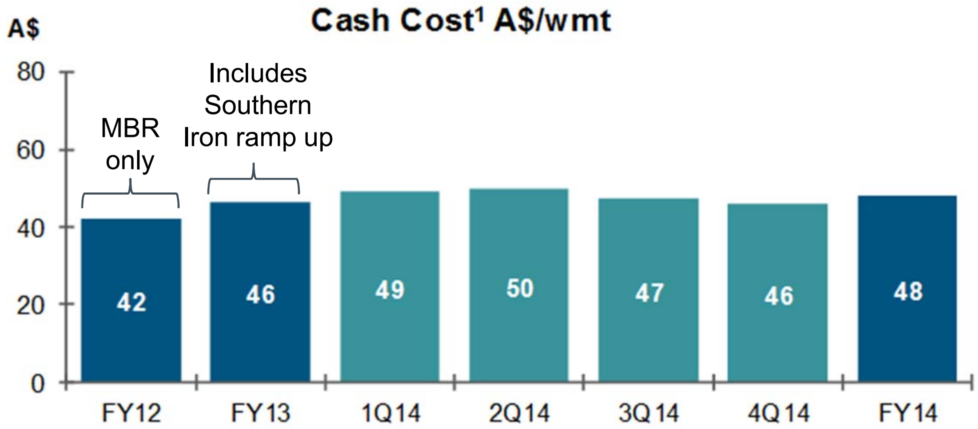
Market

- Demand for iron ore remains strong, underpinned by growth in China
- Solid increase in supply through FY14
  - Orderly consumption and solid prices through to Q3
  - Rapid price decline in Q4
    - Low liquidity in spot market, tightening of credit in China, higher port stocks, increased discounting (lower grade ore)
  - Higher cost Chinese ores exiting market
  - Majority of present new ‘supply block’ now being absorbed
  - Price expected to then better reflect Fe content and ‘value in use’ benefits

Concentrator Raw Feed Bin, South Middleback Ranges, SA

Well positioned to manage in current environment

- Blended product strategy – high grade and quality (low moisture and impurities)
- Operational flexibility – maximise earnings and cash through varying grade, volume and cost
  - Flexibility to quickly vary market offer
  - Increased focus on cost reductions and cash options (operations, overheads, freight)
  - Focus on MBR lowest cost ores (change mix to reduce proportion of SI volumes)
  - Capital (curtail and/or focus on lower cost MBR, review investments and exploration)



1 Includes mining, crushing, beneficiation, road haulage and transhipping costs. Excludes capitalised costs (infrastructure, pre-stripping and mining licences), depreciation and amortisation charges in respect of those costs, royalties, sales and marketing and corporate costs.

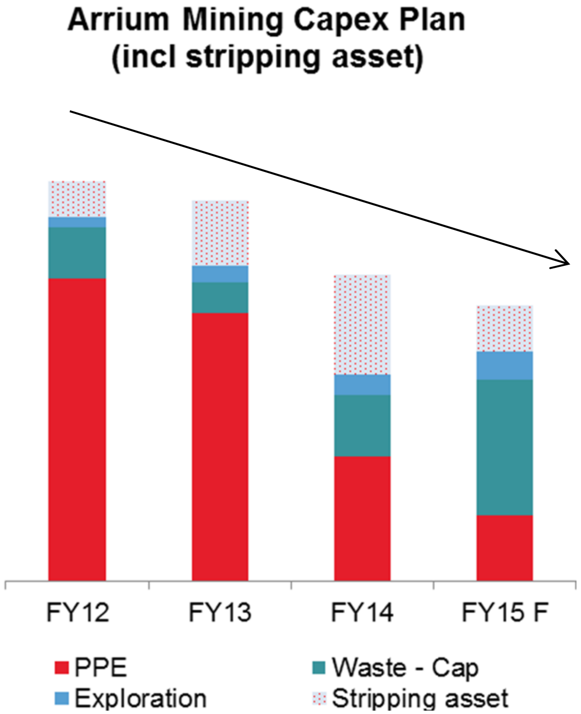
Focus has been and remains on gaining access to lower cost ores faster

- Iron Knob Mining Area (includes Monarch, Princess East and Princess West)
  - Expected to provide ~20Mt of hematite ore[1]
  - Work commenced August 2013 with expectation of first ores 1H FY16. Now accelerated to deliver first ores 2H FY15
  - Estimated payback at current market 4 years[2]
- Exploration (increased drilling) stepped up to convert more MBR resource to reserves quickly

1 Estimate derived from 18.1Mt Probable Ore Reserves & 2.1Mt Inferred Mineral Resources in Arrium's 2014 Reserves & Resources statement released to ASX today (prepared by a Competent Person under 2012 JORC Code) & on assumptions described in that release for MBR Hematite project. There is a low level of geological confidence associated with inferred mineral resources and there is no certainty that further exploration work will result in the determination of indicated mineral resources or that the production target itself will be realised.
2 Price assumption = ~US$95/wmt 62% Fe (market price) escalated annually by CPI. AUD/USD assumption $0.93.

Capital expenditure shift from PP&E to cut backs

- ~70%[1] FY15 capital expenditure on cut backs
- Estimated capital plan FY16 – FY19 ~$6/t[1,2] (was ~$8/t[1] FY15 – FY18) weighted towards the first 2 years – will be managed for market conditions



1 Excludes exploration and capitalised stripping
2 Based on current operations, business plan & forecast sales. Includes investing & sustaining capex; excludes exploration and capitalised stripping. Wholly underpinned by Ore Reserves (8.3Mt Proved and 69.5Mt Probable) in 2014 Reserves & Resources statement (prepared by a Competent Person under JORC 2012).
3 Stripping cost FY16 – FY19 ~$4/t

A growth business of scale, with stable margins and a sustainable competitive advantage

- Good visibility of new projects and mine expansions
  - Strong estimated growth in grinding media demand in North and South America ~7% CAGR FY14 – FY19[1]
- Expect to win at least strong market share of grinding media growth and maintain stable margins
  - Increased focus on 'value in use' in 2H14
  - Won more than our strong market share of new projects/expansions in North and South America
- Next generation SAG ball further strengthens competitive position
  - Roll out progressing well with strong customer support
  - Kansas, USA in Q2 FY15, Kamloops, Canada Q4 FY15 and Mejillones, Chile in Q4 FY15


Grinding ball production at Mejillones, Chile

1 Moly-Cop Management top down/bottom up assessment incorporating Wood McKenzie study

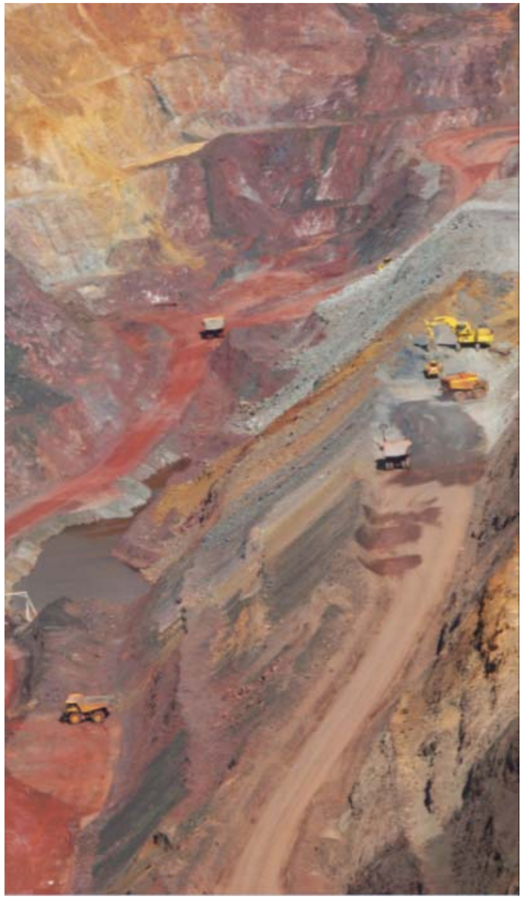
Investing in new capacity ‘ahead of market’ and close to customers

- Lima, Peru (40kt) – completed on time and budget 1H14
- Cilegon, Indonesia (50kt) – completed on time and budget end FY14
- Kamloops, Canada (120kt) – on schedule for mid 2015 completion
- Arequipa, Peru
  - Additional capacity required to meet future growth in Southern Peru
    - Strong growth expected FY16 – FY20
    - Existing Arequipa facility near full capacity
  - Land purchased at La Joya near Arequipa FY14
  - New ~175kt facility, Cost ~$US50 million[1], completion expected mid 2016

1 Capital investment covers FY14, FY15 and FY16

Mining

- Demand for seaborne iron ore to remain strong
  - Continued growth in China crude steel production
  - China iron ore production declining – higher cost
- Market prices to better reflect Fe content and ‘value in use’
- Estimated FY15 export sales ~13Mt
  - Mix ~70% fines, ~30% lump
  - Grade ~60% Fe (blended product strategy)
  - Loaded cash cost ~A$48 – 50/wmt
  - Customer mix ~70% contract, ~30% spot
- Increased focus on cost reductions
- Capital investment to focus on accessing lower cost MBR ores sooner
- Ongoing exploration focus on accelerating conversion of resource to reserve
- Operational flexibility available to meet market conditions



Iron Knight, SA

Mining Consumables

- Continued strong demand for grinding media underpinned by high levels of copper and gold production, particularly in North and South America
- FY15 grinding media volumes expected to benefit from:
  - Capturing at least strong share of market growth (includes impact of new projects/expansions in North and South America won 2H14)
  - Ramp up of sales in Indonesia
- Modest increase expected in rail wheels volumes
- FY15 earnings to benefit from:
  - Increased grinding media volumes
  - Continued stable grinding media margins
  - Annualised benefit of 'right sizing' Waratah, Newcastle

Truck exiting Moly-Cop Lima site, Peru

Steel

- Stronger sales volumes at end FY14 continuing into FY15
  - Commencement of delayed projects
  - Increased housing construction (particularly high rise dwellings)
  - Increasing infrastructure construction
- Earnings in 1H15 to continue to be subject to margin pressure from ongoing weakness in international and domestic steel markets, but benefit from:
  - Increased sales volumes
  - Annualised benefit of cost reductions in FY14
  - Further cost and operational improvements in FY15

Steel (cont.)

- Well positioned over medium term to maximise opportunity from increased government investment in infrastructure
  - Strong pipeline of new projects announced
  - Service offer enhances competitive position (helps ‘de-risk’ projects)
- In Recycling, the business expects to build on its stronger FY14 performance through:
  - Leveraging its repositioned footprint
  - Further cost and operational improvements
  - The impact of a stronger non-ferrous market leading into 1H15

Outlook

- Quantitative earnings guidance for Group not appropriate at this time due to level of uncertainty around:
  - Iron ore price
  - FX
  - Scrap prices and SE Asian margins
  - Level of domestic demand
- Significant variance and/or volatility in above can materially impact earnings and cash

Summary

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- Strong results – record EBITDA and cash
- Significant reduction in net debt and improved leverage ratio
- Mining – record earnings and well positioned for current environment
- Mining Consumables – strong earnings and continuing strong grinding media demand
- Steel – lower cost base and improving volume outlook
- Continuing focus on debt reduction

"Strong results from successful strategy execution"


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Appendix

FY14 safety performance

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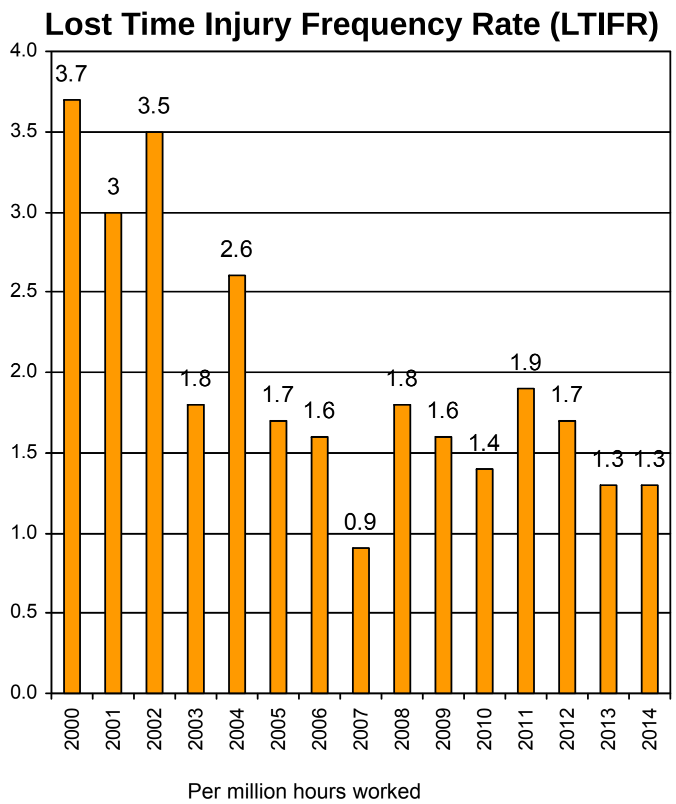
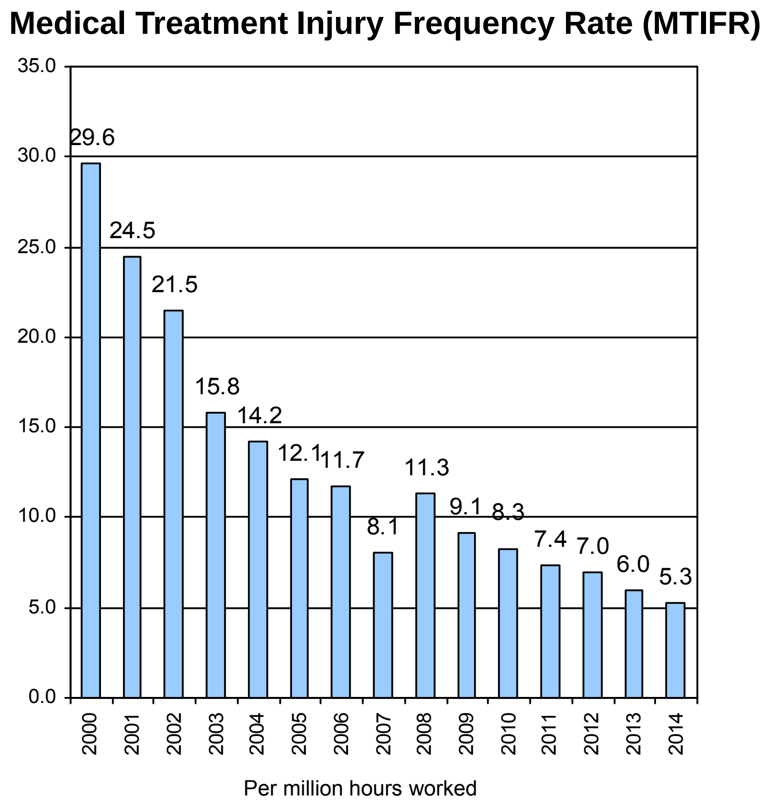




A key element of our Safety effort has been improving our capability to recognise, assess and manage risk

Arrium FX exposure

Exposure to movements in AUD vs USD

- Direct impact: 1c change in AUD/USD = ~$16-19 million[1] EBIT impact (annualised)
- Indirect impact: 1c change in AUD/USD = ~$9 million[2] EBIT impact (annualised)
- FX sensitivity on gearing[3]: 5c movement in AUD/USD = ~1% impact on gearing
- USD debt acts as natural hedge against FX exposure on USD net assets
  - Change in USD debt offset by change in value of USD assets
  - Net balance sheet USD exposure $40 million[4] at year end

1 Based on impact of USD iron ore sales, translation of overseas earnings (Mining Consumables and Recycling), impact on Recycling Australia's margins, partially offset by USD purchases of coal and alloys in Steel.
2 Indicative indirect impact on continuing businesses. Assumes constant raw material prices and demand levels.
3 Based on balances at 30 June 2014.
4 Excludes forward contracts hedging purchases and sales.

Depreciation & Amortisation

	2013[1] Presented		2013[2] Restated		2014[2]	
	$m	$/t	$m	$/t	$m	$/t
Mining						
Hematite	65	7.8[3]	65	7.8[3]	131	10.5[3]
IFRIC 20 (Stripping Activity)	-		43[4]		46	
Magnetite	26		26		24	
Other	1		1		4	
Total Mining	92		135		205	
Mining	92		135		205	
Mining Consumables	45		45		47	
Steel	108		108		104	
Recycling	12		12		11	
Other (Incl Discontinued)	17		17		1	
Total Arrium	**274**		**317**		**368**	

1 Before Interpretation 20 comparative restatement.
2 Includes the impact of Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine.
3 Hematite depreciation and amortisation, excluding stripping activity.
4 Includes $15 million of unallocated amortisation.

Reconciliation of income tax expense

	Statutory		Underlying[1]	
	FY14 $m	FY13 $m	FY14 $m	FY13 $m
Total profit/(loss) before income tax	**283**	**(835)**	**379**	**189**
Prima facie income tax expense calculated at 30%	85	(251)	114	57
Tax effect of permanent differences				
Research and development allowance	(17)	(13)	(17)	(13)
Difference in overseas tax rates	(8)	(4)	(8)	(4)
Non-deductible impairment	-	244	-	-
Non-taxable capital gains	(17)	(8)	(17)	(8)
Adjustments in respect of income tax of previous years[2]	2	(39)	2	-
Foreign currency translation differences	4	(4)	4	(4)
Other items	4	(3)	4	(3)
Income tax expense/(benefit) excluding MRRT	**53**	**(78)**	**82**	**25**
Effective tax rate excluding MRRT	*19%*	*9%*	*22%*	*13%*
Income tax impact of MRRT taxation expense	23	(58)	-	-
Total income tax expense/(benefit)	**76**	**(136)**	**82**	**25**

1 Excludes restructuring and transaction costs, adjustments in respect of Steel Transformation Plan, income tax of previous years and impairment of assets.
2 Primarily relates to Research & Development claims not previously recognised together with finalisation of prior period amendments from 2008 – 2011.
A reconciliation of non-statutory underlying results to statutory results can be found in the Appendix to this presentation.

FY14 segment tonnage

Year ended 30 June	FY14[4] mt	FY13[4] mt	FY12[4] mt	FY11 mt	FY10 mt	FY09 mt	FY08[1] mt	FY07 mt	FY06 mt	FY05 mt
Despatches - external										
Iron Ore										
Iron ore lump	4.24	3.18	2.59	2.79	2.60	1.96	1.38			
Iron ore fines	8.23	5.10	3.70	3.25	3.43	3.11	3.08			
Total lump & fines	12.47	8.28	6.29	6.04	6.03	5.07	4.46			
Pellets, other ore and by products[2]	0.43	0.57	0.44	0.72	0.81	0.69	0.88			
Mining Consumables[3]	1.13	1.19	1.11	0.75	0.39	0.33	0.35			
Steel										
Manufacturing	1.02	0.91	0.91	1.11	1.05	1.02	1.45	0.98	0.99	0.90
Distribution	1.05	1.16	1.29	1.33	1.30	1.41	1.73	1.30	1.28	1.37
Total Steel	2.07	2.07	2.20	2.44	2.36	2.43	3.18	2.28	2.27	2.26
Recycling										
Ferrous	1.19	1.25	1.40	1.91	1.70	1.66	1.71			
Non-ferrous	0.25	0.23	0.24	0.25	0.19	0.14	0.18			
Total Recycling	1.44	1.48	1.64	2.16	1.89	1.80	1.89			
Raw steel production										
Waratah	0.18	0.23	0.21	0.25	0.24	0.24	0.26			
AltaSteel	0.27	0.28	0.29	0.15	-	-	-			
Total Mining Consumables	0.45	0.51	0.50	0.40	0.24	0.24	0.26			
Whyalla	1.09	1.12	1.11	0.91	0.91	1.00	1.15	1.17	1.13	0.81
Sydney Steel Mill	0.34	0.32	0.33	0.43	0.42	0.34	0.62	0.56	0.50	0.53
Laverton	0.48	0.55	0.56	0.58	0.59	0.44	0.67	-	-	-
Total Steel	1.91	1.99	2.00	1.92	1.91	1.79	2.44	1.73	1.63	1.35
Total raw steel production	2.36	2.50	2.50	2.32	2.15	2.03	2.70	1.73	1.63	1.35

1 Tonnages for FY08 reported for raw steel production and steel despatches include the SSX businesses as if they were part of the Arrium Group from 1 July 2007. All other production and despatch statistics presented above are actual. Tonnages include Moly-Cop Group from 1 January 2011 only.

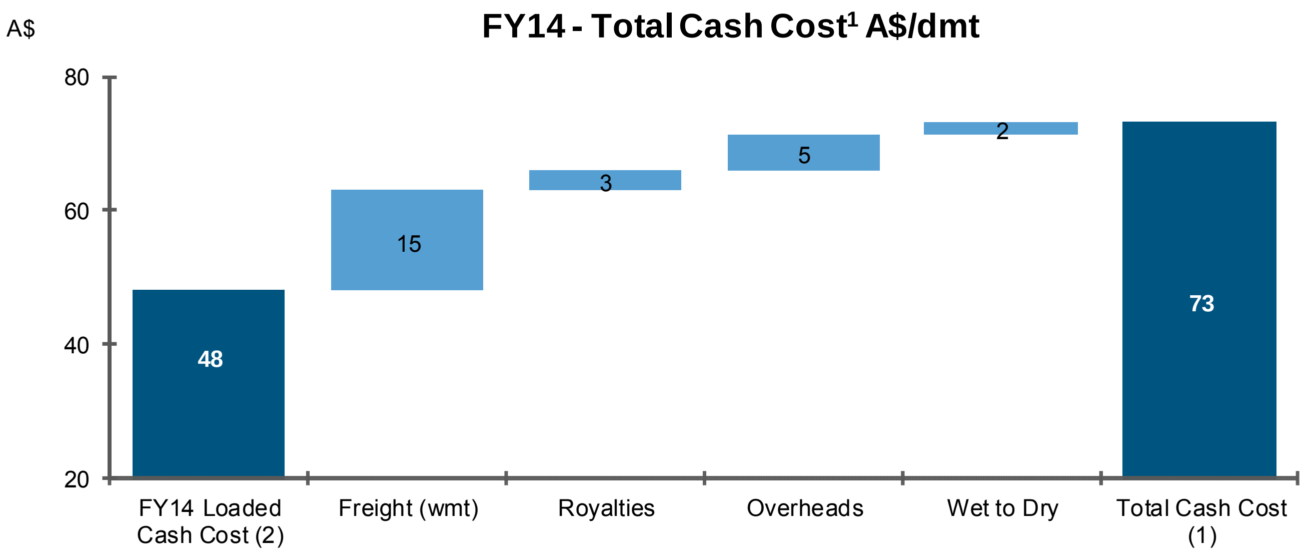
2 Ore by products include dolomite, centrix, filter cake and pellet chips.

3 Includes scrap sales.

4 Excludes discontinued operations.

Pre-2005 tonnage information can be found on Arrium's website.

Mining Cash Cost



1 Includes loaded cash cost, royalties, sales and marketing and corporate costs, adjustment for moisture content and freight. Excludes capitalised costs (infrastructure, pre-stripping and mining licences), depreciation and amortisation charges in respect of those costs.
2 Includes mining, crushing, beneficiation, road haulage and transhipping costs. Excludes capitalised costs (infrastructure, pre-stripping and mining licences), depreciation and amortisation charges in respect of those costs, royalties, sales and marketing and corporate costs.

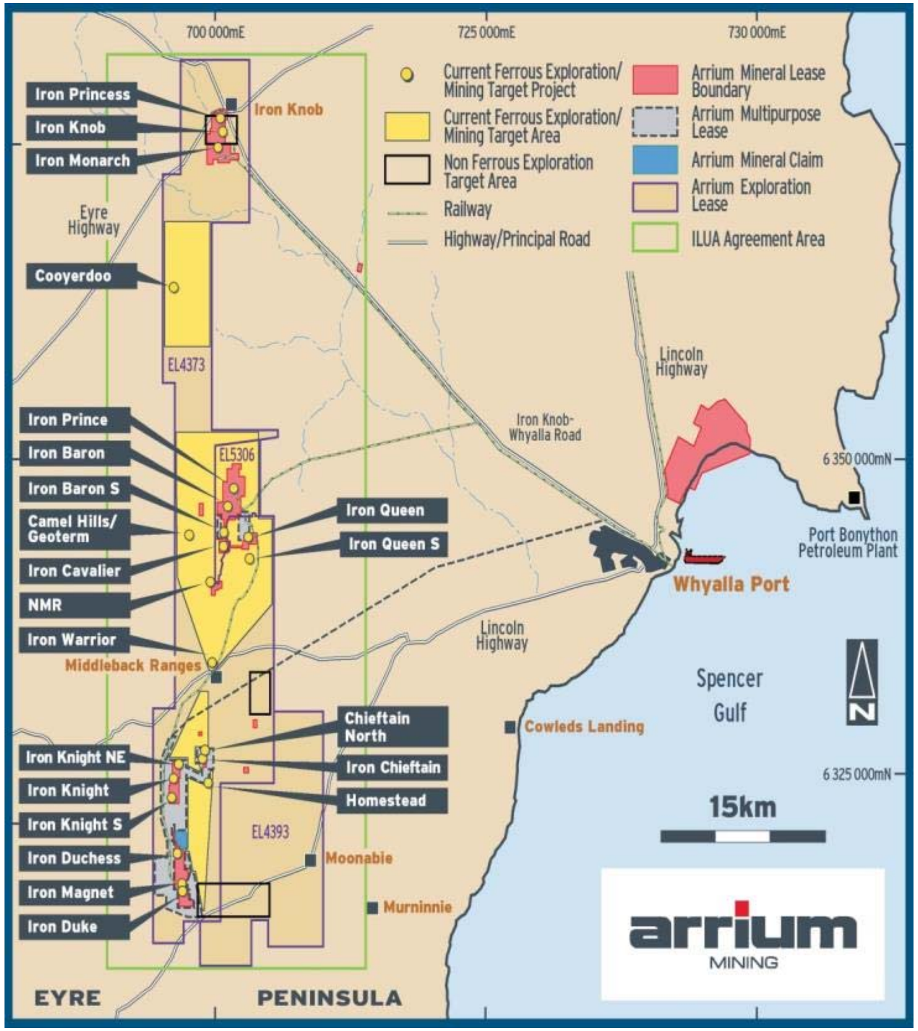
Iron Knob Mining Area

- Includes Monarch, Princess East and Princess West
  - Expected to provide ~20Mt of hematite ore:[1]
    - 18.1Mt Probable Ore Reserves
    - 2.1Mt Inferred Mineral Resources

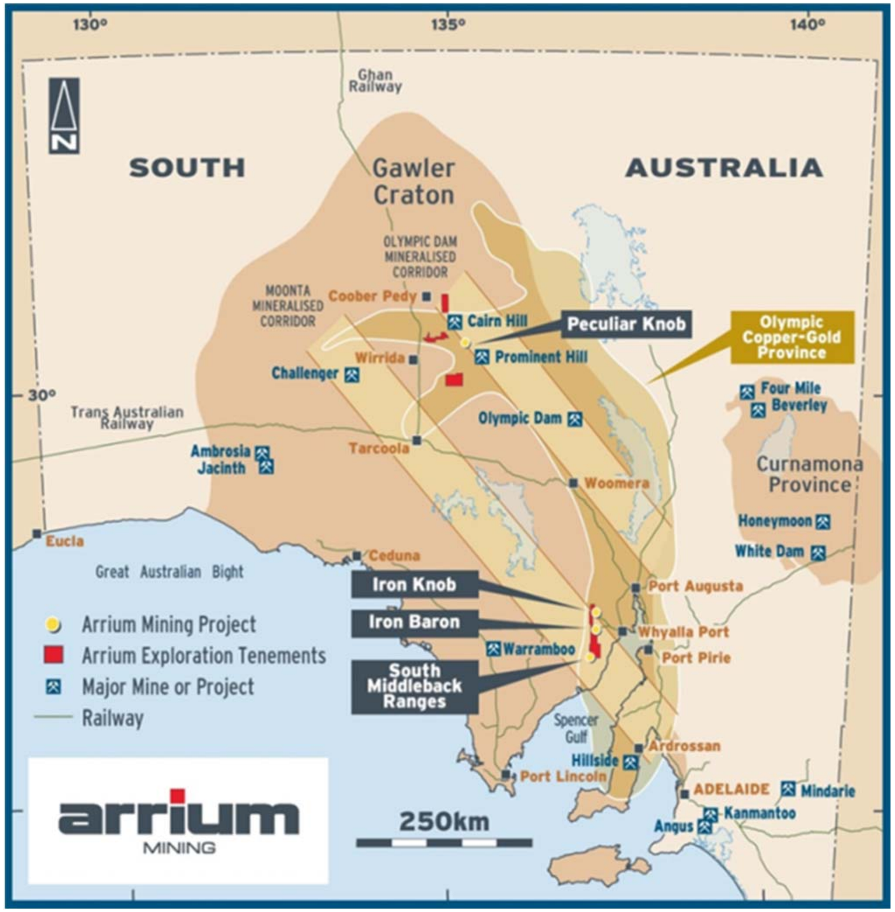
    There is a low level of geological confidence associated with inferred mineral resources and there is no certainty that further exploration work will result in the determination of indicated mineral resources or that the production target itself will be realised.
  - Work commenced August 2013 with expectation of first ores 1H FY16. Now accelerated to deliver first ores 2H FY15.
  - Estimated payback at current market 4 years[2]
- Exploration (increased drilling) stepped up to convert more MBR resource to reserves quickly

1 Estimates derived from Arrium's 2014 Reserves & Resources statement released to ASX today (prepared by a Competent Person under 2012 JORC Code) and on assumptions described in that release for MBR Hematite project.
2 Price assumption = ~US$95/wmt 62% Fe (market price) escalated annually by CPI. AUD/USD assumption $0.93.

Mining Operations



Middleback Ranges Operations



Southern Iron Operations

Moly-Cop North America growth

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Projected major expansion/new mining projects

- Canada/Alaska
  - Thompson Creek - Mt Milligan, Operations Commenced
  - Imperial Metals – Red Chris, Commissioning
  - Goldcorp – Eleonore, Under Construction
  - Avanti - Kitsult
  - Yellowhead – Harper Creek
  - Taseko – New Prosperity
- USA
  - Freeport – Morenci Expansion, Operations Commenced
  - General Moly – Mt Hope
  - HudBay – Rosemont
- Mexico/Caribbean
  - Grupo Mexico – New Cananea, Under Construction
  - Baja – Boleo, Under Construction
  - Minera Frisco Expansions
  - First Quantum – Cobre Panama

Indicative additional grinding media demand growth by FY2018 ~ 190ktpa

Source: Moly-Cop

Moly-Cop South America growth

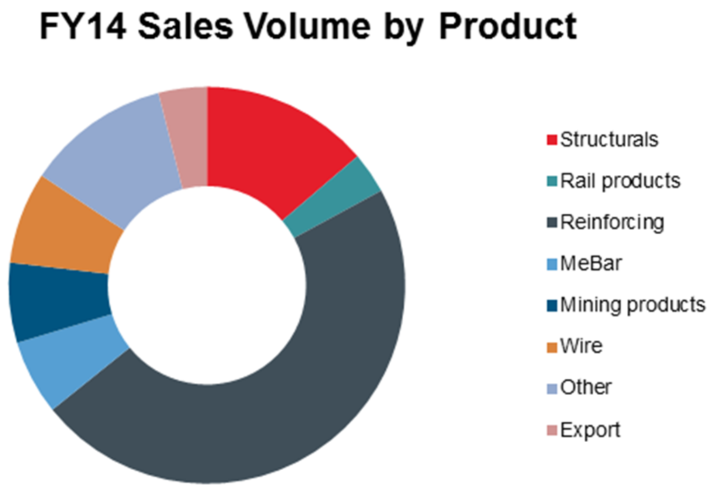
Projected major expansion/new mining projects

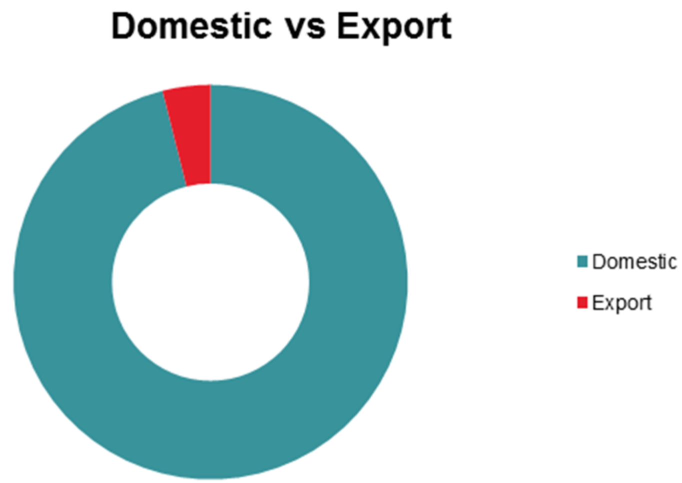
- Chile
  - CODELCO MMH – operations commenced Q3 2013
  - Caserones – commissioning commenced Q2 2014
  - Sierra Gorda – commissioning commenced Q2 2014
  - BHPB Expansion
  - Vale Brazil Expansion
- Peru
  - Toromocho – operations commenced Q1 2014
  - Constancia – under construction
  - Las Bambas - under construction
  - Cerro Verde Expansion – under construction
  - Cuajone Expansion
  - Toquepala Expansion

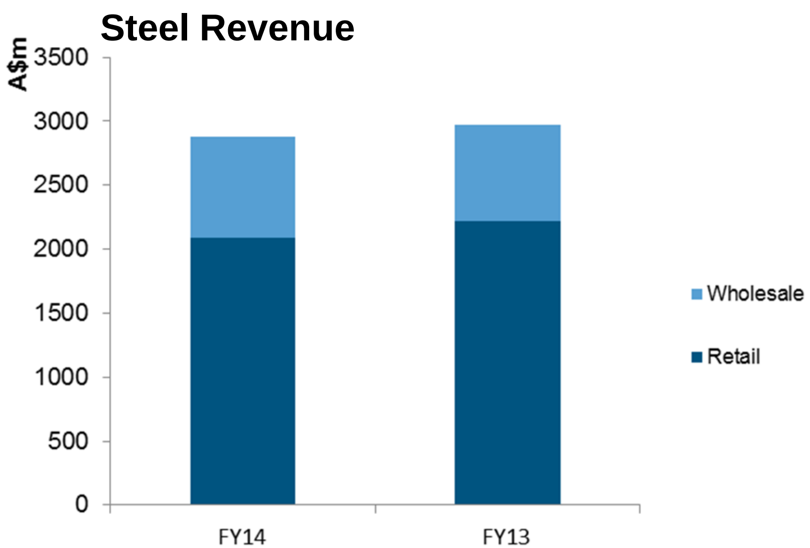
Indicative additional grinding media demand growth by FY2018 ~ 270ktpa

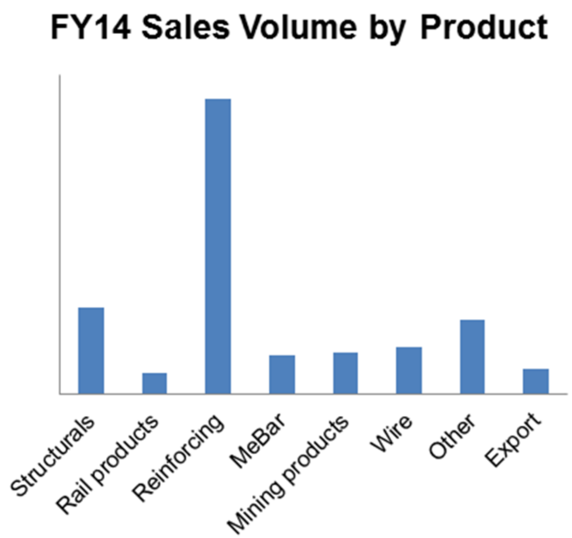
Source: Moly-Cop

Steel


FY14 Sales Volume by Product
Structurals
Rail products
Reinforcing
MeBar
Mining products
Wire
Other
Export


Domestic vs Export
Domestic
Export


Steel Revenue
A$m
3500
3000
2500
2000
1500
1000
500
0
FY14
FY13
Wholesale
Retail


FY14 Sales Volume by Product
Structurals
Rail products
Reinforcing
MeBar
Mining products
Wire
Other
Export

Steel major projects – current or awarded

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VIC
- Werribee Plaza Shopping Centre
- Webb Dock Maritime Package
- Bald Hill Wind Farm

WA
- Yandicoogina Sustaining Project 1 & 2
- Namuldi Below Water Table Project
- Roy Hill Package Three
- Crown Towers
- Old Treasury Building
- Mungari Gold

QLD
- 480 Queen St Tower
- Apartments West End
- Yeppean South

SA
- Royal Adelaide Hospital
- Adelaide Oval

NSW
- North West Rail Link
- Nambucca Heads to Urunga (NH2U) Road Project
- Darling Harbour LIVE
- Centrium Chatswood
- Arthur Street, North Sydney
- Pacific Highway Upgrade
- Sydney Cricket Ground Redevelopment
- Barangaroo Development
- Gas Extraction Tahmoor

Government Budget – Infrastructure

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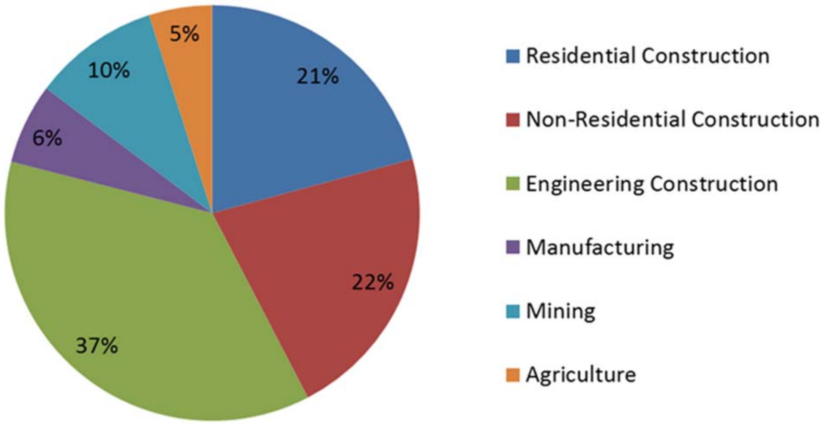
~$16bn New Infrastructure Projects – mostly roads (historically steel intensive and positive for reinforcing)

- NSW $2.9bn
  - West Sydney road development supporting Badgery's Creek airport development ($1.7bn)
  - Other new projects ($1.2bn)
- Vic $3.2bn
  - M80 & other new projects ($3.2bn)
- Qld $4.4bn
  - Warrego Highway ($0.5bn)
  - Other projects ($3.9bn)
- WA $2.5bn
  - Perth freight – Kewdale to Fremantle Port $0.9bn
  - Other new projects $1.6bn
- SA $1.9bn
  - North South Corridor ($0.9bn)
  - Goodwood & Torrens ($0.2bn)
  - Other new projects ($0.8bn)
- Other States & Territories $1.2bn
  - Tas ($0.5bn)
  - NT ($0.5bn)
  - ACT ($0.2bn)
- $300M toward the Inland Rail Project case – Brisbane to Melbourne freight – 599km new rail and 426km of upgrade.
- Asset Recycling $5bn – dependent on State asset sales. (apply for 15% of investment)

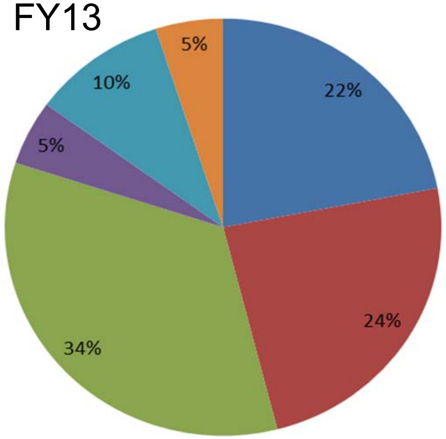
Steel – key markets

Steel Domestic Sales by Market Segment

FY14

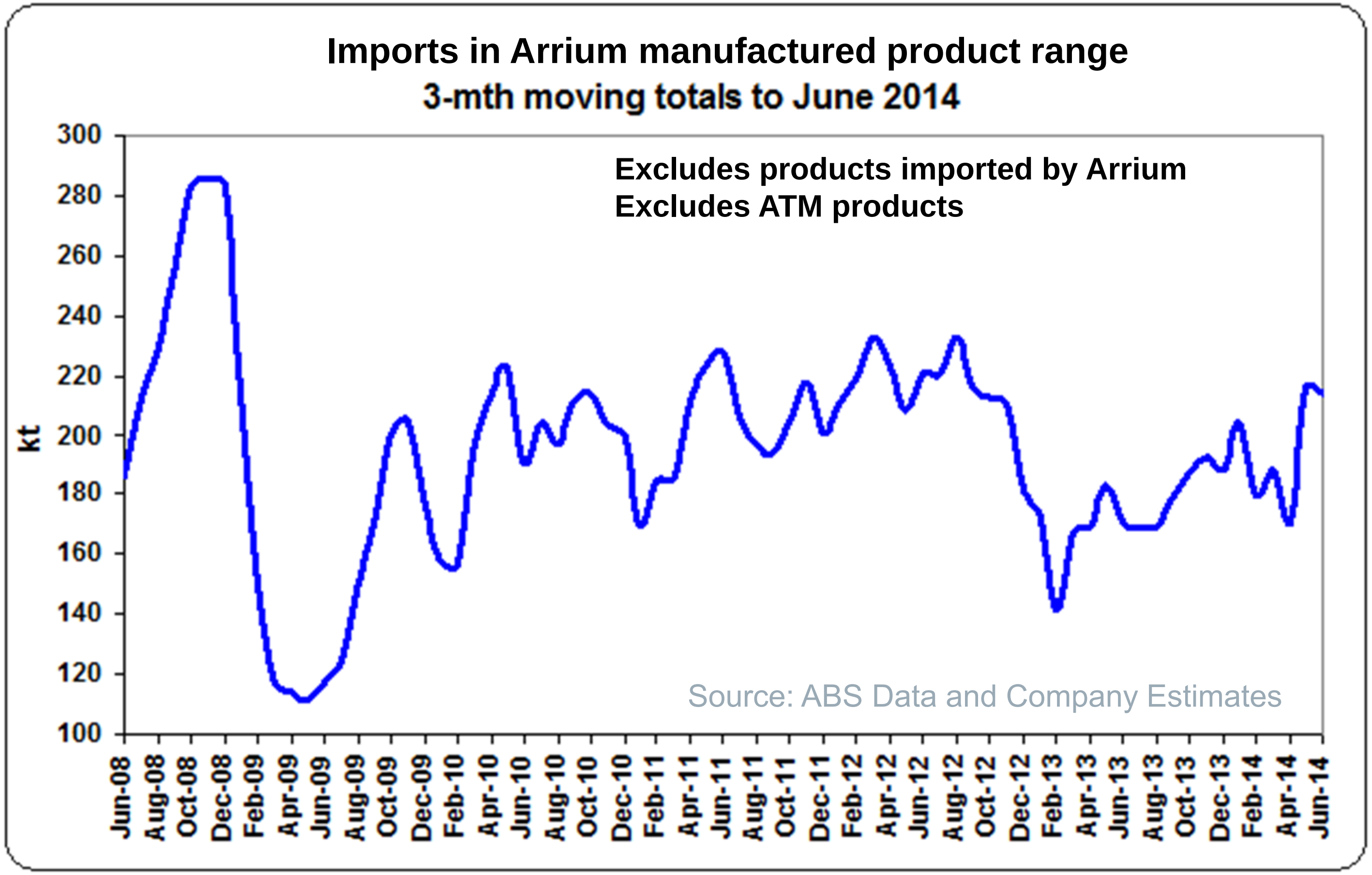


FY13



- ~80% of Steel revenue is driven by construction
- Residential, non-residential and engineering construction (inc mining investment) drives demand for reinforcing bar and wire, rod for mesh, structural pipe, HRS and rail
- Agriculture drives demand for rural wire, rural posts and rural pipe products
- Mining production drives demand for grinding bar which is feed for grinding media
- Manufacturing has limited exposure to automotive and manufacturing segments

Market conditions and external factors



Anti-dumping interim measures

- The Anti Dumping Commission released the Statement of Essential Facts for the Hot Rolled Structural Sections case on 17 July 2014.
- Securities have been revised to the current rates indicated in the table below.

Country	Exporter / Manufacturer	Effective Rate of Dumping Securities
Japan	JFE Bars and Shapes	12.15%
	Uncooperative exporters	12.23%
Korea	Hyundai Steel Company	2.52%
	Uncooperative exporters	3.24%
Taiwan	TS Steel Co Ltd	4.68%
	Tung Ho Steel Enterprise Corporation	2.20%
	Uncooperative exporters	7.89%
Thailand	Siam Yamato Steel Co Ltd	19.80%
	Uncooperative exporters	21.04%

Regulatory – Mineral Resources Rent Tax

- No Mineral Resources Rent Tax (MRRT) liability in FY14 for either MBR or Southern Iron operations
- MRRT net deferred tax asset decreased from $93 million at FY13 to $70 million at year end
  - Deferred asset arises from MRRT starting base deduction
  - Adjustment relates to assessment of future utilisation of deductible allowances
  - Unrecognised deferred tax asset $366 million at end FY14
- Government intention to repeal MRRT

Regulatory – Carbon Tax

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- Repeal effective 1 July 2014
  - Non underlying impact from STP receivable write off of $26.5 million
- P&L impact of ~$5m cost[1] in FY14 – Revenue and expense
  - Free permits ~$78 million – recorded as cost offset
  - Accrued STP income ~$13 million (25% x $53 million (balance of STP))
  - Scope 1 cost ~$69 million[2]
  - Scope 2 cost ~$27.5 million[2]
- Cash impacts in FY14
  - First allocation of ~2.9 million free carbon units received and sold during 1H14
    - cash proceeds $69 million
  - Second allocation of ~0.6 million units sold in June 2014
    - cash proceeds $14 million
  - Purchase of ~0.76 million units against remaining 25% of 2013 scope 1 liability in January 2014
    - cash expenditure ~$17.5 million
  - Carbon impact on electricity costs throughout the year
    - cash expenditure ~$27.5 million
- Final surrender of units for remaining FY14 liability in FY15 (est.~$66m)
- FY14 ‘unassisted emissions’ for scope 1 and 2 (~650-700kt @ $24.15/t)
  - Largely offset by STP income

[1] Carbon cost reflects scope 1 and 2 costs less free unit and STP income. Excludes write off of STP receivable as a consequence of the Carbon Tax Repeal (July 2014)
[2] Scope 1 and 2 costs are estimated based on information available at 30 June 2014. Costs do not include impacts associated with inventory movements.

FY14 summary of facilities

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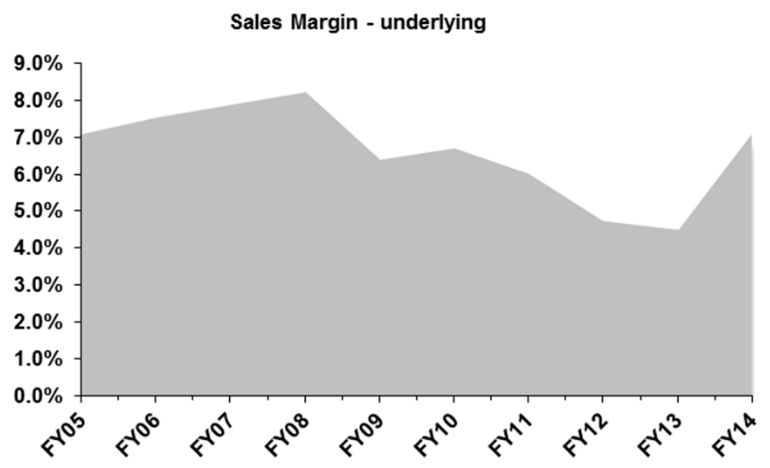
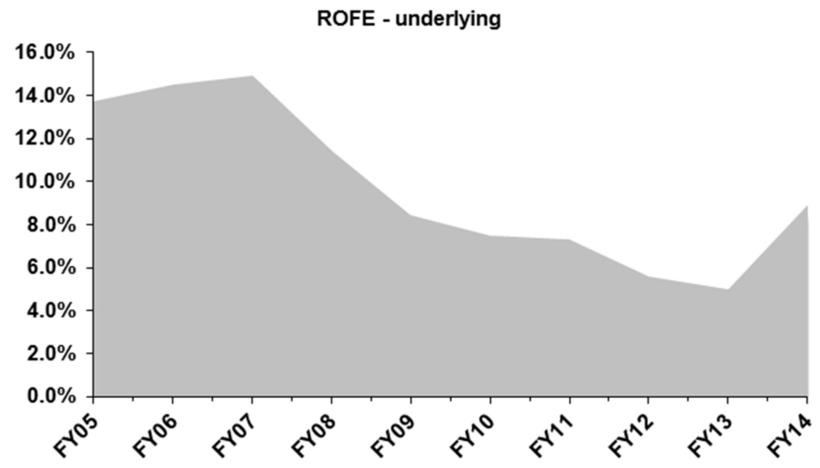
		Facility Amount[1]		
		AUD	USD	CAD
Maturity	Type of facility	$m	$m	$m
Jul 2014	US Note		30	
Feb 2015	Finance lease	1		
Apr 2015	US Note[2]		60	
Jun 2015	US Note[2]		20	
Jul 2015	US Note		50	
Sep 2015	Bi-laterals		25	
Oct 2015	Bi-laterals	50		
Jul 2016	Syndicated Loan		330	
Jul 2016	Syndicated Loan		192	
Jul 2016	Bi-laterals	50		
Jul 2016	Syndicated Loan		135	
Jul 2016	Syndicated Loan	217		
Jul 2017	Syndicated Loan		533	
Jul 2017	Bi-laterals	150		
Jul 2017	Bi-laterals		75	
Jun 2018	US Note		50	
Jul 2018	US Note		97	
Jul 2018	Syndicated Loan		130	
Jul 2018	Syndicated Loan		267	
Jul 2018	Syndicated Loan			60
Jul 2018	Syndicated Loan	255		
Jul 2019	Syndicated Loan		120	
Jul 2019	Syndicated Loan			200
Jul 2019	Bi-laterals		50	
Jul 2020	US Note		53	
Jun 2021	US Note		125	
Jan 2022	Finance lease	11		
Jun 2023	US Note		25	

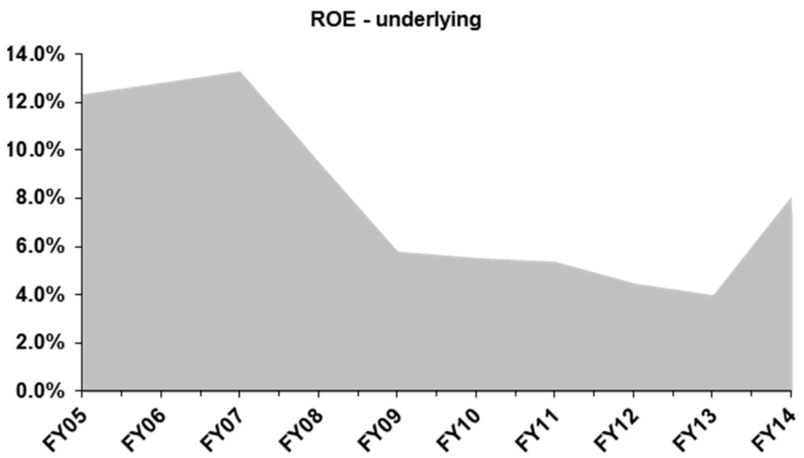
Maturity	Type of facility	Facility Amount AUD[3] $m
FY 15	US Note	162
	Finance Lease	1
FY 16	Bi-laterals	77
	US Note	53
FY 17	Bi-laterals	50
	Syndicated Loan	914
FY 18	Bi-laterals	230
	US Note	53
	Syndicated Loan	566
FY 19+	Bi-laterals	53
	US Note	318
	Syndicated Loan	1,062
	Finance Lease	11
Total		**3,549**

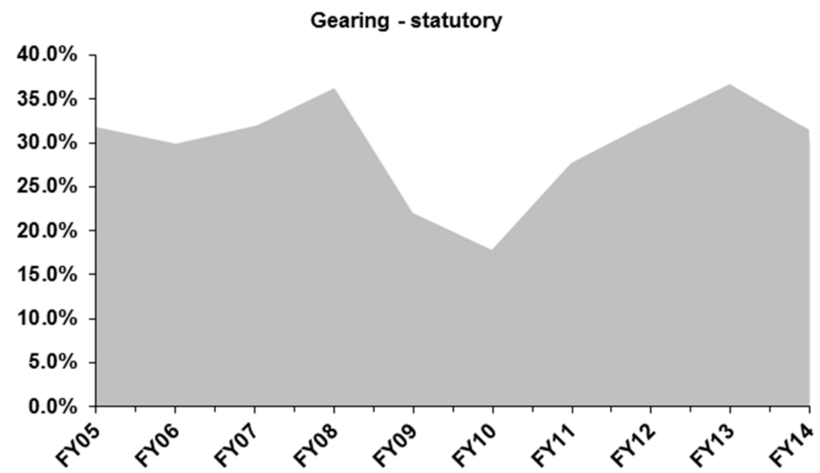
1 As at 30 June 2014
2 Swapped back to AUD liability via Cross Currency Swap
3 USD and CAD denominated facilities converted to AUD at closing rate of 0.9427 and 1.0058 respectively

FY14 financial overview

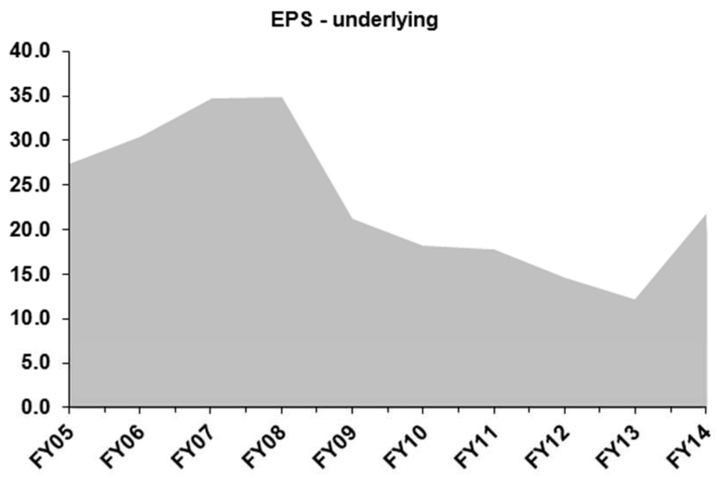


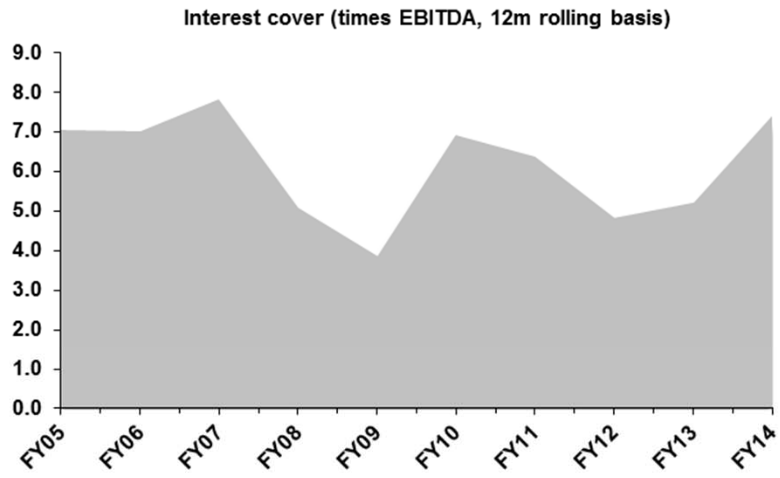


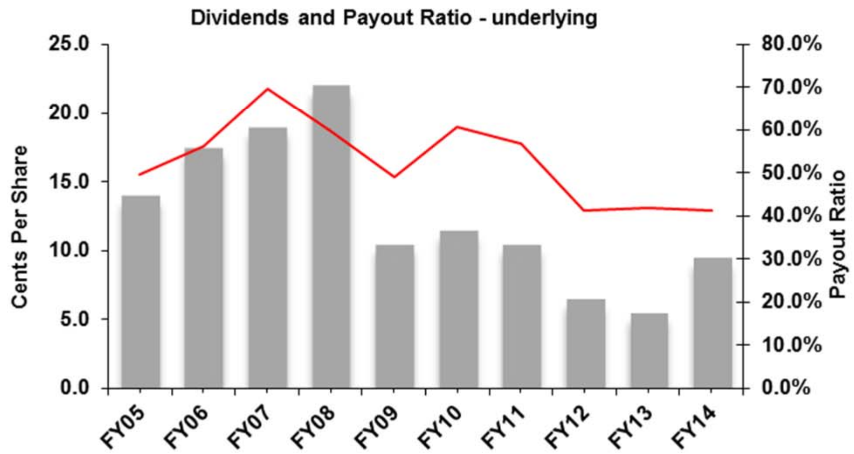


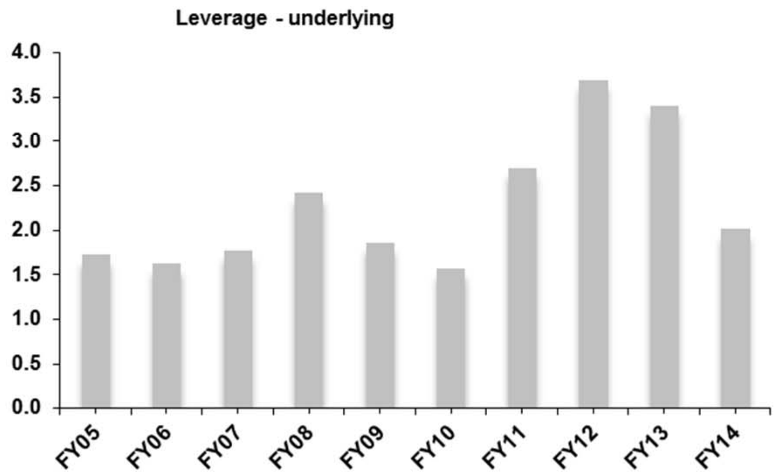


FY14 financial overview









Reserves and Resources – Hematite [1]

	Mt	Mt	
Reserves as at 30 June 2013		**66.7**	***Fe ~ 59.6%***
Middleback Ranges			
- Additions	13.0		
- Depleted (exported/removed from Reserve Statement)	(5.7)	7.3	
Southern Iron			
- Additions	-		
- Depleted (exported/removed from Reserve Statement)	(4.8)	(4.8)	
Beneficiated Ore		8.6	
Reserves as at 30 June 2014		**77.8**	***Fe ~ 59.0%***

	Mt	
Resources as at 30 June 2014		
Middleback Ranges	171.6	***Fe ~ 56.6%***
Southern Iron	38.8	***Fe ~ 60.7%***
	210.4	
Resources as at 30 June 2013		
Middleback Ranges	143.8	***Fe ~ 58.0%***
Southern Iron	40.9	***Fe ~ 61.7%***
	184.7	

1 For full details, refer to the 2014 Reserves and Resources Statement

Historical data – profit and loss underlying

Year ended 30 June	2014 $m	2013 $m	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m	2006 $m	2005 $m
Sales revenue	**7,006.6**	6,841.0	7,594.5	7,133.0	6,204.6	7,241.5	7,434.3	4,300.6	4,004.6	3,938.5
EBITDA	**864.2**	624.8	581.0	642.0	617.6	661.2	807.7	436.1	396.7	377.1
Depreciation, amortisation and impairment	**(367.4)**	(316.1)	(221.4)	(213.5)	(203.9)	(199.5)	(194.9)	(96.2)	(94.0)	(97.5)
EBIT	**496.8**	308.7	359.6	428.5	413.7	461.7	612.8	339.9	302.7	279.6
Finance costs	**(117.5)**	(119.7)	(121.1)	(101.1)	(89.2)	(172.2)	(159.6)	(55.8)	(56.7)	(53.6)
Profit before tax	**379.3**	189.0	238.5	327.4	324.5	289.5	453.2	284.1	246.0	226.0
Tax expense	**(81.8)**	(25.0)	(37.5)	(84.8)	(81.6)	(64.1)	(128.0)	(74.7)	(60.8)	(55.4)
Non-controlling interests	**(1.2)**	(2.1)	(5.9)	(7.2)	(2.3)	(10.1)	(10.2)	(11.9)	(13.6)	(17.5)
Net profit after tax	**296.3**	161.9	195.1	235.4	240.6	215.3	315.0	197.5	171.6	153.1
EPS (cents) - weighted average	**21.8**	12.2	14.6	17.7	18.2	21.2	34.9	34.7	30.5	27.5
ROFE (%)	**8.9%**	5.0%	5.6%	7.3%	7.5%	8.4%	11.3%	15.0%	14.5%	13.5%
Dividends (cents/share)	**9.0**	5.0	6.0	10.0	11.0	10.0	21.5	18.5	17.0	13.5

Reconciliation of underlying NPAT to statutory NPAT:

Year ended 30 June	2014 $m	2013 $m	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m	2006 $m	2005 $m
Net profit after tax - underlying	296.3	161.9	195.1	235.4	240.6	215.3	315.0	197.5	171.6	153.1
Non-trading items, net of tax										
- Restructuring costs	(35.8)	(65.7)	(29.8)	(6.2)	(1.2)	(46.8)	(58.1)	-	-	-
- Impairment	(8.1)	(895.3)	(125.4)	(1.5)	-	-	(12.0)	-	-	49.7
- Transaction costs	-	-	(18.7)	(13.9)	-	-	-	-	-	-
- Steel Transformation Plan	(18.6)	-	-	-	-	-	-	-	-	-
- Tax adjustments and other items	(28.4)	98.0	36.5	16.5	19.0	61.0	-	9.5	15.9	-
Net profit after tax - statutory	205.4	(701.1)	57.7	230.3	258.4	229.5	244.9	207.0	187.5	202.8

Pre-2005 financial information can be found on Arrium's website.

Historical data – key balance sheet items

As at 30 June	2014 $m	2013 $m	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m	2006 $m	2005 $m
Cash	650.5	438.3	268.1	153.7	83.4	54.9	151.2	59.5	19.6	55.0
Receivables	627.4	734.1	953.0	924.0	829.3	827.0	1,185.3	640.9	635.4	643.1
Inventory	1,234.5	1,277.8	1,450.9	1,601.0	1,433.0	1,239.9	1,298.9	836.3	758.9	836.7
Property, plant and equipment	2,672.2	2,687.4	2,754.6	2,586.0	2,302.3	2,369.0	2,361.1	1,537.1	1,339.7	1,190.9
Intangibles	1,964.1	2,035.1	2,822.0	2,644.1	2,070.0	2,074.6	2,031.3	214.3	220.2	226.7
Other assets	853.6	996.1	682.8	434.5	349.7	367.7	263.7	281.4	165.0	134.7
TOTAL ASSETS	**8,002.3**	**8,168.8**	**8,931.4**	**8,343.3**	**7,067.7**	**6,933.1**	**7,291.5**	**3,569.5**	**3,138.8**	**3,087.1**
Interest-bearing liabilities	2,358.2	2,553.2	2,411.4	1,882.1	1,047.1	1,278.8	2,098.4	829.3	658.4	700.3
Payables	1,175.3	1,098.3	1,054.3	1,022.4	863.1	613.7	1,014.8	635.1	545.4	615.7
Provisions	534.7	576.6	557.1	508.3	396.8	407.4	419.7	207.5	208.8	212.5
Other liabilities	203.2	289.5	408.0	424.8	268.0	296.9	329.2	247.6	224.6	170.3
TOTAL LIABILITIES	**4,271.4**	**4,517.6**	**4,430.8**	**3,837.6**	**2,575.0**	**2,596.8**	**3,862.1**	**1,919.5**	**1,637.2**	**1,698.8**
NET ASSETS	**3,730.9**	**3,651.2**	**4,500.6**	**4,505.7**	**4,492.7**	**4,336.3**	**3,429.4**	**1,650.0**	**1,501.6**	**1,388.3**
Contributed equity	2,969.0	3,778.0	3,770.9	3,761.6	3,751.1	3,735.2	2,929.9	1,153.6	1,126.2	1,107.9
Non-controlling interests	4.0	2.9	61.8	59.9	60.2	61.1	57.7	63.3	56.7	61.8
Retained earnings & reserves	757.9	(129.7)	667.9	684.2	681.4	540.0	441.8	433.1	318.7	218.6
TOTAL EQUITY	**3,730.9**	**3,651.2**	**4,500.6**	**4,505.7**	**4,492.7**	**4,336.3**	**3,429.4**	**1,650.0**	**1,501.6**	**1,388.3**
Funds Employed	**5,438.6**	5,766.1	6,643.9	6,234.1	5,456.4	5,560.2	5,376.6	2,419.8	2,140.4	2,033.6
Gearing %	**31.4%**	36.7%	32.3%	27.7%	17.7%	22.0%	36.2%	31.8%	29.8%	31.7%
Interest cover (times EBITDA, 12m rolling basis)	**7.4**	5.2	4.8	6.4	6.9	3.8	5.1	7.8	7.0	7.0
NTA/Share $	**1.3**	1.2	1.2	1.4	1.8	1.7	1.5	2.4	2.2	2.0

Pre-2005 financial information can be found on Arrium's website.

Historical data – statutory cash flow*

Year ended 30 June	2014 $m	2013 $m	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m	2006 $m	2005 $m
Profit after tax	**206.6**	(699.0)	63.6	237.5	260.7	239.6	255.1	218.9	201.1	220.3
Depreciation, amortisation and impairment	**380.6**	1,246.8	363.0	215.7	215.1	201.8	212.5	96.2	94.0	91.7
Non-cash items	**(41.1)**	(32.6)	17.7	(16.8)	(1.8)	(2.0)	16.5	(8.5)	(1.1)	(65.2)
Other changes in assets and liabilities including working capital	**132.6**	137.8	25.8	26.7	128.1	(71.4)	(133.3)	(30.1)	(43.2)	(10.9)
Operating cash flow	**678.7**	653.0	470.1	463.1	602.1	368.0	350.8	276.5	250.8	235.9
Capital expenditure	**(435.3)**	(522.0)	(401.3)	(251.3)	(173.2)	(187.6)	(306.9)	(357.9)	(214.4)	(126.9)
Free Cash Flow	**243.4**	131.0	68.8	211.8	428.9	180.4	43.9	(81.4)	36.4	109.0
Investment expenditure	**-**	-	(317.7)	(992.9)	(33.6)	(3.3)	(433.2)	(2.6)	(13.2)	(0.6)
Asset Sales	**239.6**	122.3	115.8	25.8	16.7	32.6	3.8	12.2	6.7	4.9
Other	**-**	-	-	4.0	-	-	0.8	(0.8)	1.9	0.8
Operating & investing cash flow	**483.0**	253.3	(133.1)	(751.3)	412.0	209.7	(384.7)	(72.6)	31.8	114.1

* The financial measures displayed in this table are based on statutory results.

Historical data – Mining

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	FY14 $m	FY13 $m	FY12[1] $m	FY11 $m	FY10 $m	FY09 $m	FY08 $m
Total revenue/income	1,568.6	976.9	819.0	948.4	782.3	598.5	561.2
EBITDA	685.9	367.8	343.7	554.2	361.2	138.0	220.9
EBIT	481.3	248.9	302.9	523.5	333.4	113.0	212.9
Sales Margin	30.7%	25.5%	37.0%	55.2%	42.6%	18.9%	37.9%
Assets	2,161.8	2,068.7	1,685.9	948.4	816.7	769.2	542.0
Funds Employed	1,644.7	1,568.1	1,379.7	776.3	717.4	688.9	461.8
Return on funds employed	30.0%	16.9%	28.1%	70.1%	47.4%	19.6%	46.1%
Employees (number)	552	571	532	367	339	357	152
External lump & fines iron ore sales (Mt)	12.47	8.28	6.29	6.04	6.03	5.07	4.46
Pellets, other ore and by products (Mt)[2]	0.43	0.57	0.44	0.72	0.81	0.69	0.88

The financial measures displayed in this table are based on underlying results.

1 These statistics include results relating to the WPG subsidiaries acquired on 6 October 2011.
2 Ore by products include dolomite, centrix, filter cake and pellet chips.

Historical data – Mining Consumables

	FY14 $m	FY13 $m	FY12 $m	FY11[1] $m	FY10 $m	FY09 $m	FY08 $m
Total revenue/income	1,538.1	1,566.7	1,540.6	1,079.3	680.1	659.8	509.2
EBITDA	187.1	195.3	171.6	97.7	83.2	41.7	82.0
EBIT	139.8	150.7	135.2	65.3	62.3	22.8	65.6
Sales Margin	9.1%	9.6%	8.8%	6.1%	9.2%	3.5%	12.9%
Assets	2,438.6	2,460.5	2,310.3	2,286.4	1,158.5	1,125.0	1,104.3
Funds Employed	2,024.4	2,060.2	1,947.5	1,944.9	1,053.6	1,040.1	1,015.0
Return on funds employed	6.8%	7.5%	6.9%	4.4%	6.0%	2.2%	6.5%
Employees (number)	2,005	2,031	1,973	1,864	924	910	820
External tonnes despatched (Mt)[2]	1.13	1.14	1.06	0.73	-	-	-
Internal tonnes despatched (Mt)	0.07	0.09	0.09	0.09	0.10	0.05	-
Steel tonnes produced (Mt)	0.45	0.51	0.50	0.40	0.24	0.24	0.26

The financial measures displayed in this table are based on underlying results.

1 These statistics include the results of the Moly-Cop Group from 31 December 2010. Assets and liabilities have been restated to reflect the final fair value adjustments arising on acquisition of the Moly-Cop Group in December 2010.
2 Excludes scrap sales.

Historical data – Steel

	FY14[1] $m	FY13[1] $m	FY12[1] $m	FY11 $m	FY10 $m	FY09 $m	FY08 $m	FY07 $m	FY06 $m	FY05 $m	FY04 $m
Total revenue/income	2,875.2	2,973.6	3,292.3	3,950.4	4,993.5	6,424.9	6,272.8	4,549.1	3,910.9	3,828.6	3,192.4
EBITDA	50.8	64.0	73.1	(37.1)	188.3	499.9	423.3	418.5	369.5	348.5	316.8
EBIT	(52.8)	(44.4)	(30.3)	(164.6)	56.8	372.0	279.2	331.4	284.1	259.1	236.7
Sales Margin	(1.8%)	(1.5%)	(0.9%)	(4.2%)	1.1%	5.8%	4.5%	7.3%	7.3%	6.8%	7.4%
Assets	2,109.7	2,287.6	2,692.6	3,966.9	4,132.9	4,125.5	4,637.7	3,136.1	2,869.8	2,778.2	2,621.5
Funds Employed	1,544.1	1,717.7	2,109.0	3,171.9	3,183.0	3,326.5	3,429.8	2,364.9	2,208.8	2,052.0	2,031.4
Return on funds employed	(3.2%)	(2.3%)	(1.1%)	(5.2%)	1.7%	11.0%	9.6%	14.5%	13.3%	12.7%	11.8%
Employees (number)	5,116	5,285	5,369	6,922	7,020	7,408	8,211	6,292	6,396	6,391	6,263
External tonnes despatched (Mt)	2.07	2.36	2.57	2.44	2.36	2.43	3.18	2.28	2.27	2.26	2.15
Steel tonnes produced (Mt)	1.91	1.99	2.00	1.92	1.91	1.79	2.44	1.73	1.63	1.35	1.62

The financial measures displayed in this table are based on underlying results.

1 Excludes discontinued operations.

Historical data – Recycling

	FY14[1] $m	FY13[1] $m	FY12[1] $m	FY11 $m	FY10 $m	FY09 $m	FY08 $m
Total revenue/income	1,132.2	1,165.3	1,362.5	1,507.2	1,123.7	1,124.0	1,404.1
EBITDA	12.1	(3.4)	5.6	37.6	22.9	(21.8)	98.4
EBIT	1.3	(15.6)	(8.4)	20.9	7.7	(38.6)	86.5
Sales Margin	0.1%	(1.3%)	(0.6%)	1.4%	0.7%	(3.4%)	6.2%
Assets	393.9	400.2	577.5	652.5	710.7	614.1	741.5
Funds Employed	296.9	301.0	472.5	554.3	618.4	537.7	620.8
Return on funds employed	0.4%	(4.0%)	(1.6%)	3.6%	1.3%	(6.7%)	13.9%
Employees (number)	641	685	804	1,033	1,019	1,016	1,127
Ferrous tonnes (Mt)	1.19	1.25	1.40	1.91	1.70	1.66	1.71
Non-ferrous tonnes (Mt)	0.25	0.23	0.24	0.25	0.19	0.14	0.18

The financial measures displayed in this table are based on underlying results.

1 Excludes discontinued operations.

FY14 statutory vs underlying results

Year ended 30 June 2014	Statutory Results			Underlying Results				
Reconciliation between Underlying and Statutory Results	Continuing operations	Discontinued operations[1]	**Total Operations Statutory**	Restructuring costs[2]	Impairment[3]	Steel Transformation Plan[4]	Tax adjustments & Other items[5]	**Total Operations Underlying**
Sales revenue	6,562.0	444.6	**7,006.6**	-	-	-	-	**7,006.6**
Other revenue/income	112.0	13.5	**125.5**	-	-	-	-	**125.5**
Total revenue/income	6,674.0	458.1	**7,132.1**	-	-	-	-	**7,132.1**
Gross profit/(loss)	1,251.3	(71.3)	**1,180.0**	-	-	-	-	**1,180.0**
EBITDA	906.4	(125.3)	**781.1**	51.0	-	26.5	5.6	**864.2**
Depreciation and amortisation	(367.5)	-	**(367.5)**	-	-	-	-	**(367.5)**
Impairment	(8.7)	(4.4)	**(13.1)**	-	13.2	-	-	**0.1**
EBIT	530.2	(129.7)	**400.5**	51.0	13.2	26.5	5.6	**496.8**
Finance costs	(117.5)	-	**(117.5)**	-	-	-	-	**(117.5)**
Profit/(loss) before tax	412.7	(129.7)	**283.0**	51.0	13.2	26.5	5.6	**379.3**
Tax (expense)/benefit	(124.9)	48.5	**(76.4)**	(15.2)	(5.1)	(7.9)	22.8	**(81.8)**
Profit/(loss) after tax	287.8	(81.2)	**206.6**	35.8	8.1	18.6	28.4	**297.5**
Non-controlling interests	(1.2)	-	**(1.2)**	-	-	-	-	**(1.2)**
Net profit/(loss) after tax	286.6	(81.2)	**205.4**	35.8	8.1	18.6	28.4	**296.3**

Unless otherwise stated, certain financial measures referred to in this document, including underlying results and ratios based on underlying results are non-statutory financial measures, which have not been audited or reviewed as part of KPMG's report on the full year financial statements. However, KPMG have undertaken a set of procedures to agree the financial information in this document to underlying information supplied by the Company. The Directors believe that using these non-statutory financial measures appropriately represents the financial performance of the Group's total operations including continuing and discontinued operations.

1 Relating to the results of Australian Tube Mills, Merchandising and US Recycling businesses. Excludes intercompany transactions. Statutory EBITDA and statutory net profit after tax including intercompany transactions are $18.0m loss and $6.1m loss respectively.
2 Related to redundancies from organisational changes and other direct expenditure associated with business restructures.
3 Impairment of property, plant and equipment in Mining Consumables, Steel and Recycling and discontinued operations.
4 Relates to the write-off of outstanding grant receivable under the Steel Transformation Plan Act 2011 in Steel segment due to the repeal of the carbon tax from 1 July 2014 under the Clean Energy Legislation (Carbon Tax Repeal) Act 2014.
5 Relates to tax adjustments related to prior years, the net impact of Mineral Resource Rent Tax and other non-recurring costs.

FY13 statutory vs underlying results

arrium MINING AND MATERIALS

Year ended 30 June 2013	Statutory Results			Underlying Results			
Reconciliation between Underlying and Statutory Results	Continuing operations	Discontinued operations[1]	**Total Operations Statutory**	Restructuring costs[2]	Impairment[3]	Tax adjustments & other items[4]	**Total Operations Underlying**
Sales revenue	6,084.9	756.1	**6,841.0**	-	-	-	**6,841.0**
Other revenue/income	92.5	21.4	**113.9**	-	-	-	**113.9**
Total revenue/income	6,177.4	777.5	**6,954.9**	-	-	-	**6,954.9**
Gross profit/(loss)	1,070.0	(18.3)	**1,051.7**	-	-	-	**1,051.7**
EBITDA	661.2	(129.5)	**531.7**	93.8	-	(0.7)	**624.8**
Depreciation and amortisation	(299.9)	(16.8)	**(316.7)**	-	-	-	**(316.7)**
Impairment	(245.4)	(684.7)	**(930.1)**	-	930.7	-	**0.6**
EBIT	115.9	(831.0)	**(715.1)**	93.8	930.7	(0.7)	**308.7**
Finance costs	(119.0)	(0.7)	**(119.7)**	-	-	-	**(119.7)**
(Loss)/profit before tax	(3.1)	(831.7)	**(834.8)**	93.8	930.7	(0.7)	**189.0**
Tax benefit/(expense)	67.2	68.6	**135.8**	(28.1)	(35.4)	(97.3)	**(25.0)**
Profit/(loss) after tax	64.1	(763.1)	**(699.0)**	65.7	895.3	(98.0)	**164.0**
Non-controlling interests	(2.1)	-	**(2.1)**	-	-	-	**(2.1)**
Net profit/(loss) after tax	62.0	(763.1)	**(701.1)**	65.7	895.3	(98.0)	**161.9**

Unless otherwise stated, certain financial measures referred to in this document, including underlying results and ratios based on underlying results are non-statutory financial measures, which have not been audited or reviewed as part of KPMG's report on the full year financial statements. However, KPMG have undertaken a set of procedures to agree the financial information in this document to underlying information supplied by the Company. The Directors believe that using these non-statutory financial measures appropriately represents the financial performance of the Group's total operations including continuing and discontinued operations.

1 Relating to the results of Australian Tube Mills, Merchandising and US Recycling businesses. Excludes intercompany transactions. Statutory EBITDA and statutory net profit after tax including intercompany transactions are $17.9m loss and $685.0m loss respectively.
2 Related to redundancies from organisational changes and other direct expenditure associated with business restructures.
3 Impairment of property, plant and equipment and intangible assets in the Recycling and Steel segments.
4 Relates to tax adjustments related to prior years, the net impact of Mineral Resource Rent Tax, gain on disposal of Steel and Tube Holdings and other non-recurring costs.

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2014

DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity consisting of Arrium Limited ("Arrium" or "the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2014 ("Arrium Group" or "the Group").

DIRECTORS

The following persons were Directors of Arrium Limited during the whole of the financial year and up to the date of the report unless stated otherwise:

R B Davis
C R Galbraith, AM
P G Nankervis
G J Plummer (resigned 15 July 2013)
D A Pritchard
A G Roberts
P J Smedley
G J Smorgon, AM
R Warnock

Details of the qualifications, experience and responsibilities of the Directors are set out on pages x and x.

PRINCIPAL ACTIVITIES

The principal activities of the Company are mining and supply of iron ore and other steelmaking raw materials to steel mills internationally and in Australia; the manufacture and supply of mining consumables products with key market positions globally; the manufacture and distribution of steel long products and recycling of ferrous and non-ferrous scrap metal.

Arrium is an international mining and materials company with three key businesses: Mining; Mining Consumables; and Steel and Recycling

Arrium Mining is an exporter of hematite ore with operations in South Australia. Arrium Mining also supplies pelletised magnetite iron ore and some hematite lump iron ore to the Company's integrated steelworks at Whyalla at cost.

Arrium Mining Consumables supplies resource companies with a range of key mining consumables, including grinding media, wire ropes and rail wheels. The business is the largest supplier of grinding media in the world, with leading market positions in South America, North America and Australasia.

Arrium's integrated Steel and Recycling businesses comprises OneSteel Manufacturing, Australia's long products steel manufacturing business; OneSteel Distribution, Australia's largest steel distributor and reinforcing steel supplier; and OneSteel Recycling, a supplier and exporter of scrap metal with operations in Australia, Asia and North America.

OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review ("OFR") of the Arrium Group during the financial year is set out on pages x and x.

DIVIDENDS

Dividends paid or declared by the Company since the end of the previous financial year were as follows:

	$m
2014 final dividend 3.0 cents per ordinary share payable on 16 October 2014, on fully paid ordinary shares	41.0
2014 interim dividend 6.0 cents per ordinary share paid on 17 April 2014, on fully paid ordinary shares	81.7
2013 final dividend 3.0 cents per ordinary share paid on 17 October 2013, on fully paid ordinary shares	40.7

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the state of affairs of the Arrium Group occurred during the financial year. Commentary on the overall state of affairs of the Arrium Group is set out in the OFR.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Arrium Group's operations are subject to various environmental regulations at a Commonwealth, State and local level. Where this regulation is particular and significant, compliance is assured through Environmental Management Systems to the ISO14001 standard. Compliance with this regulation was generally achieved in FY14 with the exception of a release of contaminated water at a steel-making location that resulted in the receipt of a Penalty Notice (with associated fine of $1,500).

DIRECTORS' MEETINGS

The number of Directors' meetings held, and the number of meetings attended by each of the Directors (excluding invited attendees), during the financial year are listed below. Details of the Committees are set out on pages x and x.

DIRECTOR	BOARD[1,2]	AUDIT & COMPLIANCE COMMITTEE	GOVERNANCE & NOMINATIONS COMMITTEE	HUMAN RESOURCES COMMITTEE	OCCUPATIONAL HEALTH, SAFETY & ENVIRONMENT COMMITTEE	OPERATIONAL RISK COMMITTEE
NUMBER OF MEETINGS HELD	12	4	9	3	4	1
R B Davis	12	4	N/A	N/A	4	1
C R Galbraith, AM	11[4]	3	9	N/A	N/A	N/A
P G Nankervis	12	4	N/A	N/A	N/A	1
G J Plummer[3]	2	N/A	N/A	N/A	N/A	N/A
D A Pritchard	12	N/A	N/A	3	3	1
A G Roberts	12	N/A	N/A	N/A	N/A	N/A
P J Smedley	12	N/A	9	3	N/A	1
G J Smorgon, AM	12	N/A	N/A	3	4	1
R Warnock	11[4]	4	N/A	N/A	4	N/A

1. Excludes sub-committee meetings and written resolutions.
2. Includes ten scheduled meetings and two out of session meetings.
3. Resigned 15 July 2013.
4. One out of session meeting held at short notice.

COMPANY SECRETARY

Information on the qualifications and experience of the Company Secretary is set out on page x.

NO OFFICERS ARE FORMER AUDITORS

No officer of Arrium has been a partner of an audit firm or a Director of an audit company that is or was an auditor of any entity in the Arrium Group during the year ended 30 June 2014.

SHARES AND RIGHTS

During or since the end of the financial year, the Company has issued 3,795,256 (2013: 6,575,755) rights over ordinary shares to the Executive Directors and Executives. The company issued 5,163,288 ordinary shares (2013: Nil) as a result of the vesting of rights under the Arrium Performance Rights Plan.

DIRECTORS' INTERESTS

No Director, either directly or indirectly, was granted ordinary shares during the financial year other than A G Roberts, who was granted 1,206,896 (2013: 681,818) rights to ordinary shares under the Arrium Performance Rights Plan. These rights will vest on 30 June 2016 subject to performance hurdles. During or since the end of the financial year, the Company issued 160,000 ordinary shares (2013: Nil) as a result of the vesting of rights under the Arrium Performance Rights Plan.

The relevant interests of each Director in the shares, rights, options or other instruments of the Company and related bodies corporate are set out in Remuneration Report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 17 July 2014, the Federal Government passed the Clean Energy Legislation (Carbon Tax Repeal) Act 2014 repealing the Carbon Tax and Steel Transformation Plan ("STP") legislation effective 1 July 2014. As the effective repeal date was subsequent to 30 June 2014, there was no impact to the free carbon unit and emissions liability accruals recognised as at 30 June 2014.

From 1 July 2014, the Group ceased to incur liabilities for its carbon emissions and ceased to be entitled to further assistance in the form of free carbon units.

The consequence of the STP repeal is that no further grant assistance will be payable under the STP. The repeal of the STP has been treated as an adjusting subsequent event and the outstanding grant receivable of $26.5m has been written off as not recoverable in the financial statements for the year ended 30 June 2014.

On 19 August 2014, the Directors declared payment of a final dividend of 3.0 cents per fully paid ordinary share. The aggregate amount of the final dividend expected to be paid on 16 October 2014 but not recognised as a liability in the financial statements for the year ended 30 June 2014 is $41.0 million.

Other than the above, there have been no circumstances arising since 30 June 2014 that have significantly affected or may affect:

(a) the operations
(b) the results of those operations, or
(c) the state of affairs of the Arrium Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Certain likely developments in the operations of the Arrium Group known at the date of this report have been covered in the OFR.

INTERESTS OF NON-EXECUTIVE DIRECTORS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE COMPANY

Directors of Arrium Limited have declared their interests in contracts or proposed contracts that may result from their directorships of other corporations, as set out on pages x to x.

Members of the Arrium Group had normal business transactions with Directors (or Director-related entities) of the Company and its controlled entities during the year.

LOANS TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

No loans were made to or are outstanding with Directors or Key Management Personnel.

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Group has agreements with each of the Non-Executive Directors of the Company in office at the date of this report, and certain former Directors.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability insurance, as disclosure is prohibited.

NON-AUDIT SERVICES

During the year, Arrium Group's auditor, KPMG, provided non-audit services to Arrium Group entities.

Details of the amounts paid or payable to the auditor, KPMG, for the provision of non-audit services during the financial year are set out in Note 31 to the Financial Report.

The Directors are satisfied that the provision of the non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). Following a review by the Board Audit & Compliance Committee, the Directors are satisfied that the nature and scope of each type of non-audit service provided means that auditor independence has not been compromised.

ROUNDING OF AMOUNTS

The Company is of the kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 98/100. In accordance with that Class Order, amounts contained in this report and in the Financial Report have been rounded off to the nearest one hundred thousand dollars or, where the amount is $50,000 or less, zero, unless specifically stated to be otherwise.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* (CTH)

TO THE DIRECTORS OF ARRIUM LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

(a) No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* (Cth) in relation to the audit, and
(b) No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A W Young
Partner

Sydney, 19 August 2014

REMUNERATION REPORT

The Directors of Arrium Limited present the Remuneration Report, which forms part of the Directors' Report, for the Arrium Group (Group).

This Remuneration Report has been prepared in accordance with the *Corporations Act 2001* (Cth) and the *Corporations Regulations 2001* and sections B – F have been audited.

CONTENTS OF THE REMUNERATION REPORT

The Remuneration Report outlines Arrium's remuneration strategy, the components of remuneration for Key Management Personnel (KMP), including Non-Executive Directors (NEDs) and Executives, the link between performance and reward, and provides details of remuneration paid to Non-Executive Directors and Executives during the year ended 30 June 2014. The report is divided into the following sections:

A. Chairman's Letter to Shareholders providing an Overview of FY14
B. Remuneration Governance at Arrium
C. Non-Executive Director Remuneration
D. Executive Remuneration
E. Details of Non-Executive Director and Executive Remuneration for the year ended 30 June 2014
F. Executive Service Agreements.

For the purposes of this report:

– Key Management Personnel are those executives with authority and responsibility for planning, directing and controlling the activities of the Arrium Group either directly or indirectly, and all the Directors of Arrium Limited (Executive and Non-Executive).
– Lead Team refers to members of the senior executive group and comprises the Managing Director & Chief Executive Officer (MD&CEO) and direct reports to the MD&CEO. There are no Key Management Personnel outside the Lead Team, other than the NEDs.

A. CHAIRMAN'S LETTER TO SHAREHOLDERS PROVIDING AN OVERVIEW OF FY14 (UNAUDITED)

On behalf of the Arrium Board, I am pleased to provide you with the Remuneration Report for the 2014 financial year. Whilst the report that follows sets out a comprehensive account of remuneration at Arrium over the last 12 months, I would like to take the opportunity to provide you with an overview.

The company again faced a very challenging external environment including weak international and domestic steel markets, reduced investment and cost reductions in the resource sector and the impact of increased supply on iron ore prices. Despite these challenges, the company delivered its highest earnings per share since 2008, and with record EBITDA and cash generation made significant progress on its priority of reducing net debt and improving its leverage ratio.

The remuneration outcomes of the Key Management Personnel reflect both the business operating environment and the financial outcomes.

It has resulted in generally modest salary increases, STI outcomes ranging around the target level and only 25% vesting of Rights issued in 2011.

The Board, supported by its independent advisers, has also had regard for contemporary remuneration practices, feedback from external stakeholders and ensuring that remuneration processes and outcomes are aligned to Company objectives and the interests of shareholders. In summary:

– NED fees have been maintained at current levels. They were last adjusted in January 2011.
– Andrew Roberts commenced in the role of MD&CEO from 1 July 2013 on a remuneration package that follows the company's strategy of aligning executive remuneration to shareholder returns and contemporary practice.
– John Barbagallo joined the executive team responsible for the Mining Consumables business. Steve Hamer has increased responsibility leading the integrated Steel business.
– Arrium MD&CEO, Andrew Roberts received a STIP payment at 99% of the target level (noting the potential payment range is 0% – 200%). This was applied primarily as a result of the profit and cash outcomes and reducing debt. The payment also recognised the significant and successful divestment projects and delivering on the strategic developments and expansions in the Mining Consumables business.
– STI payments for FY14 are on average at target levels. Individual business performance and safety outcomes primarily determined a STIP payment range of 69% – 153%. The Board determined that this approach was appropriate given that there is a direct link between business performance and STI outcomes.
– These STI outcomes will result in a two third cash payment and a one third deferred shares component with a two year service lock.
– For the first time since 2007 LTI vesting outcomes were achieved. It is anticipated that the 2011 Performance Rights Plan will result in a partial vesting of 25% based on Arrium's performance against the Earnings per Share (EPS) hurdle[1].
– The retention of the Company's Executives has been critical in delivering the business outcomes which has been supported by the vesting of the 2011 special rights which were aligned to a service lock for retention purposes.

In setting this remuneration framework and determining outcomes and changes, the Board has had close regard for the views and inputs of its independent advisers and will continue to actively monitor the approach and application of executive remuneration policy at Arrium to ensure continued alignment with the execution of its strategic plan and delivering shareholder return to our investors.

Thank you for your continued support, and I hope you will find the report set out below useful and informative.

Yours faithfully

Peter Smedley
Chairman

1. Section D outlines the performance hurdles with the 2011 Performance Rights Plan.

B. REMUNERATION GOVERNANCE AT ARRIUM

The Board is responsible for remuneration decisions at Arrium. To assist the Board, governance and oversight of remuneration is delegated to the Human Resources Committee. The Human Resources Committee responsibilities, which can be referenced in more detail on the Company's website, include:

- Reviewing remuneration policies and practices, including the setting of the fixed remuneration amount and the structure and quantum of awards under the short term and long term incentive plans for Executives
- The Group's superannuation arrangements for Executives, and
- The fees for NEDs of the Board (within the total annual aggregate amount approved by shareholders).

The Human Resources Committee comprises three Non-Executive Directors, and has direct access to independent advice and comparative studies on the appropriateness of remuneration arrangements.

The Human Resources Committee makes recommendations to the Board. The Board makes final remuneration decisions in respect of Non-Executive Directors and the Lead Team.

The members of the Human Resources Committee, the number of meetings and attendance is presented on page 49 of the Directors' Report.

For ease of reference, Arrium's Key Management Personnel at 30 June 2014 are listed below:

Table 1 – Arrium Key Management Personnel 2014

DIRECTORS[1]	
R B Davis	Non-Executive Director
C R Galbraith, AM	Non-Executive Director
P G Nankervis	Non-Executive Director
D A Pritchard	Non-Executive Director
P J Smedley	Board Chairman and Non-Executive Director
G J Smorgon, AM	Non-Executive Director
R Warnock	Non-Executive Director
EXECUTIVE DIRECTORS	
A G Roberts	Managing Director & Chief Executive Officer
OTHER EXECUTIVES	
R C Bakewell	Chief Financial Officer
S H Hamer	Chief Executive Steel
L J Selleck[2]	Chief Executive Operational Excellence
G A Waters	Chief Executive Mining
G D A Feurtado	Chief Executive Recycling
J T Barbagallo	Chief Executive Mining Consumables

1. Effective 19 August 2014, Mr Jeremy Maycock was appointed as a Non-Executive Director.
2. L J Selleck retired as Chief Executive Operational Excellence effective 11 July 2014.

Independent advice

The Board engages a number of expert consultants from time to time to provide independent and specialist advice in relation to executive remuneration policy and practice, market analysis and governance and the regulatory environment. This year, the Board has engaged the services of Egan Associates as the primary source of independent advice in relation to the executive group. Letters of engagement confirm that any advice provided must be free from undue influence by the member or members of the Key Management Personnel to whom any recommendations relate and sets out the processes to be followed in requesting information from, and providing reports to, the Company to ensure that these obligations are met. The Board is satisfied that the remuneration outcomes were free from undue influence by any Key Management Personnel on the basis that the processes described above were followed and were designed to ensure such an outcome.

In 2014, the following advisers have been appointed by the Board in this capacity and have generated fees as set out in Table 2:

Table 2 – Independent advice

INDEPENDENT CONSULTANT	FEES PAID (EXCL GST)	NATURE OF ADVICE
Egan Associates	$14,595	KMP-related advice including reward policy and practice, for Executive and Non-Executive Key Management Personnel, retention considerations, conduct of market research, updating the Board on matters relevant to KMP and NED reward, advice on market practices across industrials, materials and resources companies, to maintain the Board's awareness of contemporary market trends.

C. NON-EXECUTIVE DIRECTOR REMUNERATION

The Board, in conjunction with the Human Resources Committee, seeks to establish NED remuneration at a level that enables Arrium to attract and retain Directors of the highest calibre at a cost that is responsible and acceptable to shareholders.

The remuneration arrangements for NEDs are benchmarked against related industries with due regard to factors such as total revenue, market capitalisation, assets under management and profit. Such analysis indicates that the structures in place are appropriate and are consistent both with industry practice and principles of good corporate governance.

The key principles that underpin the Board's approach to NED remuneration are:

Board fees are approved by shareholders

The limit on the current total annual aggregate fee pool for NEDs of $2 million was approved at the 2006 Annual General Meeting as required by Article 9.8 of the Constitution of the Company and under ASX Listing Rule 10.17. The Board will not seek any increase to this fee pool at the 2014 Annual General Meeting.

Remuneration is designed to preserve independence

The structure of Arrium's NED remuneration is separate and distinct from that applicable to the Lead Team. NEDs have not been granted shares or rights under the Group's LTI Share and Performance Rights Plans, nor do they receive any bonus or other performance-based remuneration.

No retirement benefits

No additional benefits (other than their current statutory superannuation entitlements) are paid to NEDs upon their retirement from the Board.

A retirement benefit scheme was approved by shareholders during Arrium's public listing in 2000 and was discontinued from 17 November 2003. This retirement benefit was an additional and separate arrangement to the payment of Directors' fees. The amount of the retirement benefit accrued by each NED was fixed by reference to the length of service up to this date. For Directors who held office on this date, a cash benefit under the discontinued scheme is payable upon the retirement of the Director from the Board.

Suspension of Non-Executive Director Share Plan

The ability for NEDs to acquire shares under the Non-Executive Director Share Plan has been suspended since 2010 as a result of taxation changes affecting the operation of the Plan. Arrangements have now been put in place for NEDs to receive fees as cash and superannuation in lieu of the long-term share component that was previously in place. Market practice will continue to be monitored over the coming period regarding the use of equity-based plans for NEDs.

Review of Non-Executive Director remuneration

As shown in Table 3, there has been no adjustment to NED fees this year. A comprehensive review was completed in 2010 and the outcome implemented in January 2011. A review this year confirmed that NEDs continue to be paid competitively and appropriately at this time.

Table 3 – Non-Executive Director Remuneration Quantum and Structure
The quantum and structure of Director fees since 1 January 2011 are:

BOARD/COMMITTEE	ROLE	ANNUAL FEE SINCE 1 JANUARY 2011
Board	Chairman Member	$495,000 $165,000
Audit & Compliance Committee	Chairman Member	$20,000 $5,000
Governance & Nominations Committee	Chairman Member	$15,000 $5,000
Human Resources Committee	Chairman Member	$15,000 $5,000
Occupational, Health, Safety & Environment Committee	Chairman Member	$15,000 $5,000
Operational Risk Committee	Chairman Member	$15,000 $5,000

The Chairman of the Board does not receive any Board Committee fees.

D. EXECUTIVE REMUNERATION

Strategy and structure

The objective of Arrium's executive remuneration framework is to pay market competitive remuneration, recognising skills and experience, and to reward performance and the achievement of strategic objectives leading to the creation of shareholder value.

Arrium seeks to provide competitive remuneration that will attract, motivate and retain executives.

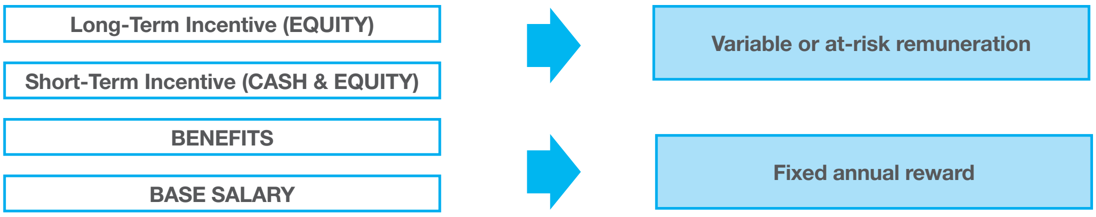
Arrium's remuneration strategy is to align fixed annual reward levels around the median of executives' local salary markets. Executives can be paid above or below the median consistent with their capability and demonstrated value to the business. It is also Arrium's policy to position variable or at-risk remuneration such that total remuneration can be positioned above, at or below the relevant market median dependent on the level of the Company's and the Executive's performance.

For the Lead Team, remuneration consists of fixed annual reward (FAR) (incorporating a base salary and other benefits including superannuation, salary sacrifice items, other employment benefits and appropriate tax) and at-risk components.

The at-risk components are:

– Short-Term Incentives ('STIs'), giving executives the opportunity to earn a cash and share bonus contingent upon performance against a combination of Group financial and safety targets, and individual key performance indicators. The cash component equates to two thirds of the bonus with the remaining one third via Arrium ordinary shares, where the shares are subject to a two-year service hurdle from the date of Award, and
– Long-Term Incentives ("LTIs"), giving executives the opportunity to acquire Arrium ordinary shares where they succeed in achieving outcomes linked to the creation of long-term sustainable growth for shareholders over a two to five-year period.

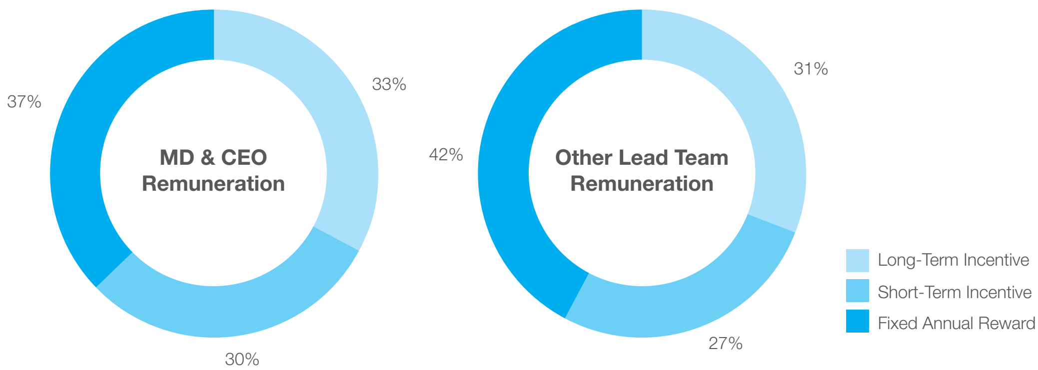
The structure of Arrium's executive remuneration arrangements is shown below:



In determining the level and composition of Executive remuneration, Arrium draws on independent external advisers to ensure that its practices are market competitive, flexible and in keeping with emerging trends and good corporate governance.

Remuneration is reviewed annually towards the end of the financial year, and changes are applied from 1 July of the following year for the Lead Team. The Human Resources Committee reviews the Lead Team remuneration arrangements, with the Board making final remuneration decisions in respect of any recommendations made. The remuneration structure is designed to ensure that Executives have a significant portion of remuneration at risk. Graph 1 below sets out the target mix of fixed and at-risk pay (as a proportion out of a total 100%) for the MD&CEO and other members of the Lead Team.

Graph 1



The relationship between Group strategy and reward

A key underlying principle of Arrium's Executive remuneration strategy is that remuneration should be strongly linked to Group performance. Each element of an Executive's remuneration is linked or aligned with various drivers of shareholder value. This relationship is set out in Table 4.

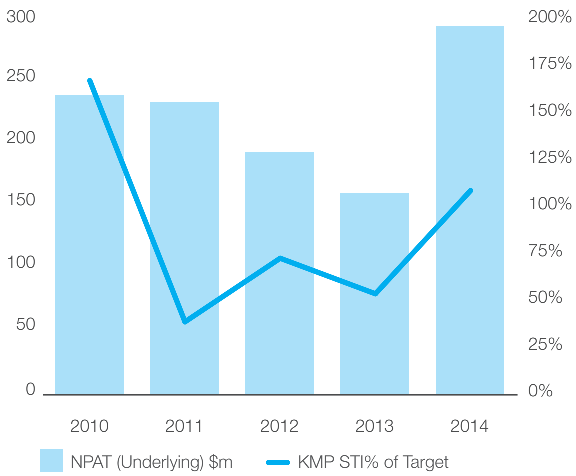
Table 4 – performance link with reward

PERFORMANCE INDICATOR	LINK TO EXECUTIVE REWARD
Underlying net profit after tax (NPAT) Generating strong cash flow	Together, NPAT and cash flow targets account for the majority of the STI weighting, though the weighting varies by individual to align to the relevant Group or Business strategy.
Safety	10% STI weighting on significant safety improvement for all eligible Arrium employees.
Increasing shareholder wealth	LTI performance hurdles are equally weighted between earnings per share ("EPS") and relative total shareholder return ("TSR").
Execution of key strategic initiatives that drive future value for shareholders	Variable weighting in STI, depending on the role and expected contribution. Generally up to 20% of an individual's targets will be directed to strategically oriented personal goals.
Behaving in a manner consistent with our core values of safety and customer	Assessed through the Performance Planning and Management (PPM) process and considered in any FAR adjustment. Behaving in a manner consistent with the core values is a threshold for any potential STI payment.
Ensuring alignment between employee's and shareholders' interests	Board discretion to reduce or cancel potential STI or LTI awards in a range of circumstances, including in the event of a material financial misstatement. Overall reward is delivered through a balance of cash and equity to align the interests of the stakeholders. There have been no instances of a reduced or cancelled award as a result of a material financial misstatement.

The Lead Team's STI payments in any year are reviewed by assessment of performance against financial, business, safety and personal/strategic targets. Targets are set by the Board in consultation with the MD&CEO at the start of each financial year.

A significant portion of payments under the STI Plan and vesting of all grants under the LTI Performance Rights Plan are contingent upon the financial performance of the Arrium Group. The Group's financial performance over the last 5 financial years is illustrated in Table 5, which shows underlying NPAT, EPS and dividends per share, together with the aggregate KMP STI payments. Graph 2 shows the relationship between the NPAT performance of the Group and the KMP's average STI payments and the relationship between EPS and the KMP's average STIP payments for the five years.

Graph 2



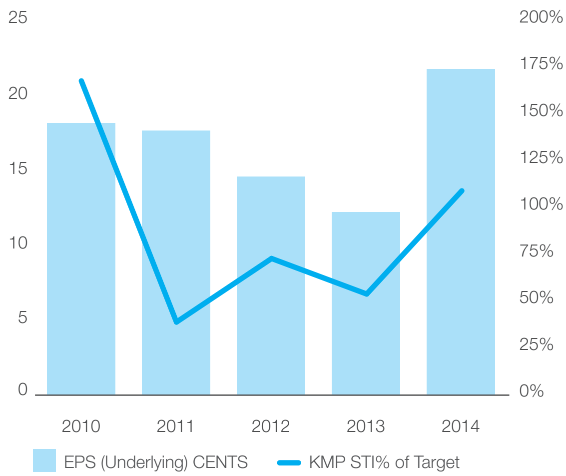


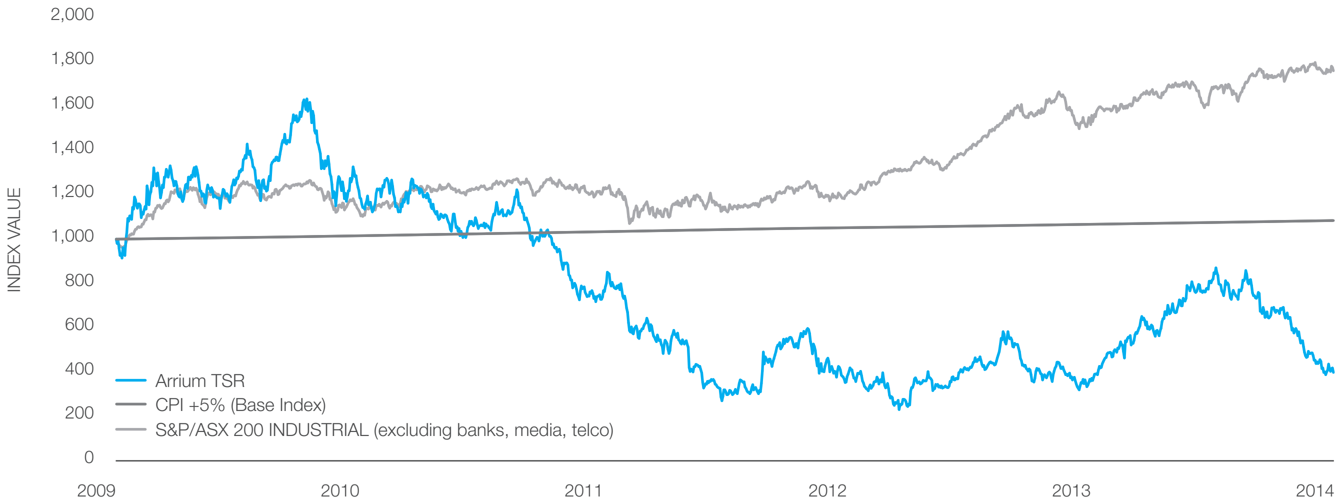
Table 5 – Arrium Group Financials

				UNDERLYING[1]				
YEAR ENDED 30 JUNE	BEGINNING SHARE PRICE	ENDING SHARE PRICE	STATUTORY NPAT ($m)	NPAT ($m)	EPS (CENTS)[2]	DIVIDENDS PER SHARE (CENTS)	KMP STI PAYABLE ($m)	KMP STI AS THE AVERAGE PERCENTAGE OF TARGET[3]
2014	0.77	0.80	205.4	296.3	21.8	9.0	4.1	101%
2013	0.87	0.78	(701.1)	161.9	12.2	5.0	2.0	54%
2012	1.84	0.87	57.7	195.0	14.6	6.0	2.6	73%
2011	2.97	1.85	230.3	235.4	17.7	10.0	1.4	39%
2010	2.53	2.98	258.4	240.6	18.2	11.0	3.3	168%

1. Details of the reconciliation between underlying and statutory financial measures can be found in the Operating and Financial Review.
2. Based on weighted average number of shares outstanding at 30 June.
3. Excludes STI percentage for executives of Steel and Tube Holdings. Arrium disposed of its 50.3% stake in Steel & Tube Holdings on 9 October 2012.

Graph 3 on the following page demonstrates performance against the Arrium LTI performance hurdles over the LTI vesting period. The graph compares the Arrium TSR against the applicable Comparator Index (the S&P/ASX 200 Index excluding banks, media and telecommunications for previous LTI Share Plan grants) and the Base Index (the Australian CPI plus 5% for previous LTI Share Plan grants).

Graph 3



Fixed Annual Reward

The level of salary is set so as to provide a level of remuneration that is both appropriate to the Executive's skills, experience and performance and competitive in the market. The review process involves assessment of the Group, Business and individual performance, analysis of comparative market and internal remuneration information, and independent external advice on policies and practices. In all cases, independent advice received from Egan Associates and Hay Group is used to determine market movement and to provide input into recommended changes to Executives' FAR.

Members of the Lead Team are provided flexibility to receive their FAR in a variety of forms, including cash, superannuation and employment benefits such as motor vehicles.

Short-Term Incentive

The STI aims to reward participating employees for the achievement of agreed financial, safety, business and personal goals which deliver returns for shareholders. It is administered over the financial year. The Deferred STI Program is designed to further align Executives' and shareholders' interests: to drive shareholder returns and to support Executive retention. In broad terms, Arrium's STI Plan principles and structures for Executives are as follows:

Table 6 – STI

ATTRIBUTE	STI PLAN FEATURES
STI opportunity	Payments under the STI Plan are based on a set percentage of FAR for achievement of goals. The MD&CEO will have a target set at 80% of FAR with a payment range of 0% to 120% of FAR. The balance of the team will have a target percentage of 66%[1] within a payment range of 0% to 100%. In each case, two thirds of any award will be delivered in cash, with the balance delivered through Arrium ordinary shares. The shares will have a two-year service hurdle before they become available to the Executive. Executives will receive any dividends relating to shares during the residual service vesting period. The maximum payment is only paid on outstanding "stretch" outcomes.
Performance gateway	Satisfactory performance is a prerequisite for participation in the STI Plan. Participation may be suspended or reduced where a participant has fallen short of performance expectations. Executives participate in an annual performance review process that assesses performance against key accountabilities, behaviours and job goals. Performance against these accountabilities and goals impacts directly on STI payments. In addition to an annual performance review, regular performance discussions with executives occur during the financial year. The process ensures that there is clarity in the communication and understanding of key business drivers and targets. These performance discussions also serve to provide feedback, to plan development initiatives and to aid succession planning.
Performance criteria and weighting	The performance conditions used for the STI Plan are established annually by the Board for the Lead Team and reflect strategic business plans and budgets. In FY14 the following performance measures applied: Financial targets (70%): In FY14, financial targets were to deliver NPAT and cash flow outcomes. For the MD&CEO and the CFO, the financial targets reflect overall Arrium financial outcomes. Chief Executives have a 40% weighting directed towards divisional financial outcomes, with the balance of 30% relating to overall Arrium outcomes. Safety targets (10%): All executives have a 10% weighting on safety performance improvement. Performance improvement is assessed against improvement in Medically Treated Injury Frequency Rate (5%) (measuring the number of medically treated injuries across the combined employee and contractor workforce per 1,000,000 employee hours) as well as substantive improvement in the identification and management of significant safety risks (5%). Personal target (20%): All executives have a weighting of 20% relating to achievement of personal goals aligned with strategic or performance imperatives. In FY14, these included those relating to growth and capital development projects, cost reduction programs, restructuring, and divestment initiatives. In all cases, payments are intended to reward continuous improvement and not to reward maintenance of the status quo.
Governance	Lead Team members' actual STI payments are subject to approval by the Board. The Board reserves the right to modify or cancel the STI Plan at any time. This may occur due to unsatisfactory business performance and/or other significant changes in business operating conditions or assumptions. The Board has discretion to reduce or cancel STI awards in the event of a material misstatement or other disentitling event.
Cessation of employment	If an Executive resigns during the measurement period, they will generally not be entitled to receive an STI payment.

1. L J Selleck had a target percentage of 50% and 100% of any award delivered in cash.

Long-Term Incentive

The Performance Rights Plan ("PRP") continues to operate in the year ended 30 June 2014. The previous LTI Share Plan remains in operation until all unvested awards have either vested or the Executive's entitlement lapses. No further awards have been granted under the previous LTI Share Plan since it was replaced by the PRP.

The objective of the LTI Plan is to reward participating executives for the sustained creation of shareholder wealth and to align the interests of executives with the Company's owners.

A summary of the key attributes of the previous LTI Share Plan and PRP are set out below in Table 7.

Table 7 – LTI Plans

ATTRIBUTE	LTI PERFORMANCE RIGHTS PLAN (CURRENT SCHEME)	LTI SHARE PLAN (FORMER SCHEME)
Award	Rights to fully paid Arrium ordinary shares.	Arrium ordinary shares held in trust ("Restricted Shares").
Participation	Offered to the Lead Team and selected employees who are able to significantly influence Arrium's performance over the long term and therefore the creation of shareholder wealth.	Offered to the Lead Team and selected employees who are able to significantly influence Arrium's performance over the long term and therefore the creation of shareholder wealth.
Performance period	Three years.	Three years.
Access to retesting	No retesting.	Yes, up to five years (see detailed explanation below).
Performance hurdles	50% of rights assessed against relative total shareholder return, measured against the S&P/ASX 200 Index (excluding the consumer discretionary, consumer staples, financial services, health, information technology and telecommunications services sectors).	50% of shares assessed against relative total shareholder return, measured against the S&P/ASX 200 Index (excluding banks, media and telecommunications).
	50% of rights assessed against compound annual growth in average earnings per share. Target established by the Board for each allocation.	50% of shares assessed against CPI plus 5%.
Vesting	Rights vest in proportion to the performance hurdles met (see Table 8 and Table 9 below).	Shares vest in proportion to the performance hurdles met.
Dividends	No entitlement to dividends.	Paid from date of initial allocation irrespective of whether shares are vested or unvested.
Governance	Lead Team members' LTI allocations and any vesting determinations are subject to approval by the Board. The Board has discretion to reduce or cancel LTI awards in the event of a material misstatement or other disentitling event.	Lead Team members' LTI allocations and any vesting determinations are subject to approval by the Board.
Voting rights	No.	Yes.

Performance Rights Plan (current scheme) performance hurdles

As noted in Table 7 above, there are two performance hurdles under the PRP, with 50% of rights vesting against each hurdle. One hurdle is Arrium's TSR relative to a comparator index. The second, which replaces the previous CPI-based hurdle, relates to Arrium's EPS.

These two complementary performance measures have been carefully and specifically determined by the Board so as to provide executives with an incentive to create shareholder wealth over a sustained period.

Arrium's TSR performance relative to the comparator index

TSR measures the growth in the price of Arrium's ordinary shares plus dividends notionally reinvested over the relevant performance period. The relative TSR measure will assess Arrium's TSR performance against entities in the TSR ranking group over the performance period. The TSR ranking group will be all of the companies in the S&P/ASX 200 Index, excluding the consumer discretionary, consumer staples, financial services, health, information technology and telecommunications services sectors (approximately 115 companies in total).

The benchmark companies chosen for the PRP for comparing Arrium's TSR regards the nature of Arrium's operations, its customer and supplier base and its international reach and considers a comparator that contains all industrial companies, all materials and resources companies and significant others which, in the Board's judgement, represent a testing group of relevant comparators. For all rights to vest in respect of this performance hurdle, the Company's TSR over the three-year period must outperform 85 or more of the 115 relevant companies, which the Board believes represents an appropriate stretch performance target.

For the 2014 offer under the current scheme, the performance period for the relative TSR measure will be the three-year period commencing on 1 July 2014 and ending 30 June 2017 ("Performance Period"). For the purposes of this measurement, TSR will be calculated using the volume weighted average share price for the Company's shares over a 10 consecutive trading day period starting two months prior to the end date of the Performance Period and ending two months after the end date of the Performance Period. The relevant 10 consecutive trading day period will be determined by that which gives the highest level of vesting achieved during the Performance Period.

Fifty percent of the total rights awarded vest to participants at the end of the three-year Performance Period subject to the performance of Arrium's TSR relative to the comparator index over the Performance Period according to Table 8:

Table 8 – TSR vesting proportions to the comparator index

TSR PERFORMANCE RELATIVE TO THE COMPARATOR INDEX	PROPORTION OF RIGHTS VESTING AS ARRIUM ORDINARY SHARES
Below the 50th percentile	Nil
At the 50th percentile	50%
Between the 50th percentile and 75th percentile	Pro-rata straight-line between 50% and 100%
At or above the 75th percentile	100%

Arrium's underlying EPS
Underlying EPS is the basic EPS disclosed in Arrium's full year Financial Report adjusted for non-recurring or non-trading items as determined by the Board. The underlying EPS hurdle will measure Arrium's underlying EPS growth (as an annual compound percentage) between the final year of the Performance Period for the underlying EPS hurdle (being the year ending 30 June 2017 for the 2014 offer) and the financial year ending immediately prior to the date of grant of the relevant rights (being the year ended 30 June 2014 for the 2014 offer). Underlying EPS growth is then compared against the underlying EPS targets for Arrium as determined by the Board for the prior corresponding period.

Rights granted and subject to the Arrium underlying EPS performance hurdle for the 2014 and 2013 offers vest according to Table 9:

Table 9 – underlying EPS vesting proportions

COMPOUND GROWTH IN ARRIUM UNDERLYING EPS OVER THE PERFORMANCE PERIOD	PROPORTION OF RIGHTS VESTING AS ARRIUM SHARES
Less than 5%	Nil
5%	25%
Greater than 5% up to 15%	Pro-rata straight-line between 25% and 100%
Greater than 15%	100%

There are no retesting provisions under the PRP if rights fail to vest under either performance measure at the conclusion of the Performance Period. Prior to the approval of the vesting of rights and allotment of shares, independent external verification will be sought to confirm that the vesting conditions have been satisfied. If an executive ceases employment with Arrium before the performance condition is tested, then the executive's unvested rights will generally lapse. However, all or some of the rights may vest to an executive on ceasing employment when special circumstances apply at the discretion of the Board including redundancy, death and permanent disability.

Details of equity-based compensation provided to KMP and current shareholdings of Directors are contained in Section E of this Report.

Participation in other equity plans
Together with all Australian resident permanent employees of Arrium, executives are eligible to participate in either the Tax Exempt or Tax Deferred Share Plans. Under these plans, employees are able to make salary sacrifice contributions to purchase Arrium ordinary shares on-market on a monthly basis. Details of the Tax Exempt and Tax Deferred Share Plans are set out in Note 29 to the Financial Statements.

Dealing in Company securities
Directors and relevant executives are precluded from dealing in Arrium securities at any time if they are aware of price sensitive information that has not been made public. Directors and executives must not use any derivatives or enter into margin lending arrangements in relation to Arrium securities.

Subject to that overriding rule, Company policy permits Directors and relevant executives to deal in Arrium securities during set trading windows throughout the year.

E. DETAILS OF NON-EXECUTIVE DIRECTOR AND EXECUTIVE REMUNERATION FOR THE YEAR ENDED 30 JUNE 2014

Short-Term Incentives
The actual STI payable, the percentage of the total STI payable and the percentage of the STI forfeited by the Lead Team for the outcomes for the year ended 30 June 2014 is set out in Table 10.

Table 10 – STI Payments

	ACTUAL STI PAYABLE			% OF TARGET	% OF TARGET
2014	CASH	SHARES	TOTAL	PAYABLE	FORFEITED
A G Roberts	733,370	366,630	1,100,000	99%	1%
R C Bakewell	453,356	226,644	680,000	112%	nil
J T Barbagallo	175,342	87,658	263,000	69%	31%
G D A Feurtado	257,346	128,654	386,000	95%	5%
S H Hamer	325,350	162,650	488,000	80%	20%
L J Selleck	425,000	nil	425,000	102%	nil
G A Waters	498,025	248,975	747,000	153%	nil

In a year of challenge and volatility, the focus has been for each business to reduce debt, increase cash and overall profitability and returns to shareholders of which were broadly achieved with regards to the debt reduction, met with regards to net profit and exceeded with regards to cash generation. For these reasons, STI target payments ranged from 69% – 153%. Accordingly, Mr Roberts was near on target for his STI payment in 2014. On average, the remaining members of the Lead Team have met their target STI payment.

Financial targets (70%): In FY14, financial targets were to deliver NPAT, cash flow and debt reduction outcomes. The Group's outcome across these three areas resulted in an on target payment being made for this significant component of the STI program. No business financial payments were awarded to the Steel and Mining Consumables business having regard to the statutory profit result. Some Chief Executives received a payment in recognition of delivering planned cash and earnings outcomes in their respective Businesses.

Safety targets (10%): All executives have a 10% weighting on safety performance improvement. Performance improvement was assessed against improvement in Medically Treated Injury Frequency Rate (MTIFR) (measuring the number of medically treated injuries across the combined employee and contractor workforce per 1,000,000 employee hours) as well as substantive improvement in the identification and management of significant safety risks. In FY14, safety performance improved as indicated by a 13% reduction in Arrium's MTIFR. MTIFR for Mr Roberts, Mr Feurtado and Mr Barbagallo resulted in a zero outcome. There was significant improvement across all of Arrium's businesses in the identification and management of critical risks which resulted in an above target payment for this part of the target. On average, a combined outcome just above target was achieved.

Personal targets (20%): All executives have a weighting of 20% related to achievement of personal goals aligned with strategic or performance imperatives including those relating to growth and capital development projects, cost reduction programs, restructuring, and divestment initiatives. The Company made sound progress on its challenging strategic program. This included:

- Delivery of the Mining Port Expansion project
- Giving effect to the completion of property, non-integrated steel and US Recycling divestments
- Significant improvements in the steel businesses, delivering a further material cost reduction and continued progress in re-shaping of the portfolio
- Balance sheet and working capital related targets.

These targets were achieved, and above target payments awarded on average.

Long-Term Incentives

No LTI awards vested during the 2014 financial year.

Actual remuneration outcomes

Table 13 provides details of the Lead Team's remuneration as required by the *Corporations Act 2001* (Cth). As the information required to be presented represents the accounting value of, for example, equity awards, the Human Resources Committee is aware that it may be difficult for shareholders to interpret the value Lead Team executives actually derived during the FY14. Table 11 below therefore outlines the value of the total remuneration (fixed annual reward, STI earned, the value of any LTIs awarded in prior years that vested during 2014, and any other payments received in the period) received in the 2014 financial year.

Table 11 – Remuneration outcomes

NAME	FIXED ANNUAL REWARD[1] $	SHORT-TERM INCENTIVE EARNED[6] $	LONG-TERM INCENTIVE (VALUE VESTED IN 2014) $	SPECIAL RIGHTS (VALUE VESTED IN 2014)[4]	OTHER $	OTHER LONG TERM LEAVE ENTITLEMENTS	TOTAL REMUNERATION RECEIVED $
A G Roberts	1,391,755	733,370	nil	273,600	–	594,751	2,993,476
G J Plummer[2,3]	92,686	1,300,000[5]	nil	–	–	7,796	1,400,482
R C Bakewell	969,586	453,356	nil	273,600	–	100,519	1,797,061
J T Barbagallo	576,019	175,342	nil	85,500	–	112,011	948,872
G D A Feurtado	615,468	257,346	nil	118,000	–	73,538	1,064,352
S H Hamer	926,316	325,350	nil	273,600	–	228,703	1,753,969
L J Selleck	836,941	425,000	nil	226,800	–	94,925	1,583,666
G A Waters	887,547	498,025	nil	273,600	–	127,413	1,786,585

1. Includes salary and fees and superannuation.
2. G J Plummer was paid all accrued leave entitlements on leaving the Company.
3. G J Plummer ceased to be a KMP on 15 July 2013. Remuneration outcomes reflect remuneration received up until this date.
4. The Special Rights Allocation served as a retention mechanism for the KMP. The Special Rights were issued from 1 July 2011 and had a two year service lock period. The service hurdle was met and the Rights vested on 1 July 2013. The value of special rights allocated is determined in accordance with AASB 2 *Share Based Payments*.
5. G J Plummer received a deferred bonus after meeting the terms of his service agreement.
6. Reflects two thirds of the STI award delivered in cash.

Details of remuneration paid to Directors and Executives meeting the definition of KMP under AASB 124 *Related Party Disclosures* of the Arrium Group are set out in Tables 12 and 13.

Table 12 – Remuneration of Non-Executive Directors

		SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENTS	TOTAL	PROPORTION PERFOR-MANCE RELATED
	YEAR	SALARY & FEES	CASH BONUS	NON-MONETARY BENEFITS[1]	SUBTOTAL	SUPER-ANNUATION	SHARES AND RIGHTS GRANTED		
		$	$	$		$	$	$	%
Non-Executive Directors									
R B Davis	**2014**	**173,913**	**–**	**–**	**173,913**	**16,087**	**–**	**190,000**	**–**
Non-Executive Director	2013	174,312	–	2,818	177,130	15,688	–	192,818	–
C R Galbraith, AM	**2014**	**169,336**	**–**	**2,755**	**172,091**	**15,664**	**–**	**187,755**	**–**
Non-Executive Director	2013	177,064	–	–	177,064	7,936	–	185,000	–
P G Nankervis	**2014**	**173,913**	**–**	**–**	**173,913**	**16,087**	**–**	**190,000**	**–**
Non-Executive Director	2013	174,312	–	–	174,312	15,688	–	190,000	–
D A Pritchard	**2014**	**164,760**	**–**	**–**	**164,760**	**15,240**	**–**	**180,000**	**–**
Non-Executive Director	2013	165,138	–	–	165,138	14,862	–	180,000	–
P J Smedley	**2014**	**495,000**	**–**	**34,788**	**529,788**	**–**	**–**	**529,788**	**–**
Non-Executive Chairman	2013	495,000	–	1,962	496,962	–	–	496,962	–
G J Smorgon, AM	**2014**	**173,913**	**–**	**–**	**173,913**	**16,087**	**–**	**190,000**	**–**
Non-Executive Director	2013	174,312	–	–	174,312	15,688	–	190,000	–
R Warnock	**2014**	**160,183**	**–**	**–**	**160,183**	**14,817**	**–**	**175,000**	**–**
Non-Executive Director	2013	160,550	–	–	160,550	14,450	–	175,000	–
Total	**2014**	**1,511,018**	**–**	**37,543**	**1,548,561**	**93,982**	**–**	**1,642,543**	**–**
	2013	1,520,688	–	4,780	1,525,468	84,312	–	1,609,780	–

1. Non-monetary benefits include fringe benefits tax paid on benefits provided.

Table 13 – Remuneration of Executive Director and Executives

		SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS	OTHER LONG TERM	SHARE-BASED PAYMENTS[3,4]			PROPORTION PERFORMANCE RELATED[6]
	YEAR	SALARY & FEES	CASH BONUS[1]	NON-MONETARY BENEFITS[2]	SUBTOTAL	SUPER-ANNUATION	LEAVE ENTITLEMENTS	RIGHTS	SHARES	SHARES (DEFERRED STI)	
		$	$	$	$	$		$			%
Executive Directors											
A G Roberts	**2014**	**1,366,755**	**733,370**	**39,560**	**2,139,685**	**25,000**	**594,751**	**600,314**	**–**	**122,210**	**41.8**
MD&CEO	2013	883,685	277,000	21,424	1,182,109	25,000	106,955	353,269	78,085	–	40.6
G J Plummer	**2014**	**91,583**	**1,300,000**	**35,552**	**1,427,135**	**1,103**	**7,796**	**39,055**	**–**	**–**	**90.8**
MD&CEO (retired 1 July 2013)	2013	2,073,765	630,000	16,043	2,719,808	23,077	360,930	947,746	659,300	–	47.5
	2013		320,000[5]		320,000						
R C Bakewell	**2014**	**951,811**	**453,356**	**2,765**	**1,407,932**	**17,775**	**100,519**	**428,853**	**–**	**75,548**	**47.2**
Chief Financial Officer	2013	922,333	260,000	14,627	1,196,960	16,443	99,561	365,505	78,085	–	40.1
J T Barbagallo	**2014**	**551,019**	**175,342**	**13,097**	**739,458**	**25,000**	**112,011**	**173,194**	**–**	**29,219**	**35.0**
Chief Executive Mining Consumables	2013	–	–	–	–	–	–	–	–	–	–
G D A Feurtado	**2014**	**558,963**	**257,346**	**10,477**	**826,786**	**56,505**	**73,538**	**304,775**	**–**	**42,885**	**46.4**
Chief Executive Recycling	2013	535,798	181,000	10,847	727,645	42,750	74,867	225,444	14,315	–	38.8
S H Hamer	**2014**	**902,085**	**325,350**	**4,587**	**1,232,022**	**24,231**	**228,703**	**408,391**	**–**	**54,217**	**40.5**
Chief Executive Steel	2013	785,882	240,000	13,455	1,039,337	23,077	120,408	353,269	78,085	–	41.6
L J Selleck	**2014**	**737,414**	**425,000**	**–**	**1,162,414**	**99,527**	**94,925**	**210,992**	**–**	**–**	**40.6**
Chief Executive Operational Excellence	2013	715,477	192,000	326	907,803	96,609	103,312	317,025	65,071	–	38.5
G A Waters	**2014**	**862,547**	**498,025**	**–**	**1,360,572**	**25,000**	**127,413**	**388,930**	**–**	**82,992**	**48.9**
Chief Executive Mining	2013	788,257	260,000	–	1,048,257	20,048	97,337	339,976	78,085	–	42.8
Total	**2014**	**6,022,177**	**4,167,789**	**106,038**	**10,296,004**	**274,141**	**1,339,656**	**2,554,504**	**–**	**407,071**	
	2013	6,705,197	2,360,000	76,722	9,141,919	247,004	963,370	2,902,234	1,051,026	–	

1. Cash bonuses are in respect of short-term incentives with the exception of G J Plummer who received a deferred bonus after meeting the terms of his service agreement.
2. Non-monetary benefits include items such as fringe benefits tax paid on benefits provided, rental assistance, living away from home allowance and cost of living allowance.
3. Dividends paid to executives on unvested shares under the previous LTI Share Plan are implicitly included in the fair value of the share-based payment expense recognised as remuneration. Dividends paid to the executives on unvested shares under the previous LTI plan held at the end of the year were: A G Roberts $16,385 (2013: $11,018); G J Plummer N/A (2013: $80,221); R C Bakewell $9,288 (2013: $5,160); J T Barbagallo $3,960; G D A Feurtado $3,204 (2013: $2,087); S H Hamer $16,385 (2013: $11,018); L J Selleck $12,653 (2013: $6,666); G A Waters $14,474 (2013: $11,412).
4. Share-based payments include performance and service rights allocations.
5. In 2012, G J Plummer was awarded a deferred STIP component to the value of $320,000 contingent on achieving personal strategic targets relating to iron ore and port development projects in South Australia in 2013. This amount was paid in February 2013.
6. The 2013 comparatives have been restated to include statutory leave entitlements.

Other transactions and balances with Key Management Personnel

Key Management Personnel of Arrium Limited and its related parties or their related entities, conduct transactions with entities within the Arrium Group that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the Key Management Personnel or their related entity at an arm's length in similar circumstances. These transactions include the following and have been quantified below where the transactions are considered to be of interest to users of these financial statements.

Table 14 – Shareholdings of Key Management Personnel (including Unvested)[1]

2014	HELD AT 1 JULY 2013 NUMBER	GRANTED AS REMUNERATION NUMBER	NET CHANGE OTHER NUMBER	HELD AT 30 JUNE 2014 NUMBER
Directors				
R B Davis	188,995	–	–	188,995
C R Galbraith, AM	200,000	–	–	200,000
P G Nankervis	146,890	–	–	146,890
G J Plummer	3,378,407	–	(3,378,407)	N/A[2]
D A Pritchard	143,921	–	–	143,921
A G Roberts	282,123	470,038	121,700	873,861
P J Smedley	410,455	–	–	410,455
G J Smorgon, AM	15,107	–	–	15,107
R Warnock	22,375	–	1,566	23,941
Executives				
R C Bakewell	116,827	290,569	122,697	530,093
J T Barbagallo	119,505	112,382	(75,508)	156,379
G D A Feurtado	41,742	164,941	(6,141)	200,542
S H Hamer	265,974	208,526	(51,302)	423,198
L J Selleck	532,066	–	54,563	586,629
G A Waters	231,983	319,199	92,840	644,022
Total	6,096,370	1,565,655	(3,117,992)	4,544,033

2013	HELD AT 1 JULY 2012 NUMBER	GRANTED AS REMUNERATION NUMBER	NET CHANGE OTHER NUMBER	HELD AT 30 JUNE 2013 NUMBER
Directors				
R B Davis	188,995	–	–	188,995
C R Galbraith, AM	200,000	–	–	200,000
P G Nankervis	116,890	–	30,000	146,890
G J Plummer	3,683,868	–	(305,461)	3,378,407
D A Pritchard	143,921	–	–	143,921
A G Roberts	339,467	–	(57,344)	282,123
P J Smedley	410,455	–	–	410,455
G J Smorgon, AM	15,107	–	–	15,107
R Warnock	10,837	–	11,538	22,375
Executives				
R C Bakewell	109,254	–	7,573	116,827
G D A Feurtado	51,572	–	(9,830)	41,742
S H Hamer	315,745	–	(49,771)	265,974
L J Selleck	579,583	–	(47,517)	532,066
G A Waters	231,726	–	257	231,983
Total	6,397,420	–	(420,555)	5,976,865

1. Include ordinary shares held directly, indirectly or beneficially including held by their related parties.
2. G J Plummer held 3,378,407 shares as at the date he ceased to be Key Management Personnel, being 15 July 2013.

Table 15 – Rights Holdings of Key Management Personnel (including Unvested)

2014	HELD AT 1 JULY 2013 NUMBER	GRANTED AS REMUNERATION[1] NUMBER	NET CHANGE OTHER NUMBER	HELD AT 30 JUNE 2014 NUMBER
Directors				
R B Davis	–	–	–	–
C R Galbraith, AM	–	–	–	–
P G Nankervis	–	–	–	–
G J Plummer	4,213,288	–	(4,213,288)	N/A[2]
D A Pritchard	–	–	–	–
A G Roberts	1,169,324	1,206,896	(160,000)	2,216,220
P J Smedley	–	–	–	–
G J Smorgon, AM	–	–	–	–
R Warnock	–	–	–	–
Executives				
R C Bakewell	1,245,081	629,310	(160,000)	1,714,391
J T Barbagallo	284,614	375,000	(50,000)	609,614
G D A Feurtado	964,198	396,551	(100,000)	1,260,749
S H Hamer	1,169,324	603,448	(160,000)	1,612,772
L J Selleck	1,142,748	–	(160,000)	982,748
G A Waters	1,128,386	584,051	(160,000)	1,552,437
Total	11,316,963	3,795,256	(5,163,288)	9,948,931

2013	HELD AT 1 JULY 2012 NUMBER	GRANTED AS REMUNERATION[1] NUMBER	NET CHANGE OTHER NUMBER	HELD AT 30 JUNE 2013 NUMBER
Directors				
R B Davis	–	–	–	–
C R Galbraith, AM	–	–	–	–
P G Nankervis	–	–	–	–
G J Plummer	1,637,531	2,575,757	–	4,213,288
D A Pritchard	–	–	–	–
A G Roberts	487,506	681,818	–	1,169,324
P J Smedley	–	–	–	–
G J Smorgon, AM	–	–	–	–
R Warnock	–	–	–	–
Executives				
R C Bakewell	487,506	757,575	–	1,245,081
G D A Feurtado	449,047	515,151	–	964,198
S H Hamer	487,506	681,818	–	1,169,324
L J Selleck	460,930	681,818	–	1,142,748
G A Waters	446,568	681,818	–	1,128,386
Total	4,456,594	6,575,755	–	11,032,349

1. Rights granted as remuneration to the MD&CEO and Executives are held in trust on the participant's behalf during the performance period. Participants are not able to withdraw shares from the trust until shares vest as a result of the performance conditions being achieved.
2. G J Plummer held 4,213,288 rights as at the date he ceased to be Key Management Personnel, being 15 July 2013.

Loans to Key Management Personnel
There were no loans made to or outstanding from Key Management Personnel during the current or prior year.

Share-based compensation benefits
For each grant of shares and rights included in the remuneration of KMP, the percentage of the grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the KMP did not meet the service and/or performance criteria is set out on the following page.

The maximum value of the shares and rights yet to vest has been determined as the amount of the grant date fair value of the shares and rights that are yet to be expensed. No shares or rights will vest if the service and/or performance criteria are not satisfied, hence the minimum value of the share and right grants yet to vest is nil.

Table 16 – Share-based compensation

	PLAN[1]	DATE OF GRANT	NUMBER OF SHARES	FAIR VALUE PER SHARE AT DATE OF GRANT	AWARD VALUE AT DATE OF GRANT	EXPIRY DATE	FIRST VESTING DATE	LAST VESTING DATE	VESTED	FORFEITED	MAXIMUM TOTAL VALUE OF GRANT YET TO VEST
				$	$				%	%	$
Executive Directors											
A G Roberts	SP	26/08/2008	38,300	6.01	230,183	1/07/2013	1/07/2011	1/07/2013	–	100	–
	SP	26/08/2009	78,861	2.88	227,120	1/07/2014	1/07/2012	1/07/2014	–	–	–
	SP	25/08/2010	103,196	2.27	234,255	1/07/2015	1/07/2013	1/07/2015	–	–	–
	SR	1/07/2011	160,000	1.71	273,600	1/07/2013	1/07/2013	1/07/2013	100	–	–
	PRP	30/08/2011	327,506	0.98	319,318	1/07/2014	1/07/2014	1/07/2014	–	–	–
	PRP	5/11/2012	681,818	0.49	330,682	1/07/2015	1/07/2015	1/07/2015	–	–	110,227
	PRP	23/09/2013	1,206,896	0.96	1,152,586	1/07/2016	1/07/2016	1/07/2016	–	–	768,390
	DS[2]	18/08/2014	470,038	0.78	366,630	30/06/2016	30/06/2016	30/06/2016	–	–	244,420
G J Plummer	SP	7/09/2007	327,680	4.62	1,513,882	20/08/2013	20/08/2010	20/08/2013	–	100	–
	SP	26/08/2008	65,110	6.01	391,311	1/07/2013	1/07/2011	1/07/2013	–	100	–
	SP	26/08/2009	340,316	2.88	980,110	1/07/2014	1/07/2012	1/07/2014	–	–	–
	SP	25/08/2010	871,322	2.27	1,977,901	1/07/2015	1/07/2013	1/07/2015	–	–	–
	PRP	30/08/2011	1,637,531	0.98	1,596,593	1/07/2014	1/07/2014	1/07/2014	–	–	–
	PRP	5/11/2012	2,575,757	0.49	1,249,242	1/07/2015	1/07/2015	1/07/2015	–	–	416,414
	PRP	23/09/2013	–	0.96	–	1/07/2016	1/07/2016	1/07/2016	–	–	–
Executives											
R Bakewell	SP	25/08/2010	103,196	2.27	234,255	1/07/2015	1/07/2013	1/07/2015	–	–	–
	SR	1/07/2011	160,000	1.71	273,600	1/07/2013	31/08/2013	1/07/2013	100	–	–
	PRP	30/08/2011	327,506	0.98	319,318	1/07/2014	1/07/2014	1/07/2014	–	–	–
	PRP	5/11/2012	757,575	0.49	367,424	1/07/2015	1/07/2015	1/07/2015	–	–	122,475
	PRP	23/09/2013	629,310	0.96	600,991	1/07/2016	1/07/2016	1/07/2016	–	–	400,661
	DS[2]	18/08/2014	290,569	0.78	226,644	30/06/2016	30/06/2016	30/06/2016	–	–	151,096
J T Barbagallo	SP	26/08/2008	7,085	6.01	42,581	1/07/2013	1/07/2011	1/07/2013	–	100	–
	SP	26/08/2009	18,198	2.88	52,410	1/07/2014	1/07/2012	1/07/2014	–	–	–
	SP	25/08/2010	25,799	2.27	58,564	1/07/2015	1/07/2013	1/07/2015	–	–	–
	SR	1/07/2011	50,000	1.71	85,500	1/07/2013	1/07/2013	1/07/2013	100	–	–
	PRP	30/08/2011	98,251	0.98	95,795	1/07/2014	1/07/2014	1/07/2014	–	–	–
	PRP	5/11/2012	136,363	0.49	66,136	1/07/2015	1/07/2015	1/07/2015	–	–	22,045
	PRP	23/09/2013	375,000	0.96	358,125	1/07/2016	1/07/2016	1/07/2016	–	–	238,750
	DS[2]	18/08/2014	112,382	0.78	87,658	30/06/2016	30/06/2016	30/06/2016	–	–	58,439
G Feurtado	SP	26/08/2008	6,141	6.01	36,907	1/07/2013	1/07/2011	1/07/2013	–	100	–
	SP	26/08/2009	16,682	2.88	48,044	1/07/2014	1/07/2012	1/07/2014	–	–	–
	SP	25/08/2010	18,919	2.27	42,946	1/07/2015	1/07/2013	1/07/2015	–	–	–
	PRP	30/08/2011	98,251	0.98	95,795	1/07/2014	1/07/2014	1/07/2014	–	–	–
	SR	1/09/2011	50,000	1.43	71,500	31/08/2013	31/08/2013	31/08/2013	100	–	–
	SR	24/02/2012	50,000	0.93	46,500	4/10/2013	4/10/2013	4/10/2013	100	–	–
	PRP	24/02/2012	250,796	0.62	154,240	1/07/2014	1/07/2014	1/07/2014	–	–	–
	PRP	5/11/2012	515,151	0.49	249,848	1/07/2015	1/07/2015	1/07/2015	–	–	83,283
	PRP	23/09/2013	396,551	0.96	378,706	1/07/2016	1/07/2016	1/07/2016	–	–	252,471
	DS[2]	18/08/2014	164,941	0.78	128,654	30/06/2016	30/06/2016	30/06/2016	–	–	85,769
S H Hamer	SP	26/08/2008	38,300	6.01	230,183	1/07/2013	1/07/2011	1/07/2013	–	100	–
	SP	26/08/2009	78,861	2.88	227,120	1/07/2014	1/07/2012	1/07/2014	–	–	–
	SP	25/08/2010	103,196	2.27	234,255	1/07/2015	1/07/2013	1/07/2015	–	–	–
	SR	1/07/2011	160,000	1.71	273,600	1/07/2013	1/07/2013	1/07/2013	100	–	–
	PRP	30/08/2011	327,506	0.98	319,318	1/07/2014	1/07/2014	1/07/2014	–	–	–
	PRP	5/11/2012	681,818	0.49	330,682	1/07/2015	1/07/2015	1/07/2015	–	–	110,227
	PRP	23/09/2013	603,448	0.96	576,293	1/07/2016	1/07/2016	1/07/2016	–	–	384,195
	DS[2]	18/08/2014	208,526	0.78	162,650	30/06/2016	30/06/2016	30/06/2016	–	–	108,433
L J Selleck	SP	26/08/2008	38,300	6.01	230,183	1/07/2013	1/07/2011	1/07/2013	–	100	–
	SP	26/08/2009	54,596	2.88	157,236	1/07/2014	1/07/2012	1/07/2014	–	–	–
	SP	25/08/2010	85,997	2.27	195,213	1/07/2015	1/07/2013	1/07/2015	–	–	–
	SR	1/07/2011	100,000	1.71	171,000	1/07/2013	1/07/2013	1/07/2013	100	–	–
	PRP	30/08/2011	266,098	0.98	259,446	1/07/2014	1/07/2014	1/07/2014	–	–	–
	SR	24/02/2012	60,000	0.93	55,800	4/10/2013	4/10/2013	4/10/2013	100	–	–
	PRP	24/02/2012	34,832	0.62	21,422	1/07/2014	1/07/2014	1/07/2014	–	–	–
	PRP	5/11/2012	681,818	0.49	330,682	1/07/2015	1/07/2015	1/07/2015	–	–	110,227
	PRP	23/09/2013	–	0.96	–	1/07/2016	1/07/2016	1/07/2016	–	–	–
G A Waters	SP	16/10/2008	67,421	2.79	188,105	16/10/2013	16/10/2011	16/10/2013	–	100	–
	SP	26/08/2009	57,629	2.88	165,972	1/07/2014	1/07/2012	1/07/2014	–	–	–
	SP	25/08/2010	103,196	2.27	234,255	1/07/2015	1/07/2013	1/07/2015	–	–	–
	SR	1/07/2011	160,000	1.71	273,600	1/07/2013	1/07/2013	1/07/2013	100	–	–
	PRP	30/08/2011	286,568	0.98	279,404	1/07/2014	1/07/2014	1/07/2014	–	–	–
	PRP	5/11/2012	681,818	0.49	330,682	1/07/2015	1/07/2015	1/07/2015	–	–	110,227
	PRP	23/09/2013	584,051	0.96	557,769	1/07/2016	1/07/2016	1/07/2016	–	–	371,846
	DS[2]	18/08/2014	319,199	0.78	248,975	30/06/2016	30/06/2016	30/06/2016	–	–	165,983

1. SP are shares issued under the former LTI Plan. PRP are rights issued under the Rights Plan. SR are Service Rights which were issued in 2011 to support executive retention during the MD&CEO succession period as reported in the 2012 Remuneration Report. DS are shares issued under the Deferred STI Share Plan.
2. Fair value has been estimated at the grant date.

F. EXECUTIVE SERVICE AGREEMENTS

MD&CEO

Mr A G Roberts was appointed MD&CEO on 1 July 2013. His service will continue on an ongoing basis until terminated by either Arrium or Mr Roberts in accordance with the termination rights in the Executive Service Agreement (as described on the following page). A comprehensive summary of the MD and CEO's employment agreement was lodged with the Australian Securities Exchange on 18 February 2013. ASX releases are available on Arrium's website. Key features of Mr Roberts' contract are outlined in the table below.

Table 17 – Summary of new MD&CEO Service Agreement (from 1 July 2013)

FAR	Mr Roberts is paid a fixed annual reward of $1,400,000 per annum inclusive of superannuation.
STI	The STI target provides for a payment range of 0% to 120% of FAR with target at 80%. The maximum possible payment is only paid on outstanding "stretch" outcomes. Targets and actual payments are determined by the Board. Two thirds of any award will be delivered in cash, with the balance delivered through Arrium ordinary shares. The shares will have a two-year service hurdle before they become available to Mr Roberts. Mr Roberts will receive any dividends during the service vesting period. The Board has discretion to reduce or cancel STI awards in the event of a material misstatement or other disentitling event.
LTI	During his term as Chief Executive Mining Consumables, Mr Roberts was granted awards of Arrium Limited ordinary shares and rights to Arrium Limited ordinary shares as the long-term component of his remuneration. Mr Roberts will retain these shares and rights in his new role. The shares and rights are held in trust and vest according to the relevant performance hurdles detailed in Section D of this Report. Shares and rights granted to Mr Roberts under the current and former LTI Plans are set out in Section E of this Report. An LTI allocation of performance rights to the value of $1,450,000 will be granted to Mr Roberts, with a measurement period commencing 1 July 2014 and ending 30 June 2017. The volume weighted average price of Arrium ordinary shares in the 10-day period following the Group's full year financial results announcement to ASX will be used to calculate the number of rights to be issued to Mr Roberts. The rights will vest according to the performance hurdles under the PRP. The Board has discretion to reduce or cancel LTI awards in the event of a material misstatement or other disentitling event.
Notice of termination	Termination by the Company: 12 months' notice. Termination by the MD & CEO: 12 months' notice.
Termination provisions	In accordance with the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, Mr Roberts' termination entitlements have been agreed in advance. The Company is satisfied that Mr Robert's termination entitlements as set out below are reasonable, having regard to current employment practices. Death, illness, incapacity or by appropriate notice by either party: – FAR and any accrued untaken statutory leave entitlements calculated to the agreed termination date. – Any amount of STI that has accrued from the previous financial year. The Board, in its absolute discretion, will determine the amount of the STI payable for the financial year in which termination occurs, if any. The Board, in its absolute discretion, will determine whether the MD&CEO may withdraw some or all of the shares or rights granted under the LTI Share Plan or Performance Rights Plan which have not vested. Termination for cause: No further obligations other than the amount of FAR due to him through to his termination date plus any statutory leave entitlements calculated to the termination date.
Non-compete	Upon termination of the MD&CEO's employment for any reason, the MD&CEO is prohibited from engaging in any activity that would compete with Arrium for a period of 12 months. Non-solicitation restraint for 24 months.

Other executive KMP

Outlined below are the key termination entitlements with respect to other executive KMP. These KMP are engaged on permanent employment arrangements with termination entitlements as below.

Table 18 – Termination entitlements

Notice of termination	Termination by the employee: 6 months' notice. Termination by employer: 12 months' notice
Termination provisions	Termination for any reason other than for cause: Arrium may pay up to 1.0 times' fixed annual reward at the time of termination. Termination at the end of a fixed term or the end of an extension period, by death, illness, incapacity, by appropriate notice by Arrium or from the individual due to a fundamental change in the business. In addition to the above payments, the Board, in its absolute discretion, will determine whether the individual may be able to withdraw some or all of the shares or rights granted under the current and former LTI Plan which have not vested.
Non-compete	Executives are also bound by non-compete clauses generally restraining them for a period of 12 months from taking up employment or engaging in activities which would be to the detriment of Arrium.

Signed in accordance with a resolution of the Directors.

Peter Smedley
Chairman

Andrew Roberts
Managing Director & Chief Executive Officer

Sydney, 19 August 2014

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE

	NOTES	CONSOLIDATED 2014 $m	CONSOLIDATED 2013 RESTATED[1] $m
Sales revenue	4	6,562.0	6,084.9
Cost of sales		(5,310.7)	(5,014.9)
Gross profit		1,251.3	1,070.0
Other revenue	4	39.5	56.0
Other income	4	72.5	36.5
Operating expenses	4	(833.8)	(1,045.7)
Finance costs	4	(117.5)	(119.0)
Share of net profit/(loss) of investments accounted for using the equity method	11	0.7	(0.9)
Profit/(loss) from continuing operations before income tax		**412.7**	**(3.1)**
Total income tax (expense)/benefit	5	(124.9)	67.2
Profit from continuing operations after tax		**287.8**	**64.1**
Loss from discontinued operations after tax	34	(81.2)	(763.1)
Net profit/(loss) for the year		**206.6**	**(699.0)**
Net profit/(loss) for the year is attributable to:			
Non-controlling interests		1.2	2.1
Equity holders of the parent		205.4	(701.1)
		206.6	**(699.0)**

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

The accompanying notes form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE

	NOTES	CONSOLIDATED 2014 $m	CONSOLIDATED 2013 RESTATED[1] $m
Profit/(Loss) after tax		206.6	(699.0)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
– net gains/(losses) taken to equity		2.9	(1.5)
– transferred to profit and loss		1.1	6.7
– transferred to initial carrying amount of hedged items		0.7	(5.4)
Currency translation differences:			
– net investment hedges		(3.8)	(100.9)
– reclassified to profit and loss		–	(6.9)
– exchange fluctuations on overseas net assets		(39.6)	148.9
Items that may not be reclassified subsequently to profit or loss:			
Remeasurement gains on retirement benefit obligation		9.8	53.5
Other comprehensive income, net of tax		(28.9)	94.4
Total comprehensive income/(loss)		**177.7**	**(604.6)**
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		176.6	(607.7)
Non-controlling interests		1.1	3.1
		177.7	**(604.6)**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent:			
Basic earnings per share (cents per share)	6	21.09	4.70
Diluted earnings per share (cents per share)	6	20.83	4.69
Earnings/(Loss) per share attributable to the ordinary equity holders of the parent:			
Basic earnings/(loss) per share (cents per share)	6	15.11	(52.00)
Diluted earnings/(loss) per share (cents per share)	6	14.93	(52.00)

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

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BALANCE SHEET

AS AT 30 JUNE

	NOTES	CONSOLIDATED 2014 $m	2013 RESTATED[1] $m	AS AT 1 JULY 2012 RESTATED[1] $m
ASSETS				
Current Assets				
Cash and cash equivalents	24	650.5	438.3	268.1
Receivables	7	627.4	720.9	953.0
Derivative financial instruments	8	8.0	11.3	16.9
Inventories	9	1,234.5	1,277.8	1,450.9
Current tax assets		15.1	6.0	30.2
Other financial assets	10	–	0.8	–
Other current assets	15	10.1	7.2	11.8
Disposal groups and assets held for sale	34	124.9	368.6	17.5
Total Current Assets		**2,670.5**	**2,830.9**	**2,748.4**
Non-current Assets				
Receivables	7	–	13.2	–
Investments accounted for using the equity method	11	13.3	12.8	14.0
Derivative financial instruments	8	19.5	23.2	29.9
Other financial assets	10	1.0	–	1.3
Other non-current assets	15	22.6	13.7	0.1
Property, plant and equipment	12	2,672.2	2,687.4	2,754.6
Mine development expenditure	13	539.4	405.3	227.1
Other intangibles and goodwill	14	1,964.1	2,035.1	2,822.0
Deferred tax assets	5	99.7	147.2	11.1
Total Non-current Assets		**5,331.8**	**5,337.9**	**5,860.1**
TOTAL ASSETS		**8,002.3**	**8,168.8**	**8,608.5**
LIABILITIES				
Current Liabilities				
Payables	16	1,175.0	1,098.1	1,054.0
Derivative financial instruments	8	51.2	13.0	23.8
Interest-bearing liabilities	17	120.6	1.1	57.3
Current tax liabilities		13.5	7.9	7.2
Provisions	18	333.6	341.3	316.1
Disposal groups and liabilities held for sale	34	87.2	175.4	6.8
Total Current Liabilities		**1,781.1**	**1,636.8**	**1,465.2**
Non-current Liabilities				
Payables	16	0.3	0.2	0.3
Derivative financial instruments	8	3.6	45.2	57.4
Interest-bearing liabilities	17	2,237.6	2,552.1	2,354.1
Deferred tax liabilities	5	47.7	48.0	54.2
Provisions	18	201.1	235.3	306.1
Total Non-current Liabilities		**2,490.3**	**2,880.8**	**2,772.1**
TOTAL LIABILITIES		**4,271.4**	**4,517.6**	**4,237.3**
NET ASSETS		**3,730.9**	**3,651.2**	**4,371.2**
EQUITY				
Contributed equity	20	2,969.0	3,778.0	3,770.9
Retained earnings	21	778.7	(136.1)	630.6
Reserves	22	(20.8)	6.4	(92.1)
Parent interests		3,726.9	3,648.3	4,309.4
Non-controlling interests		4.0	2.9	61.8
TOTAL EQUITY		**3,730.9**	**3,651.2**	**4,371.2**

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE

	NOTES	CONSOLIDATED 2014 $m	CONSOLIDATED 2013 RESTATED[1] $m
		INFLOWS/(OUTFLOWS)	
Cash flows from operating activities			
Receipts from customers		7,663.7	7,537.6
Payments to suppliers and employees		(6,833.7)	(6,768.4)
Interest received		2.7	2.9
Interest and other finance costs paid		(111.0)	(110.8)
Income taxes paid		(43.0)	(8.3)
Net operating cash flows	24(b)	**678.7**	**653.0**
Cash flows from investing activities			
Purchases of property, plant and equipment		(253.3)	(384.4)
Mine development expenditure		(182.0)	(137.0)
Purchase of finite life intangible assets		–	(0.6)
Proceeds from sale of property, plant and equipment		142.5	52.7
Proceeds from sale of controlled entity, net of cash disposed	34(e)	–	68.8
Proceeds from sale of businesses	34(e)	97.1	–
Proceeds from sale of associate		–	0.8
Net investing cash flows		**(195.7)**	**(399.7)**
Cash flows from financing activities			
Proceeds from borrowings		2,625.4	1,355.1
Repayment of borrowings		(2,783.7)	(1,403.0)
(Loans to)/repayment of loan from related party		(0.2)	0.5
Repayment of principal of finance leases		(1.2)	(1.0)
Dividends paid		(108.6)	(62.5)
Purchase of shares under equity-based compensation plans		(2.1)	–
Net financing cash flows		**(270.4)**	**(110.9)**
Net increase in cash and cash equivalents		212.6	142.4
Cash and cash equivalents at the beginning of the year		438.3	271.7
Effect of exchange rate fluctuations on cash held		(0.4)	24.2
Cash and cash equivalents at the end of the year	24(a)	**650.5**	**438.3**

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						NON-CONTROLLING INTERESTS	TOTAL EQUITY
		CONTRIBUTED EQUITY							
		ISSUED CAPITAL	EMPLOYEE COMPEN-SATION SHARES	TOTAL CONTRIBUTED EQUITY	RETAINED EARNINGS	TOTAL RESERVES	TOTAL PARENT INTERESTS		
CONSOLIDATED	NOTES	$m	$m	$m	$m	$m	$m	$m	$m
At 1 July 2013 as previously reported		3,803.6	(25.6)	3,778.0	(25.7)	(21.7)	3,730.6	2.9	3,733.5
Impact of changes in accounting policies[1]		–	–	–	(110.4)	28.1	(82.3)	–	(82.3)
Restated balance at 1 July 2013		**3,803.6**	**(25.6)**	**3,778.0**	**(136.1)**	**6.4**	**3,648.3**	**2.9**	**3,651.2**
Net profit for the year		–	–	–	205.4	–	205.4	1.2	206.6
Other comprehensive loss		–	–	–	–	(28.8)	(28.8)	(0.1)	(28.9)
Total comprehensive income/(loss) for the year, net of tax		–	–	–	205.4	(28.8)	176.6	1.1	177.7
Transactions with equity holders:									
Share-based payments expense	22(c)	–	–	–	–	12.7	12.7	–	12.7
Dividends paid	23	–	–	–	(122.4)	–	(122.4)	–	(122.4)
Shares issued under dividend reinvestment plan	20	13.8	–	13.8	–	–	13.8	–	13.8
Purchase of shares for equity based compensation	20	–	(2.1)	(2.1)	–	–	(2.1)	–	(2.1)
Share capital reduction	20	(831.8)	–	(831.8)	831.8	–	–	–	–
Shares vested	20, 22(c)	–	11.1	11.1	–	(11.1)	–	–	–
Total transactions with equity holders		(818.0)	9.0	(809.0)	709.4	1.6	(98.0)	–	(98.0)
Balance at 30 June 2014		**2,985.6**	**(16.6)**	**2,969.0**	**778.7**	**(20.8)**	**3,726.9**	**4.0**	**3,730.9**

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

CONSOLIDATED	NOTES	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						NON-CONTROLLING INTERESTS	TOTAL EQUITY
		CONTRIBUTED EQUITY							
		ISSUED CAPITAL	EMPLOYEE COMPEN-SATION SHARES	TOTAL CONTRIBUTED EQUITY	RETAINED EARNINGS	TOTAL RESERVES	TOTAL PARENT INTERESTS		
		$m	$m	$m	$m	$m	$m	$m	$m
At 1 July 2012 as previously reported		3,796.5	(25.6)	3,770.9	734.6	(66.7)	4,438.8	61.8	4,500.6
Impact of changes in accounting policies[1]		–	–	–	(104.0)	(25.4)	(129.4)	–	(129.4)
Restated balance at 1 July 2012		**3,796.5**	**(25.6)**	**3,770.9**	**630.6**	**(92.1)**	**4,309.4**	**61.8**	**4,371.2**
Net (loss)/profit for the year		–	–	–	(694.7)	–	(694.7)	2.1	(692.6)
Impact of changes in accounting policies[1]		–	–	–	(6.4)	–	(6.4)	–	(6.4)
Restated net (loss)/profit for the period		–	–	–	(701.1)	–	(701.1)	2.1	(699.0)
Other comprehensive income, as previously reported		–	–	–	–	39.9	39.9	1.0	40.9
Impact of changes in accounting policies[1]		–	–	–	–	53.5	53.5	–	53.5
Restated other comprehensive income for the period		–	–	–	–	93.4	93.4	1.0	94.4
Restated total comprehensive income/(loss) for the year, net of tax		–	–	–	(701.1)	93.4	(607.7)	3.1	(604.6)
Transactions with equity holders:									
Share-based payments expense	22(c)	–	–	–	–	6.9	6.9	–	6.9
Dividends paid	23	–	–	–	(67.4)	–	(67.4)	(2.2)	(69.6)
Shares issued under dividend reinvestment plan	20	7.1	–	7.1	–	–	7.1	–	7.1
Transfer to retained earnings	20	–	–	–	1.8	(1.8)	–	–	–
Disposal of controlled entities		–	–	–	–	–	–	(59.8)	(59.8)
Total transactions with equity holders		7.1	–	7.1	(65.6)	5.1	(53.4)	(62.0)	(115.4)
Restated balance at 30 June 2013		**3,803.6**	**(25.6)**	**3,778.0**	**(136.1)**	**6.4**	**3,648.3**	**2.9**	**3,651.2**

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report comprises the consolidated entity consisting of Arrium Limited and its controlled entities.

(A) BASIS OF PREPARATION

This financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* (Cth), and applicable Australian Accounting Standards (including Australian Interpretations). The Group is a for profit entity.

The financial report of Arrium Limited for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 19 August 2014.

It is recommended that the financial report be considered together with any public announcements made by Arrium Limited and its controlled entities during the year ended 30 June 2014 in accordance with the continuous disclosure obligations of the *Corporations Act 2001* (Cth).

Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for the following:

- derivative financial instruments that have been measured at fair value;
- assets held for sale – measured at lower of cost and fair value less cost of disposal; and
- retirement benefit obligations – plan assets/liabilities measured at fair value.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Those areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Rounding of amounts

The financial report is prepared in Australian dollars. Amounts in the financial statements have been rounded to the nearest hundred thousand dollars, unless specifically stated to be otherwise under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

(B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Arrium Limited (the parent entity) at balance date and the results of all subsidiaries for the year then ended. Arrium Limited and its subsidiaries together are referred to in this financial report as the Arrium Group, Group or the consolidated entity.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control ceases. All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Balance Sheet respectively.

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Arrium Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in the carrying amount recognised in the Income Statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the Income Statement where appropriate.

If the ownership interest in a joint venture or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the Income Statement where appropriate.

(C) BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the Income Statement as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the Income Statement.

(D) FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Arrium Limited.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency using exchange rates that approximate those prevailing at the dates of the transactions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss in the Income Statement.

Group entities

The results and financial position of all subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- Assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each Income Statement and Statement of Comprehensive Income are translated at average exchange rates
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold and any borrowings forming part of the net investment are repaid, the cumulative amount in the translation reserve related to the foreign operation is recognised in the Income Statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(E) REVENUE RECOGNITION

Revenue is recognised and measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Amounts disclosed as revenue earned from the sale of products or services are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of goods or the service has been delivered and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis using the effective interest method.

(F) INCOME TAXES

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates which are enacted or substantively enacted for each jurisdiction at balance date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences in a transaction, other than a business combination, that at the time of the transaction affects neither accounting profit nor taxable profit and loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity, are also recognised directly in equity.

Tax consolidation legislation

Arrium Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Arrium Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. The Group has applied the stand-alone taxpayer approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

Assets or liabilities arising under tax sharing agreements with the tax consolidated entities are recognised as amounts receivable from or payable to the head entity. Details of the tax sharing agreement are disclosed in Note 5.

Any difference between the amounts assumed and amounts receivable or payable under the tax sharing agreements are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Minerals Resource Rent Tax

Minerals Resource Rent Tax is accounted for as an income tax, as described above, as the calculation of the amount payable falls within the definition of "taxable profit" in accordance with AASB 112.

(G) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, it is recognised as part of the cost of acquisition of the asset, or as part of the expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Balance Sheet.

The GST components of cash flows which are recoverable from, or payable to the taxation authority are classified as part of operating cash flows.

(H) CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within current interest-bearing liabilities on the Balance Sheet.

(I) TRADE AND OTHER RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of doubtful debts provided for is recognised in the Income Statement within operating expenses. When a trade receivable for which an allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Income Statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(J) INVENTORIES

Inventories, including raw materials, work in progress and finished goods, are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. They include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material. Costs are assigned to individual items of inventory on the basis of weighted average cost. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(K) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date. The Group does not have any held to maturity investments or available for sale investments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading, and are classified as such if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the Income Statement. Assets in this category are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Income Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(L) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in joint ventures and associates are accounted for in the consolidated financial statements by applying the equity method of accounting, after initially being recognised at cost. Under the equity method, investments in joint ventures and associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the joint ventures or associate. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in joint ventures or associates.

The Group's share of the joint venture's and associate's post-acquisition profits or losses is recognised in the Income Statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Should the Group's share of losses in a joint venture or associate equal or exceed its interest in the entity, no further losses are recognised, unless it has incurred obligations or made payments on behalf of the entity.

The joint venture and associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(M) IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(N) LEASED ASSETS

Leases of property, plant and equipment where the Group, as lessee, has substantially all of the risks and benefits incidental to ownership of the leased item are classified as finance leases. These are initially recognised at the fair value of the leased asset, or if lower, the present value of the minimum lease payments as determined at the inception of the lease. The corresponding lease obligation, net of finance charges, is included in interest-bearing liabilities. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Income Statement.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Lease incentives are recognised in the Income Statement as an integral part of the total lease expense.

(O) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment assets are carried at cost less any accumulated depreciation and/or impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Income Statement during the reporting period in which they are incurred.

Depreciation of property, plant and equipment

Land is not depreciated. Depreciation on other assets is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Buildings:	20–40 years
Plant and equipment:	3–30 years
Capitalised leased assets:	Up to 30 years or life of lease, whichever is shorter.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the Income Statement.

(P) MINERAL EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

Pre-licence costs

Pre-licence costs relate to costs incurred before the Group has obtained legal rights to explore in a specific area.

Such costs may include the acquisition of exploration data and the associated costs of analysing that data.

These costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the “area of interest” method. Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current and either:

- The exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale, or
- Exploration and evaluation activities in the area of interest have not at the reporting date, reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the Income Statement.

(Q) MINE DEVELOPMENT EXPENDITURE – PRE-PRODUCTION

Pre-production mine development expenditure represents the costs incurred in preparing mines for production, and includes stripping and waste removal costs incurred before production commences (development stripping). These costs are capitalised to the extent they are expected to be recouped through successful exploitation of the related mining leases. Once production commences, these costs are amortised over its useful life using a units of production method.

Impairment

The carrying value of pre-production mine development expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

The recoverable amount of pre-production mine development expenditure is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the Income Statement.

(R) STRIPPING (WASTE REMOVAL) COSTS

As part of mining operations, the Group incurs stripping (waste removal) costs both during the development or pre-production phase and production phase of its operations. Stripping costs incurred in the development phase of a mine, before the production phase commences (development stripping), are capitalised as part of the cost of developing the mine and subsequently amortised over its useful life using a units of production method. The capitalisation of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

Stripping activities undertaken during the production phase of a surface mine (production stripping) are accounted for as set out below. After the commencement of production further development of the mine may require a phase of unusually high stripping that is similar in nature to development phase stripping. The costs of such stripping is accounted for in the same way as development stripping (as outlined above).

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realised in the form of improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a stripping activity asset, if the following criteria are met:

a) Future economic benefits (being improved access to the ore body) are probable
b) The component of the ore body for which access will be improved can be accurately identified
c) The costs associated with the improved access can be reliably measured

If all of the criteria are not met, the production stripping costs are charged to the Income Statement as operating costs as they are incurred.

In identifying components of the ore body, the Group works closely with mining operations personnel to analyse the mine plans. Generally, a component will be a subset of the total ore body, and a mine may have several components. The mine plans, and therefore the identification of components, can vary between mines for a number of reasons. These include, but are not limited to: the type of ore, the geological characteristics of the ore body, the geographical location, and/or financial considerations. Given the nature of the Group’s operations, components are generally either major cutbacks or phases and they generally form part of a larger investment decision which requires board approval. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset.

If the costs of the inventory produced and the stripping activity asset are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the ore body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The Group uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production of each component.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is presented as part of ’Mine Development Expenditure’ in the Balance Sheet. This forms part of the total investment in the relevant cash generating unit, which is reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

The stripping activity asset is subsequently amortised using the units of production method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less amortisation and any impairment losses.

(S) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the identifiable net assets of the acquire as at the date of acquisition. Goodwill on acquisition is included in intangible assets.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units or groups of cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment losses recognised for goodwill are not subsequently reversed.

Gains and losses on the disposal of an operation include the carrying amount of goodwill relating to the operation sold.

System development costs
Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised as system development costs. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project.

System development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Other intangible assets
Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and/or impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash generating unit level consistent with the methodology outlined for goodwill. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed at each reporting period to determine whether indefinite life assessment continues to be supported.

If not, the change in useful life assessment to finite is accounted for prospectively as a change in accounting estimate.

Research and development costs
Research costs are expensed as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and appropriate proportion of overheads. Other development expenditures that do not meet this criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

A summary of the policies applied to the Group's intangible assets is as follows:

	USEFUL LIFE	AMORTISATION METHOD	INTERNALLY GENERATED OR ACQUIRED
Patented technology	Finite	Straight line over estimated useful life (17 years)	Acquired
Brand names and know how	Indefinite Finite	No amortisation Straight line over estimated useful life (2–3 years)	Acquired
Customer and supplier contracts	Finite	Timing of projected cash flows of the contracts over 1 to 15 years	Acquired
System development and other capitalised development costs	Finite	Straight line over estimated useful life (5 years)	Internally generated
Mining tenement rights	Finite	Straight line over estimated useful life (7 years)	Acquired
Exploration rights	Indefinite	No amortisation	Acquired

(T) TRADE AND OTHER PAYABLES

Payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. These amounts are unsecured except as may arise solely by operation of the *Personal Property Securities Act 2009* (Cth).

(U) PROVISIONS

Provisions are recognised when the Group has a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a pre-tax discount rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost in the income statement.

(V) EMPLOYEE BENEFITS

Wages and salaries, annual leave and long service leave
Provision is made for the liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, together with entitlements arising from wages and salaries and annual leave which will be settled after one year, are measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year are measured at the present value of the estimated future cash outflows to be made for those benefits.

Long service leave
The liability for long service leave is recognised in the provision for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match as closely as possible the estimated future cash outflows.

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

Retirement benefit obligations
A liability or asset in respect of the Group's defined benefit plan is recognised in the Balance Sheet as the present value of the defined benefit obligation less the fair value of the plan's assets, and is measured using the projected unit credit method at the reporting date. The present value of the defined benefit obligation is based on expected future payments, which arise from membership of the fund to the reporting date, calculated annually by independent actuaries. Consideration is given to expected future salary levels, experience of employee departures and periods of service.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating the terms of the related obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in reserves in the Statement of Changes in Equity and in the Balance Sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in Income Statement as past service costs.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

Equity-based compensation arrangements

The Arrium Group provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for Arrium Limited ordinary shares or rights to ordinary shares (equity-settled transactions). These instruments are held in trust and are subject to certain performance conditions.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the instruments at the date of the grant.

The fair value is determined by an external valuation using a Monte Carlo Simulation, binomial tree methodology or a Black Scholes pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than those conditions that are linked to the price of the ordinary shares of Arrium Limited (market conditions).

The cost of the equity-settled transactions is recognised together with a corresponding increase in Equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- The extent to which the vesting period has expired, and
- The number of equity instruments that are estimated to ultimately vest, based on the best available information at the reporting date.

This valuation is formed based on the best available information at balance date.

No adjustment is made for the likelihood of market conditions being met, as the effect of these conditions is included in the determination of fair value at grant date.

The dilutive effect, if any, of outstanding options or unvested shares, is reflected as additional share dilution in the computation of diluted earnings per share. Arrium Limited ordinary shares acquired on-market and held in trust are classified and disclosed as Employee Compensation Shares and deducted from equity.

(W) RESTORATION AND REHABILITATION

Restoration costs which are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. The costs include obligations relating to mine/site reclamation, waste site closure, plant closure and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs. In determining the restoration obligations, there is an assumption that no significant changes will occur in the relevant Federal and State legislation in relation to restoration in the future.

The estimated restoration costs for which the entity has a present obligation are discounted to their net present value. To the extent that the activity that creates this obligation relates to the construction of an asset, a corresponding amount is added to the related asset. Otherwise, the amount is recognised in the Income Statement.

Changes in the measurement of the existing provision that result from changes in the estimated timing or amount of cash flows, or a change in the discount rate, are adjusted on a prospective basis against the asset to which the restoration relates. Where the related asset has reached the end of its useful life, all subsequent changes in the provision are recognised in the Income Statement as they occur.

The charge to the Income Statement is a combination of the depreciation of the asset over the estimated mine life and finance cost representing the unwind of the discounting factor.

(X) INTEREST-BEARING LIABILITIES

Borrowings are initially recognised at fair value less any transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost. Any difference between the proceeds (net of the transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current interest-bearing liabilities where there is an obligation to settle the liability within 12 months, and as non-current interest-bearing liabilities where the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(Y) FINANCE COSTS

Finance costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and finance leases and net receipt or payment from interest rate swaps. Finance costs are expensed in the Income Statement, except where they relate to the financing of projects under construction, where they are capitalised up to the date of commissioning or sale.

(Z) CONTRIBUTED EQUITY

Issued capital

Issued and paid-up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received, net of tax.

Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the Arrium shareholders.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Employee compensation shares

Shares in Arrium purchased for equity-based compensation arrangements are held in Trust and deducted from contributed equity employee compensation shares. Upon vesting, the shares are transferred from employee compensation shares into the share-based payment reserve.

Shares issued under the former Share Plan carry voting rights and the beneficial holder is entitled to any dividends paid during the vesting period. There are no voting entitlements attached to the rights held in trust, nor are any dividends paid until such time as the rights vest and the shares are allotted.

(AA) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative qualifies for hedge accounting, and if so, the nature of the item being hedged. The Arrium Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges)
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges)
- Hedges of a net investment in a foreign operation (net investment hedges).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

At the inception of a hedge relationship, the Group formally designates and documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the hedges have been, and will continue to be, highly effective in offsetting changes in the fair values or the cash flows of hedged items throughout the financial reporting periods for which they were designated.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset, liability or firm commitment that are attributable to the hedged risk. The Group discontinues fair value hedge accounting if the hedging instrument expires, or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Income Statement.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity as a hedging reserve. The change in fair value relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are transferred to the Income Statement in the periods when the hedged item affects profit or loss. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, or terminated or exercised without replacement or rollover, any amounts recognised in equity remain in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, amounts recognised in equity are immediately transferred to the Income Statement.

Net investment hedges

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal or liquidation of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the Income Statement.

Derivatives that do not qualify for hedge accounting

Certain derivatives instruments do not qualify for hedge accounting and are classified as held for trading financial instruments. Changes in the fair value of any such derivatives are recognised immediately in the Income Statement.

Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement and for disclosure purposes.

The fair value of derivative financial instruments that are not traded in active markets is determined using valuation techniques. The Arrium Group uses a variety of methods and assumptions that are based on market conditions existing at balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair values of the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at balance date.

(AB) GOVERNMENT GRANTS

Grants from the government are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the Income Statement over the period necessary to match them with the costs they are intended to compensate.

(AC) NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs of disposal, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent writedown of the asset (or disposal group) to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the Balance Sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the Balance Sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the Income Statement.

(AD) CARBON EMISSIONS LIABILITY AND CARBON UNITS

Arrium received free carbon units for facilities which qualify as Emissions Intensive Trade Exposed activities under the Jobs and Competitiveness Program. These are to partially offset both the direct carbon emissions liability under the Australian Government's Clean Energy Legislative Package 2011 and the indirect carbon cost from higher electricity charges. Free carbon units are recognised as an intangible asset at fair value and amortised to the Income Statement over the compliance period to match the additional expense on carbon emissions. Purchases of carbon units are recognised as an intangible asset at cost. Purchased carbon units are used to acquit the emissions liability by offsetting the liability against the intangible asset.

The carbon emissions liability is recognised as a provision on the Balance Sheet based on the best estimate of the expenditure required to settle the obligation. The excess of carbon emissions liability over the carrying amount of available carbon units are measured at fair value. Carbon emissions expense, based on actual production and emissions data, is recognised either as cost of sales in the Income Statement or cost of inventories in the Balance Sheet.

(AE) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended Australian Accounting Standards and AASB Interpretations adopted as at 1 July 2013:

AASB 10 *Consolidated Financial Statements*

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and *UIG-112 Consolidation – Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority of voting rights may give control.

The adoption of this standard did not have an impact on the Group.

AASB 11 *Joint Arrangements*
AASB 11 replaces AASB 131 *Interests in Joint Ventures* and *UIG-113 Jointly-controlled Entities – Non-monetary Contributions by Ventures*.

AASB 11 uses the principle of control in AASB 10 to define joint control. In addition it removes the option to account for jointly controlled entities using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves are accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method.

The adoption of this standard did not have an impact on the Group.

AASB 12 *Disclosure of Interests in Other Entities*
AASB 12 includes all disclosures relating to the Group's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.

The adoption of this standard did not have an impact on the Group.

AASB 13 *Fair value measurement*
AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the Group's assets and liabilities.

AASB 119 *Employee Benefits* (revised)
The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment requires that the liabilities arising from such plans are recognised in full with actuarial gains and losses being recognised in Other Comprehensive Income. The corridor approach is no longer permitted. The standard also revised the method of calculating the return on plan assets.

The revised standard also changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

As required under AASB 119, the change in policy has been applied retrospectively and comparative figures have been restated accordingly. The impact of these adjustments on the individual line items in the financial statements is shown in Note 1 below.

AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009 – 2011 Cycle*
AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle.

The standard addresses a range of improvements, including the clarification of the comparative information requirements (AASB 101 *Presentation of Financial Statements*).

The adoption of this standard has been reflected in the Group's financial report for the year ended 30 June 2014.

Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset".

The stripping activity asset is to be amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method has been applied.

As required under Interpretation 20, the change in policy has been applied retrospectively and comparative figures have been restated accordingly. The impact of these adjustments on the individual line items in the financial statements is shown in Note 1 below.

Impact on financial statements
In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the change have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	PRIOR YEAR RESTATEMENT	
Income statement (extract)	INCREASE/ (DECREASE)	
Year ended 30 June 2013	ADOPTION OF AASB 119 $m	ADOPTION OF IFRIC 20 $m
Cost of sales	–	0.3
Operating expenses	(7.7)	–
Finance costs	(1.6)	–
Profit from continuing operations before income tax	(9.3)	0.3
Income tax expense	2.7	(0.1)
Profit from continuing operations after tax	(6.6)	0.2
Net profit for the period	(6.6)	0.2
Net profit attributable to:		
Equity holders of the parent	(6.6)	0.2

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Statement of comprehensive income (extract)	PRIOR YEAR RESTATEMENT INCREASE/ (DECREASE)	
Year ended 30 June 2013	ADOPTION OF AASB 119 $m	ADOPTION OF IFRIC 20 $m
Net profit for the period	(6.6)	0.2
Items that may not be reclassified subsequently to profit or loss:		
Remeasurement of retirement benefit obligation, net of tax	53.5	–
Other comprehensive income, net of tax	46.9	0.2
Total comprehensive income	46.9	0.2
Total comprehensive income attributable to:		
Equity holder of the parent	46.9	0.2
Non-controlling interests	–	–
	46.9	0.2
Earnings per share attributable to the ordinary equity holders of the parent:		
Basic earnings per share (cents per share)	(0.49)	0.01
Diluted earnings per share (cents per share)	(0.49)	0.01
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent:		
Basic earnings per share (cents per share)	(0.49)	0.01
Diluted earnings per share (cents per share)	(0.49)	0.01

Cash flow statement (extract)	PRIOR YEAR RESTATEMENT INCREASE/ (DECREASE)	
Year ended 30 June 2013	ADOPTION OF AASB 119 $m	ADOPTION OF IFRIC 20 $m
Cash flows from operating activities		
Payments to suppliers and employees	–	62.8
Net operating cash flows	–	62.8
Cash flows from investing activities		
Mine development expenditure	–	(62.8)
Net investing cash flows	–	(62.8)

Balance sheet (extract)	PRIOR YEAR RESTATEMENT INCREASE/ (DECREASE)	
As at 30 June 2013	ADOPTION OF AASB 119 $m	ADOPTION OF IFRIC 20 $m
Inventories	–	(3.1)
Other non-current assets	(19.0)	–
Mine development expenditure	–	(87.3)
Deferred tax assets	4.5	26.2
Total assets	(14.5)	(64.2)
Current tax liabilities	–	(0.9)
Deferred tax liabilities	(2.8)	–
Provisions	7.3	–
Total liabilities	4.5	(0.9)
Retained earnings	(47.1)	(63.3)
Reserves	28.1	–
Total equity	(19.0)	(63.3)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Impact on financial statements continued

Balance Sheet (extract)	PRIOR YEAR RESTATEMENT INCREASE/ (DECREASE)	
As at 1 July 2012	ADOPTION OF AASB 119 $m	ADOPTION OF IFRIC 20 $m
Other non-current assets	(27.7)	–
Mine development expenditure	–	(90.8)
Deferred tax assets	18.6	–
Total assets	(9.1)	(90.8)
Deferred tax liabilities	(8.4)	(27.2)
Provisions	65.1	–
Total liabilities	56.7	(27.2)
Retained earnings	(40.4)	(63.6)
Reserves	(25.4)	–
Total equity	(65.8)	(63.6)

The following tables show the current year impact in accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* as a result of the application of new accounting standards and interpretations.

Income statement (extract)	CURRENT YEAR IMPACT[1] INCREASE/ (DECREASE)
Year ended 30 June 2014	ADOPTION OF AASB 119 $m
Operating expenses	(1.2)
Finance costs	(1.9)
Profit from continuing operations before income tax	(3.1)
Income tax expense	0.9
Profit from continuing operations after tax	(2.2)
Net profit for the period	(2.2)
Net loss attributable to:	
Equity holders of the parent	(10.4)

1. It is not practicable to disclose the impact of IFRIC 20 on the current period due to a fundamental change in the calculation methodology and identification of components of the ore body under the interpretation.

Statement of comprehensive income (extract)	CURRENT YEAR IMPACT[1] INCREASE/ (DECREASE)
Year ended 30 June 2014	ADOPTION OF AASB 119 $m
Items that may not be reclassified subsequently to profit or loss:	
Remeasurement of retirement benefit obligation, net of tax	9.8
Other comprehensive income, net of tax	9.8
Total comprehensive income	9.8
Total comprehensive income attributable to:	
Equity holder of the parent	9.8
Earnings per share attributable to the ordinary equity holders of the parent:	
Basic earnings per share (cents per share)	(0.16)
Diluted earnings per share (cents per share)	(0.16)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent:	
Basic earnings per share (cents per share)	(0.16)
Diluted earnings per share (cents per share)	(0.16)

1. It is not practicable to disclose the impact of IFRIC 20 on the current period due to a fundamental change in the calculation methodology and identification of components of the ore body under the interpretation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Impact on financial statements continued

Balance sheet (extract) As at 30 June 2014	CURRENT YEAR IMPACT[1] INCREASE/ (DECREASE) ADOPTION OF AASB 119 $m
Other non-current assets	14.3
Deferred tax assets	0.9
Total assets	15.2
Deferred tax liabilities	4.3
Provisions	3.3
Total liabilities	7.6
Retained earnings	(2.2)
Reserves	9.8
Total equity	7.6

1. It is not practicable to disclose the impact of IFRIC 20 on the current period due to a fundamental change in the calculation methodology and identification of components of the ore body under the interpretation.

Reclassification
Prior period balance sheet tax balances have been reclassified to reflect offset current and deferred tax assets and liabilities to the extent that they relate to income taxes levied by the same tax authority on the same taxable entity. For the year ended 30 June 2013, this reclassification had the impact of decreasing deferred tax asset by $370.1m, decreasing deferred tax liabilities by $349.1m, increasing current tax asset by $6.0m and decreasing current tax liability by $15.0m. As at 1 July 2012, this reclassification had the impact of decreasing deferred tax asset by $230.2m, decreasing deferred tax liabilities by $230.2m, increasing current tax asset by $7.2m and increasing current tax liability by $7.2m.

(AF) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning after 30 June 2014, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group with the exception of the below:

AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (applicable to annual reporting periods beginning on or after 1 January 2014)*
AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The impact of the amendments to the standard on the Group's financial statements has not yet been determined.

AASB 9 *Financial Instruments (applicable to annual reporting periods beginning on or after 1 January 2017)*
AASB 9 includes requirements for the classification and measurement of financial assets.

It was further amended by AASB 2010–7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.

(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in the Income Statement and there is no recycling on disposal of the instrument.
(c) Financial assets can be designated and measured at fair value through the Income Statement at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
(d) Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:
   – The change attributable to changes in credit risk is presented in Other Comprehensive Income
   – The remaining change is presented in the Income Statement.

If this approach creates or enlarges an accounting mismatch in the Income Statement, the effect of the changes in credit risk are also presented in Income Statement. The impact of the new standard on the Group's financial statements has not yet been determined.

AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets (applicable to annual reporting periods beginning on or after 1 January 2014)*
AASB 2013-3 amends the disclosures required by AASB 136 *Impairment of Assets* to remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment, to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed and to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed. The amendments to the standard is not expected to have any significant impact to the Group's financial statements.

IFRS 15 *Revenue from contracts with customers*
The application of IFRS 15 *Revenue from contracts with customers* will become mandatory for the Group's consolidated financial statements in 2018. The impact of the new standard on the Group's financial statements has not yet been determined.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses based on historical experience and on other various factors it believes to be reasonable under the circumstances. Actual results may differ from the judgements, estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

SIGNIFICANT ACCOUNTING JUDGEMENTS

Impairment of non-financial assets other than goodwill and intangibles with indefinite useful lives

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset or cash generating unit (CGU) that may lead to impairment. These include business performance, technology, economic and political environments and future business expectations. If an impairment indicator exists, the recoverable amount of the asset is determined. Given the current uncertain economic environment, management considered that the indicators of impairment were significant enough, and as such, these assets have been tested for impairment in this financial period.

Refer to Note 14 for impairment recognised in the current financial year. Based on the recoverable amount estimates, the carrying value of the Group's non-financial assets and groups of assets continues to be supported.

Taxation

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Balance Sheet and the application of income tax legislation. These judgements are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of tax assets and liabilities recognised on the Balance Sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Income Statement.

Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences (including those relating to MRRT), are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired on at least an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated using a value in use discounted cash flow methodology. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are detailed in Note 14.

Provision for restoration and rehabilitation

Restoration and rehabilitation costs are a normal consequence of the Group's operations. The provisions include future cost estimates associated with dismantling, closure and decontamination of various sites. The calculation of the provisions require assumptions such as application of environmental legislation, site closure dates, available technologies and consultant cost estimates.

The ultimate cost of restoration and rehabilitation is uncertain and costs can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other sites. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the site. Changes to the estimated future costs for sites are recognised in the Balance Sheet by adjusting both the expense or asset (if applicable) and provision. The assumptions used in the estimation of restoration and rehabilitation provisions are detailed in Note 18.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date of grant. The fair value is determined by an external valuer using a Monte-Carlo Simulation, binomial tree methodology or a Black Scholes pricing model, using the assumptions detailed in Note 29.

Non-market vesting conditions are not included in the fair value of the equity settled instruments. Instead, at each reporting date the Group adjusts the number of equity instrument with non-market vesting conditions based on the number of equity instruments that are expected to vest.

The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Defined benefit plans

Various actuarial assumptions are required when determining the Group's pension schemes and other post-employment benefit obligations. AASB 119 *Employee Benefits* requires employee benefit provisions and defined benefit plan liabilities to be determined by discounting future cash flows using discount rates determined with reference to market yields at the end of the reporting period on a blend of Commonwealth and state government bonds.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties.

In addition, the condition of the assets is assessed at least annually and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Ore reserve and resource estimates

Mineral Resources are estimates of mineralisation that has reasonable prospects for economical extraction in the future as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mineral Resource estimates are based largely on geological information. There is no guarantee that all Mineral Resources will convert to Ore Reserves. Ore Reserves are derived from the Group's Mineral Resources as defined under the JORC Code. They are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties and represent the economically minable part of the Group's Measured and Indicated Mineral Resources. The Group estimates its Ore Reserves based on information compiled by its Competent Person as defined by the JORC Code. The estimation of Ore Reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body.

Arrium's annual statement of Ore Reserves and Mineral Resources is based on information compiled by or under the supervision of Paul Leevers. Mr Leevers is a Member of The Australasian Institute of Mining and Metallurgy and is a full-time employee of OneSteel Manufacturing Pty Ltd. Mr Leevers has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which being undertaken to qualify as a Competent Person as defined in the JORC Code. Mr Leevers consents to the inclusion in that statement of the matters based on his information in the form and context in which it appears.

Changes in the Ore Reserve or Mineral Resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property plant and equipment, provision for rehabilitation and depreciation and amortisation charges.

Australian Government's carbon pricing mechanism

The Australian Government's carbon pricing mechanism commenced on 1 July 2012. It has impacted the cash flows of the Group in the financial year ended 30 June 2014. Arrium's carbon emission liability is estimated based on actual production and emission data. The carbon emissions liability at year end is reduced by any carbon units surrendered to the Clean Energy Regulator during the year to acquit the emissions liability.

In July 2014, the Carbon Tax and Steel Transformation Plan legislation was repealed with an effective date of 1 July 2014. There will be a residual impact on the cash flows of the Group in the financial year ended 30 June 2015 from the settlement of obligations in relation to the 2013/2014 compliance period. The receivable associated with the Steel Transformation Plan has been written off incurring an expense of $26.5m.

The Group has incorporated the expected residual impact of the carbon pricing mechanism in its impairment testing as at 30 June 2014.

Minerals Resource Rent Tax

The Minerals Resource Rent Tax (MRRT) applies to iron ore and coal extraction activities from 1 July 2012. The MRRT applies to Arrium's iron ore mining operations both to the export sales and the ore used in the Steelworks. MRRT deferred tax assets arise in respect of these activities and are required to be measured over the relevant life of the mine. Arrium produces a five-year plan and has had to extend that in order to measure the impact of the MRRT over the life of the mine. Estimates and assumptions for the life of the mine are subject to potentially significant change. As the deferred tax asset in respect of MRRT is subject to assessment for recoverability each reporting period, the deferred tax asset recognised is subject to change.

3. SEGMENT INFORMATION

2014	MINING[1] $m	MINING CONSUMABLES[1] $m	STEEL[1] $m	RECYCLING[1] $m	TOTAL SEGMENTS $m
Segment revenues					
Sales to external customers	1,537.0	1,459.9	2,715.7	849.4	6,562.0
Intersegment revenue	–	64.8	89.5	279.7	434.0
Other revenue/income from external customers	31.6	13.4	70.0	3.1	118.1
Total segment income	1,568.6	1,538.1	2,875.2	1,132.2	7,114.1
Unallocated					
Discontinued operations[10]					566.7
Other revenue/income[2]					2.7
Intersegment eliminations[3]					(551.4)
Consolidated income					7,132.1
Segment share of profit/(loss) of investments accounted for using the equity method	–	1.7	–	–	1.7
Unallocated					(1.0)
Consolidated share of profit of equity accounted investments					0.7
Segment earnings before interest, tax, depreciation, amortisation and impairment	685.9	187.1	50.8	12.1	935.9
Depreciation, amortisation and impairment	(204.6)	(47.3)	(103.6)	(10.8)	(366.3)
Segment earnings/(loss) before interest and tax	481.3	139.8	(52.8)	1.3	569.6
Restructuring costs[4]					(51.0)
Impairment[5]					(13.2)
Steel Transformation Plan[6]					(26.5)
Other costs					(5.6)
Finance costs					(117.5)
Unallocated					
Discontinued operations[10]					(12.1)
Other[7]					(59.8)
Intersegment eliminations[3]					(0.9)
Consolidated profit before tax[8]					283.0
Tax expense					(76.4)
Consolidated profit after tax					206.6
Segment assets	2,161.8	2,430.0	2,109.7	393.9	7,095.4
Investments accounted for using the equity method	–	8.6	–	–	8.6
Unallocated					
Tax assets					114.8
Cash and cash equivalents					650.5
Discontinued operations[10]					135.2
Other assets					65.2
Intersegment eliminations[3]					(67.4)
Consolidated assets					8,002.3
Segment liabilities	517.1	414.2	565.6	97.0	1,593.9
Unallocated					
Tax liabilities					61.2
Interest-bearing liabilities					2,358.2
Discontinued operations[10]					87.7
Other liabilities					234.2
Intersegment eliminations[3]					(63.8)
Consolidated liabilities					4,271.4
Other segment information					
Capital expenditure	294.5	70.6	60.5	4.8	430.4
Unallocated capital expenditure					4.9
Consolidated capital expenditure					435.3

3. SEGMENT INFORMATION CONTINUED

2013 Restated[9]	MINING[1] $m	MINING CONSUMABLES[1] $m	STEEL[1] $m	RECYCLING[1] $m	TOTAL SEGMENTS $m
Segment revenues					
Sales to external customers	973.0	1,469.8	2,814.6	827.5	6,084.9
Intersegment revenue	0.1	78.2	108.5	333.2	520.0
Other revenue/income from external customers	3.8	18.7	50.5	4.6	77.6
Total segment income	976.9	1,566.7	2,973.6	1,165.3	6,682.5
Unallocated					
Discontinued operations[10]					905.0
Other revenue/income[2]					14.9
Intersegment eliminations[3]					(647.5)
Consolidated income					6,954.9
Segment share of (loss)/profit of investments accounted for using the equity method	–	(0.6)	–	(0.5)	(1.1)
Unallocated[2]					0.2
Consolidated share of loss of equity accounted investments					(0.9)
Segment earnings before interest, tax, depreciation, amortisation and impairment	367.8	195.3	64.0	(3.4)	623.7
Depreciation, amortisation and impairment	(118.9)	(44.6)	(108.4)	(12.2)	(284.1)
Segment earnings/(loss) before interest and tax	248.9	150.7	(44.4)	(15.6)	339.6
Restructuring costs[4]					(93.8)
Impairment[5]					(930.7)
Other costs					0.7
Finance costs					(119.7)
Unallocated					
Discontinued operations[10]					11.2
Other[7]					(44.0)
Intersegment eliminations[3]					1.9
Consolidated (loss) before tax[8]					(834.8)
Tax benefit					135.8
Consolidated (loss) after tax					(699.0)
Segment assets	2,068.7	2,453.4	2,287.6	400.2	7,209.9
Investments accounted for using the equity method	–	7.1	–	–	7.1
Unallocated					
Tax assets					153.2
Cash and cash equivalents					438.3
Discontinued operations[10]					342.6
Other assets					72.7
Intersegment eliminations[3]					(55.0)
Consolidated assets					8,168.8
Segment liabilities	500.6	400.3	569.9	99.2	1,570.0
Unallocated					
Tax liabilities					55.9
Interest-bearing liabilities					2,553.2
Discontinued operations[10]					183.7
Other liabilities					207.2
Intersegment eliminations[3]					(52.4)
Consolidated liabilities					4,517.6
Other segment information					
Capital expenditure	397.8	49.6	57.8	7.6	512.8
Unallocated capital expenditure					9.2
Consolidated capital expenditure					522.0

1. Segment results are equivalent to the underlying results of each segment and are comprised of continuing operations only. The results of discontinued operations form part of unallocated.
2. Other income unallocated includes foreign exchange losses reported within net foreign exchange gains in other income at the consolidated group.
3. Intersegment eliminations include eliminations between the reportable segments and discontinued operations.
4. Restructuring costs related to redundancies from organisation changes and other direct expenditures associated with restructuring comprising Mining $0.9m, Mining Consumables $22.5m, Steel $22.2m and Recycling $2.3m. The remaining balance is unallocated. In 2013, restructuring costs related to Recycling $14.5m and Steel $23.5m with the remaining balance unallocated.
5. Impairment of property, plant and equipment in Mining Consumables $0.5m, Steel $6.6m and Recycling $1.6m. The remaining balance is unallocated. In 2013, impairment of $202.0m related to Steel and $38.4m related to Recycling with the remaining balance unallocated.
6. Relates to the write-off of oustanding grant receivable under the *Steel Transformation Plan Act 2011* in Steel segment due to the repeal of the carbon tax from 1 July 2014 under the Clean Energy Legislation (Carbon Tax Repeal) Act 2014
7. Includes corporate costs, share based payment expense for the vesting of rights under the Performance Rights Plan and other provisions and costs.
8. Consolidated profit/(loss) before tax includes a loss of $129.7m (2013: loss of $831.7m) relating to discontinued operations.
9. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1. The 2013 comparatives have also been restated to include the results of ATM, Merchandising and Recycling US as discontinued operations and classified as unallocated.
10. Before intersegment eliminations.

3. SEGMENT INFORMATION CONTINUED

IDENTIFICATION OF REPORTABLE SEGMENTS

The Group has identified its operating segments based on internal reporting that is reviewed and used by the MD&CEO and the executive management team in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of the products provided, with each operating segment representing a strategic business unit that offers different products and serves different markets.

The reportable segments are based on operating segments including those that meet the aggregation criteria as determined by the similarity of the products produced and sold as these are the sources of the Group's major risks and have the most effect on the rates of return.

Mining

The Mining segment's operations are located in South Australia; the Middleback Ranges, approximately 60 kilometres from the Whyalla township, and Southern Iron, which includes the Peculiar Knob tenement, located approximately 90 kilometres from the Coober Pedy township. The Mining segment exports hematite iron ore to external customers and supplies both pelletised magnetite iron ore and some hematite lump iron ore to Arrium's integrated steelworks at Whyalla.

Mining Consumables

The Mining Consumables segment comprises the Moly-Cop grinding media businesses, Moly-Cop Ropes, Waratah Steel Mill and AltaSteel, with businesses located across North America, South America, Indonesia and Australia.

The Mining Consumables segment supplies resource companies with a range of key mining consumables, including grinding media, wire ropes and rail wheels.

Steel

The Steel segment manufactures billet at its integrated steelworks in Whyalla and two electric arc furnaces. The manufacturing operations also include several rolling and wire mills. The Whyalla steelworks produces common and special grade billet as feedstock for the downstream Rod and Bar mills as well as producing rail and structural steel products for sale to external customers. Billets produced from Whyalla Steelworks and the Sydney and Laverton electric arc furnaces are rolled into a wide range of long products for sale or further processing.

The Steel segment also distributes a diverse range of manufactured and externally sourced steel and metal products including structural steel sections, steel plate, angles, channels, reinforcing steel and carbon products to the construction, manufacturing and resource markets.

Recycling

The Recycling segment supplies steelmaking raw materials to domestic and international steel mills, as well as non-ferrous metals for recycling. The Recycling segment operates in 8 countries through a combination of physical operations in the form of collection sites and trading offices that supply raw materials to foundries, smelters and steel mills in Australia and globally.

Intra/intersegment transfers

The Mining segment supplies pelletised and lump iron ore to the Steel segment. The Recycling segment sells raw materials to the Steel and Mining Consumables segment.

All sales between segments are conducted on an arm's length basis, with terms and conditions no more favourable than those which it is reasonable to expect when dealing with an external party, except for the transfer of iron ore from the Mining segment to the Steel segment which occurs at cost.

Unallocated

Investments accounted for using the equity method, cash and cash equivalents, current and deferred taxes, borrowings, derivative financial instruments and certain financial assets and liabilities are not allocated to the segments as they are managed on a group basis.

The results and balances of held for sale assets and discontinued operations have been classified as unallocated.

MAJOR CUSTOMERS

The Group has a number of customers to which it provides products. No single external customer generates 10% or more of the Group's revenue.

GEOGRAPHIC INFORMATION

In presenting information on the basis of geographical area, revenue is based on the operation's country of domicile. Non-current assets other than financial instruments and deferred tax assets are based on the geographic location of assets. The information below includes discontinued operations.

2014	AUSTRALIA $m	OTHER COUNTRIES $m
Revenues from external customers		
Sales to external customers	5,386.9	1,619.7
Other revenue/income from external customers	112.0	13.5
Total income	5,498.9	1,633.2
Non-current assets	3,496.3	1,721.1

2013 Restated[1]	AUSTRALIA $m	OTHER COUNTRIES $m
Revenues from external customers		
Sales to external customers	5,205.9	1,635.1
Other revenue/income from external customers	73.2	26.9
Total income	5,279.1	1,662.0
Non-current assets	3,485.9	1,775.5

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

4. INCOME STATEMENT ITEMS

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $m
(A) SALES REVENUE		
Product sales	6,555.9	6,078.7
Rendering of services	6.1	6.2
Total sales revenue	6,562.0	6,084.9
(B) OTHER REVENUE		
Interest received from unrelated parties	2.7	2.8
Rental revenue	3.1	2.6
Other revenue[2]	33.7	50.6
Total other revenue	39.5	56.0
TOTAL REVENUE	6,601.5	6,140.9
(C) OTHER INCOME		
Net gains on disposal of property, plant and equipment	46.4	21.7
Other income	19.9	–
Net fair value gains[3]	6.2	14.8
Total other income	72.5	36.5
TOTAL INCOME	6,674.0	6,177.4

1. In accordance with AASB108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.
2. Includes amounts attributable to Steel Transformation Plan.
3. Comprised of:

Net fair value gains on financial liabilities designated in fair value hedges	6.6	5.1
Net fair value losses on derivatives designated in fair value hedges	(5.9)	(0.9)
Net fair value gains on derivatives not qualifying as hedges	11.1	15.7
Net losses on financial liabilities measured at amortised cost	(5.6)	(5.1)
	6.2	14.8

	2014 $m	2013 RESTATED[1] $m
(D) OPERATING EXPENSES		
Manufacturing and mining expenses	164.9	145.6
Distribution expenses	89.9	88.5
Marketing expenses	116.0	113.1
Administrative expenses	463.0	698.5
Total operating expenses	833.8	1,045.7
(E) FINANCE COSTS		
Interest expense related to:		
Bank loans	113.1	119.9
Finance leases	0.9	0.9
Net interest cost on defined benefit plans	1.9	1.6
Unwind of discount rates	1.6	2.2
	117.5	124.6
Less: Borrowing costs capitalised[4]	–	(5.6)
Total finance costs	117.5	119.0

4. The weighted average interest rate applied was nil (2013: 2.86%).

4. INCOME STATEMENT ITEMS CONTINUED

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $m
(F) PROFIT BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC EXPENSES:		
Continuing operations:		
Depreciation of property, plant and equipment:		
Buildings	18.5	15.6
Plant and equipment	205.0	182.6
Leased assets	1.4	1.4
Amortisation of mine development expenditure	94.7	71.4
Amortisation of finite-life intangible assets	47.9	28.9
Impairment of property, plant and equipment[2]	8.7	26.0
Impairment of goodwill and other intangible assets	–	219.4
Writedown of inventory to net realisable value	1.1	8.1
Minimum operating lease rentals	92.1	85.7
Restructuring costs[3]	48.7	46.6
Research and development costs[4]	167.7	124.5
Discontinued operations:		
Depreciation of property, plant and equipment:		
Buildings	–	2.6
Plant and equipment	–	14.1
Amortisation of finite-life intangible assets	–	0.1
Impairment of property, plant and equipment[2]	4.4	81.1
Impairment of goodwill and other intangible assets[2]	–	603.6
(Reversal)/Writedown of inventory to net realisable value	(0.4)	19.4
Minimum operating lease rentals	3.7	18.0
Restructuring costs[3]	2.4	28.0
Research and development costs[4]	–	–
(G) EMPLOYEE BENEFITS EXPENSE		
Included in employee benefits expense are the following items:		
Continuing operations:		
Defined contribution company contributions	45.7	50.2
Defined benefit plan expense (Note 19)	17.4	23.8
Employee provisions[5]	167.7	153.4
Share-based payments expense	12.7	6.9
Discontinued operations:		
Employee provisions	0.5	23.7

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.
2. Impairment relating to the Recycling and Steel businesses.
3. Restructuring costs related to redundancies from organisational changes and other direct expenditure associated with business restructures such as onerous leases.
4. Research and development costs largely consists of process and product improvement projects undertaken on the production line as part of the continuous drive for manufacturing efficiency and product advancement. Arrium undertakes many such projects.
5. Includes redundancies as part of restructuring activities.

5. INCOME TAX

	CONSOLIDATED 2014 $m	2013 RESTATED[1] $m
(A) INCOME STATEMENT		
Current income tax charge	46.4	31.3
Over/(under) provided in prior years	1.6	(41.3)
Deferred tax benefit relating to the origination and reversal of temporary differences	28.4	(125.8)
Income tax loss/(benefit) recognised in the Income Statement	76.4	(135.8)
(B) RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE		
Profit/(loss) before tax from continuing operations	412.7	(3.1)
Loss before tax from discontinued operations	(129.7)	(831.7)
Total profit/(loss) before income tax	283.0	(834.8)
Prima facie income tax expense/(benefit) calculated at 30% (2013: 30%)	84.9	(250.4)
Research and development allowance	(16.8)	(12.5)
Income tax impact of MRRT taxation expense	(9.8)	24.7
Differences in overseas tax rates	(7.5)	(3.9)
Non-deductible impairment	0.7	244.1
Capital gains non-taxable	(17.2)	(8.5)
Adjustments in respect of income tax of previous years[2]	1.6	(39.0)
Foreign currency translation differences	3.6	(3.7)
Other items[2]	4.3	(4.3)
Income tax expense/(benefit) recognised in the income statement	43.8	(53.5)
MRRT-related deferred taxation expense/(benefit)	32.6	(82.3)
Total taxation expense/(benefit)	76.4	(135.8)
Aggregate income tax expense/(benefit) is attributable to:		
Continuing operations	124.9	(67.2)
Discontinued operations	(48.5)	(68.6)
	76.4	(135.8)

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.
2. Primarily attributable to Research and Development claims not previously recognised together with finalisation of prior period amendments from 2008-2011.

5. INCOME TAX CONTINUED

(C) MOVEMENT IN DEFERRED TAX BALANCES DURING THE YEAR

$m	BALANCE AT 1 JULY 2012 RESTATED[1]	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN OTHER COMPREHENSIVE INCOME	RECOGNISED DIRECTLY IN EQUITY	BALANCE AT 30 JUNE 2013 RESTATED[1]	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN OTHER COMPREHENSIVE INCOME	RECOGNISED DIRECTLY IN EQUITY	BALANCE AT 30 JUNE 2014
Deferred tax assets/(liabilities)									
Employee benefit provisions (including retirement benefit obligations)	97.3	0.1	–	–	97.4	(8.3)	–	–	89.1
Other provisions	39.2	7.1	–	–	46.3	1.5	–	–	47.8
Inventory provisions	(13.0)	(0.4)	–	–	(13.4)	(4.7)	–	–	(18.1)
Derivative financial instruments and interest bearing liabilities	12.4	(3.5)	43.3	–	52.2	(15.9)	(31.9)	–	4.5
Net unrealised foreign exchange gains/losses	3.7	(3.0)	–	–	0.7	(0.2)	–	–	0.5
MRRT starting base	50.6	82.3	–	–	132.9	(32.6)	–	–	100.3
Tax losses and offsets available against future taxable income	–	127.4	–	–	127.4	81.5	–	–	208.9
Share-based payments	(0.5)	–	–	1.0	0.5	4.9	–	–	5.4
Property, plant and equipment and intangibles	(235.5)	(19.0)	–	–	(254.5)	(25.2)	–	–	(279.7)
Other assets	(16.2)	(17.4)	–	–	(33.6)	(22.4)	–	–	(56.0)
Research and development feedstock adjustment	–	(17.8)	–	–	(17.8)	10.2	–	–	(7.6)
MRRT income tax impact	(15.2)	(24.7)	–	–	(39.9)	9.8	–	–	(30.1)
Other items	16.4	17.0	–	–	33.4	(26.8)	–	–	6.5
	(60.8)	148.1	43.3	1.0	131.6	(28.2)	(31.9)	–	71.5

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

5. INCOME TAX CONTINUED

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $m
Deferred tax balances are reflected in the balance sheet as follows:		
Deferred tax assets		
Continuing operations	99.7	147.2
Disposal groups and assets held for sale	19.7	35.1
	119.4	182.3
Deferred tax liabilities		
Continuing operations	47.7	48.0
Disposal groups and assets held for sale	0.2	2.7
	47.9	50.7
Net deferred tax assets	**71.5**	**131.6**
(D) TAX MOVEMENTS RELATING TO ITEMS OF OTHER COMPREHENSIVE INCOME		
Deferred tax related to items charged or credited directly to other comprehensive income during the year		
Cash flow hedges:		
– net gains deferred to equity	2.4	0.6
– transferred to profit and loss	(3.1)	(2.9)
– transferred to initial carrying amount of hedged items	–	2.3
Currency translation differences:		
– net investment hedges	(31.2)	43.3
Income tax charged directly to other comprehensive income	(31.9)	43.3

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

(E) TAX EFFECT ACCOUNTING BY MEMBERS OF THE TAX CONSOLIDATED GROUP

The head entity Arrium Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Arrium Group has applied the stand-alone taxpayer approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) assumed from controlled entities in the tax consolidated group.

The amounts receivable or payable under the tax sharing agreement are due upon receipt of the funding advice from the head entity which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

(F) UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of estimated capital losses amounting to $76.9 million (2013: $43.0 million). Deferred tax assets have not been recognised in respect of MRRT amounting to $365.8 million tax-effected (2013: $408.4 million).

Capital tax losses are subject to continuity of ownership tests and MRRT unrecognised deferred tax assets are subject to future taxable mining profits. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit or future mining profit will be available against which the consolidated entity can utilise the benefits.

(G) MINERALS RESOURCE RENT TAX

On 29 March 2012, the Minerals Resource Rent Tax Bill 2011, Minerals Resource Rent Tax (Consequential Amendments and Transitional Provisions) Bill 2011, Minerals Resource Rent Tax (Imposition-General) Bill 2011, Minerals Resource Rent Tax (Imposition-Customs) Bill 2011 and Minerals Resource Rent Tax (Imposition–Excise) Bill 2011 which collectively implemented the Federal Government's Minerals Resource Rent Tax was enacted.

The Minerals Resource Rent Tax (MRRT) applies from 1 July 2012 and seeks to tax coal and iron ore extraction activities in Australia. As a result of the MRRT, Arrium has recognised deferred tax assets of $100.3 million (2013: $132.9 million), deferred tax liabilities of $30.1 million (2013: $39.9 million) and a corresponding net decrease in income tax expense of $22.8 million (2013: $57.6 million) for the year ended 30 June 2014.

6. EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for shares held by the Company's sponsored employee share plan trust. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for shares held by the Company's sponsored employee share plan trust, for the effects of all dilutive potential ordinary shares which comprise restricted shares granted to employees.

The following reflects the earnings and share data used in the calculation of basic and diluted earnings per share:

(A) EARNINGS

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $m
Profit/(loss) attributable to equity holders of the parent	205.4	(701.1)
Add: Adjustment for employee compensation shares	(0.5)	2.1
Earnings/(loss) used in calculating basic and diluted earnings per share attributable to equity holders of the parent	204.9	(699.0)
Net profit for the period attributable to continuing operations	287.8	64.1
Less: Non-controlling interests	(1.2)	(0.7)
Profit from continuing operations attributable to equity holders of the parent	286.6	63.4
Less: Adjustment for employee compensation shares	(0.7)	(0.2)
Earnings used in calculating basic and diluted earnings per share from continuing operations attributable to equity holders of the parent	285.9	63.2

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

(B) NUMBER OF ORDINARY SHARES

	2014 NUMBER OF SHARES	2013 NUMBER OF SHARES
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,355,737,533	1,344,284,948
Dilutive effect of executive share rights and restricted stock	16,673,523	–
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	1,372,411,056	1,344,284,948

Issues after 30 June 2014

There have been no other subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of the financial report.

(C) EARNINGS PER SHARE

	CONSOLIDATED	
	2014 CENTS/ SHARE	2013 CENTS/ SHARE
Earnings/(loss) per share attributable to the ordinary equity holders of the parent:		
Basic earnings/(loss) per share	15.11	(52.00)
Diluted earnings/(loss) per share	14.93	(52.00)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent:		
Basic earnings per share	21.09	4.70
Diluted earnings per share	20.83	4.69

7. RECEIVABLES

	CONSOLIDATED 2014 $m	2013 $m
Current		
Trade receivables[1]	574.2	625.9
Provision for doubtful debts	(3.1)	(3.1)
	571.1	622.8
Other receivables	56.3	98.1
	627.4	720.9
Non-current		
Other receivables	–	13.2
	–	13.2

1. $5.1 million (2013: $7.1 million) of the trade receivables balance relates to Metalcard debtors in the Steel segment whereby interest is charged on the outstanding balance at an average interest rate throughout the year of 11.51% (2013: 11.93%).

Trade receivables (excluding Metalcard receivables within the Steel segment) are non-interest bearing and are generally on 30 to 60 day terms.

(A) PROVISION FOR DOUBTFUL DEBTS

A provision for doubtful debt is recognised when there is objective evidence that an individual trade receivable is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation or default or delinquency in payments are considered indicators that the trade receivable is impaired.

Movements in the provision for doubtful debts during the year were as follows:

	CONSOLIDATED 2014 $m	2013 $m
Carrying amount at the beginning of the year	(3.1)	(6.5)
Disposal groups and assets held for sale	–	2.4
Additional amounts provided	(4.2)	(2.5)
Utilised	3.6	2.5
Reversal of unutilised amounts	0.6	1.2
Net foreign currency differences on translation of foreign operations	–	(0.2)
Carrying amount at the end of the year	(3.1)	(3.1)

When a trade receivable for which a provision has been recognised becomes uncollectable the sum is written off against the provision. The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

The total value of impaired receivables at 30 June 2014 is $3.1 million (2013: $3.1 million). These receivables are all greater than 30 days overdue and have been fully provided for.

(B) PAST DUE BUT NOT IMPAIRED

At balance date, receivables of $42.2 million (2013: $36.6 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The aging analysis of these receivables are as follows:

	CONSOLIDATED 2014 $m	2013 $m
1 to 30 days	29.7	26.6
31 to 60 days	3.8	3.8
61 to 90 days	7.5	3.1
Over 90 days	1.2	3.1
	42.2	36.6

(C) CREDIT RISK

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. For some trade receivables the Group may also obtain security in the form of guarantees, deeds of undertaking or letter of credit which can be called upon if the counterparty is in default under the terms of the agreements.

(D) FOREIGN EXCHANGE AND INTEREST RATE RISK

The Group's exposure to foreign exchange and interest rate risk related to trade and other receivables is disclosed in Note 32.

8. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED	
	2014 $m	2013 $m
Current assets		
Forward contracts – cash flow hedges	2.0	–
Forward contracts – held for trading	3.8	10.7
Forward contracts – net investment hedges	0.2	–
Option contracts – cash flow hedges	1.9	0.5
Option contracts – held for trading	–	0.1
Interest rate swap contracts – fair value hedges	0.1	–
	8.0	11.3
Non-current assets		
Forward contracts – held for trading	2.9	–
Interest rate swap contracts – fair value hedges	16.6	20.3
Cross-currency interest rate swap contracts – held for trading	–	2.9
	19.5	23.2
Current liabilities		
Forward contracts – cash flow hedges	0.5	0.5
Forward contracts – held for trading	5.8	9.2
Forward contracts – net investment hedges	0.7	–
Option contracts – cash flow hedges	0.1	2.5
Interest rate swap contracts – cash flow hedges	1.3	0.8
Cross-currency interest rate swap contracts – fair value hedges	31.8	–
Cross-currency interest rate swap contracts – cash flow hedges	11.0	–
	51.2	13.0
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	3.6	7.1
Cross-currency interest rate swap contracts – fair value hedges	–	27.7
Cross-currency interest rate swap contracts – cash flow hedges	–	10.4
	3.6	45.2

INSTRUMENTS USED BY THE GROUP

The Group is party to derivative financial instruments in the normal course of business in order to manage exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to Note 32).

(a) Interest rate swap contracts – cash flow hedges

It is the Group's policy to hedge part of its variable interest rate loans from exposure to fluctuations in interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. Australian dollar-denominated bank loans of the Group currently bear an average variable interest rate of 4.65% (2013: 5.14%).

Swaps in place cover 41% (2013: 43%) of the variable AUD loan principal outstanding and are timed to expire between one and two years. This is managed on a portfolio basis and assumes that debt facilities are renewed. During the year, the fixed interest rates ranged between 3.10% and 3.92% (2013: 3.10% and 7.51%) and the variable rates settings between 2.57% and 2.71% (2013: 2.95% and 3.53%) compared with three-month BBSW which at balance date was 2.71% (2013: 2.82%).

The Group has USD denominated bank loans that currently bear an average variable interest rate of 2.13% (2013: 2.58%). Swaps in place cover 27% (2013: 31%) of the variable USD loan principal outstanding and are timed to expire between one and four years. This is managed on a portfolio basis and assumes that debt facilities are renewed. During the year, the fixed interest rates ranged between 0.93% and 1.74% (2013: 0.93% and 1.74%) and the variable rates ranged between 0.23% and 0.27% (2013: 0.28% and 0.46%) compared with three-month LIBOR which at balance date was 0.23% (2013: 0.27%).

The Group also has Canadian dollar denominated bank loans that currently bear an average interest rate of 2.91% (2013: 3.17%). Swaps in place cover 36% (2013: 31%) of the variable Canadian loan principal outstanding and are timed to expire between one and two years. This is managed on a portfolio basis and assumes that debt facilities are renewed. During the year, the fixed interest rate ranged between 1.3% and 2.59% (2013: 2.59%) and the variable rate ranged between 1.24% and 1.28% (2013: 1.28% and 1.30%) compared with three-month Canadian Dollar Offered Rate (CDOR) which at balance date was 1.27% (2013: 1.28%).

The contracts require settlement of net interest receivable or payable at 90-day intervals. The contracts are settled on a net basis where master netting agreements are in place. The majority of the settlement dates coincide with the dates on which interest is payable on the underlying debt.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the cash flow hedge reserve to the extent that the hedge is effective.

It is reclassified into the Income Statement when the hedged interest expense is recognised. Any ineffective portion is recognised in the Income Statement immediately. There was no material hedge ineffectiveness recognised in the Income Statement in the current or prior year.

(b) Interest rate swap contracts – fair value hedges

At 30 June 2014, the Group had a series of interest rate swaps in place with a notional amount of USD230 million (2013: USD230 million) whereby it receives an average fixed interest rate of 3.48% semi-annually (2013: 3.48%) in USD and pays a floating rate of interest equal to USD LIBOR amount quarterly.

Swaps currently in place cover 100% (2013: 100%) of USD230 million US Private Placement debt. The swaps are being used to protect the value of USD denominated debt against changes in fair value due to changes in the benchmark interest rate. During the year, the fixed interest rates ranged between 3.00% and 3.89% (2013: 3.00% and 3.89%) and the variable rates between 0.22% and 0.27% (2013: 0.28% and 0.46%) compared with the three-month LIBOR which at balance date was 0.23% (2013: 0.27%). Interest payments on the debt are made semi-annually.

8. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

(c) Cross-currency interest rate swap contracts – fair value hedges

At balance date, the Group had a series of cross-currency interest rate swaps in place with a notional amount of USD60 million (2013: USD60 million) whereby it receives a fixed interest rate of 5.5% semi-annually (2013: 5.5%) and pays a floating rate of interest equal to BBSW in AUD on the notional amount quarterly.

Swaps currently in place cover 100% (2013: 100%) of the loan principal outstanding. The swaps are being used to hedge the exposure to changes in the fair value of its US Private Placement, which was raised in April 2003 (a twelve year tranche of USD60 million expiring in April 2015). The fixed interest rate was 5.54% (2013: 5.54%) and the variable rate was between 3.96% and 4.12% (2013: 4.42% and 4.89%) compared with the three-month BBSW which at balance date was 2.71% (2013: 2.82%). Interest payments on the debt are made semi-annually.

The expiration of the cross-currency interest rate swaps is matched to the expiry of the underlying debt.

(d) Cross-currency interest rate swaps – cash flow hedges

At balance date, the Group had a cross-currency interest rate swap in place with a notional amount of USD20 million (2013: USD20 million) whereby it receives an average fixed interest rate of 5.98% (2013: 5.98%) in USD on the notional amount semi-annually and pays an average fixed interest rate of 7.27% (2013: 7.27%) in AUD on the notional amount semi-annually.

The swap currently in place covers 100% of the designated loan principal outstanding (2013: 100%) and is timed to expire as each loan repayment falls due. The swap is being used to hedge the exposure to fluctuations in cash flow due to fluctuations to the AUD/USD spot exchange rate on USD denominated senior notes. During the year, the fixed interest rate paid was 7.27% (2013: 7.21% and 7.27%) and the fixed rate received was 5.98% (2013: 5.98% and 5.79%). Interest payments on the debt are made semi-annually.

The contract requires settlement of interest receivable or payable at 180-day intervals. The contract is settled on a net basis where master netting agreements are in place. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the cash flow hedge reserve, to the extent that the hedge is effective, and reclassified into the Income Statement when the hedged interest expense is recognised. The ineffective portion is recognised in the Income Statement immediately. There was no material hedge ineffectiveness recognised in the Income Statement in the current or prior year.

The expiration of the cross-currency interest rate swaps is matched to the expiry of the underlying debt.

(e) Forward contracts – cash flow hedges

The Group is exposed to foreign exchange and commodity risk through primary financial assets and liabilities and anticipated future transactions modified through derivative financial instruments such as foreign exchange and commodity forward contracts.

The Group has a series of forward contracts to hedge highly probable forecast or committed purchases and sales. The contracts are timed to mature when payments for the purchases or receipts from the sales are scheduled to be made.

The portion of the gain or loss on the forward contract that is determined to be an effective hedge is recognised directly in equity in the cash flow hedge reserve. Amounts accumulated in equity are transferred to the Income Statement in the periods when the hedged item affects profit or loss such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. There was no material hedge ineffectiveness recognised in the Income Statement in the current or prior year.

At balance date, the details of outstanding contracts are:

	CONSOLIDATED					
	2014			2013		
	AVERAGE EXCHANGE RATE	BUY $m	SELL $m	AVERAGE EXCHANGE RATE	BUY $m	SELL $m
Currency						
United States Dollar						
Up to 3 months	0.89	–	2.1	0.95	–	13.3
3 months to 12 months	0.87	–	8.7	0.98	–	1.6
12 months to 2 years	0.86	–	4.4	–	–	–
		–	15.2		–	14.9
Canadian Dollar						
Up to 3 months	0.99	0.3	–	–	–	–
3 months to 12 months	0.99	0.6	–	–	–	–
		0.9	–		–	–

(f) Option contracts – cash flow hedges

At balance date the Group had a series of foreign currency collars being a combination of written put options and purchased call options with a notional amount of USD60 million (2013: USD76 million).

The options are being used to hedge the foreign currency translation risk associated with highly probable sales of iron ore and scrap denominated in USD against fluctuations in the AUD / USD exchange rate. Changes in the intrinsic value of the options are deferred in equity in the cash flow hedge reserve. Changes in the fair value of the option other than intrinsic value are recognised in the Income Statement as they occur. There was no hedge ineffectiveness recognised in the Income Statement in the current year.

(g) Forward contracts, option contracts and cross-currency interest rate swap contracts – held for trading

The Group enters into forward exchange and cross-currency interest rate swap contracts which are economic hedges but do not satisfy the requirements for hedge accounting. These contracts are accounted for as held for trading financial instruments and are subject to the same risk management policies as all other derivative contracts (refer to Note 32).

(h) Forward contracts – net investment hedges

Included in derivative financial instruments at balance date are forward exchange contracts of USD 20 million (2013: nil) and CAD 43 million (2013: nil) which have been designated as a hedge of the net investment in USD and CAD denominated operations of the Group.

There has been no hedge ineffectiveness recognized in the Income Statement on this hedge.

8. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

MASTER NETTING OR SIMILAR ARRANGEMENT

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting arrangements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The following table sets out the carrying amounts of recognised financial instruments that are subject to above agreement:

	CONSOLIDATED		
2014	GROSS AND NET AMOUNTS OF FINANCIAL INSTRUMENTS IN THE STATEMENT OF FINANCIAL POSITION $m	AMOUNTS SUBJECT TO MASTER NETTING ARRANGEMENT $m	NET AMOUNT $m
Financial Asset	27.5	(24.8)	2.7
Financial Liability	(54.8)	24.8	(30.0)
	(27.3)	–	(27.3)

	CONSOLIDATED		
2013	GROSS AND NET AMOUNTS OF FINANCIAL INSTRUMENTS IN THE STATEMENT OF FINANCIAL POSITION $m	AMOUNTS SUBJECT TO MASTER NETTING ARRANGEMENT $m	NET AMOUNT $m
Financial Asset	34.5	(32.6)	1.9
Financial Liability	(58.2)	32.6	(25.6)
	(23.7)	–	(23.7)

9. INVENTORIES

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $m
Raw materials		
At cost	255.3	232.5
At net realisable value	13.9	14.4
	269.2	246.9
Work in progress		
At cost	409.0	428.4
At net realisable value	1.3	0.5
	410.3	428.9
Finished goods		
At cost	362.8	423.9
At net realisable value	53.5	50.2
	416.3	474.1
Stores, spares and other		
At cost	133.3	124.4
At net realisable value	5.4	3.5
	138.7	127.9
Total inventories		
At cost	1,160.4	1,209.2
At net realisable value	74.1	68.6
	1,234.5	1,277.8

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

10. OTHER FINANCIAL ASSETS

	CONSOLIDATED	
	2014 $m	2013 $m
Current		
Loan to joint venture	–	0.8
	–	0.8
Non-current		
Loan to joint venture	1.0	–
	1.0	–

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	CONSOLIDATED	
	2014 $m	2013 $m
Investment in joint ventures[1]	13.3	12.8
	13.3	12.8

1. Arrium Limited has a 50% ownership interest and voting power in BOSFA Pty Ltd (2013: 50%) and GenAlta Recycling Inc (2013: 50%). BOSFA Pty Ltd is a company incorporated in Australia involved in the distribution of steel wire products with a balance date of 31 December. GenAlta Recycling Inc is a company incorporated in Canada involved in the recycling and sale of Scrap Metals and has a balance date of 31 December.

There were no impairment losses relating to investments accounted for using the equity method. There were no commitments or contingencies.

The following information illustrates summarised financial information relating to the Group's investments accounted for using the equity method:

	CONSOLIDATED	
	2014 $m	2013 $m
Share of joint venture and associate's[1] income, expenses and results		
Income	26.0	28.3
Expenses	(24.8)	(30.2)
Net profit/(loss) before income tax	1.2	(1.9)
Income tax (expense)/benefit	(0.5)	1.0
Net profit/(loss) after income tax	0.7	(0.9)
Share of joint venture's assets and liabilities		
Current assets	10.1	9.5
Non-current assets	9.1	10.1
Current liabilities	(3.5)	(4.6)
Non-current liabilities	(2.4)	(2.2)
Net assets	13.3	12.8

1. Includes share of income, expenses and results of Suntech Metals Company from 1 July 2012 to 10 April 2013. The Group disposed of its 20% interest and voting power in Suntech Metals Company on 10 April 2013. Suntech Metals Company is a company incorporated in Thailand involved in the collection and sale of non-ferrous scrap metal.

12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED				
	LAND $m	BUILDINGS $m	PLANT AND EQUIPMENT $m	LEASED ASSETS $m	TOTAL $m
Year ended 30 June 2014					
Net carrying amount at the beginning of the year	149.8	298.8	2,226.8	12.0	2,687.4
Additions	3.3	8.8	250.7	–	262.8
Disposals	(13.1)	(10.8)	(2.3)	–	(26.2)
Disposal groups and assets held for sale	(3.0)	(0.6)	2.8	–	(0.8)
Transfers and other movements	–	38.2	(41.5)	–	(3.3)
Impairment loss	(2.4)	(2.5)	(3.8)	–	(8.7)
Depreciation	–	(18.5)	(205.0)	(1.4)	(224.9)
Net foreign currency differences on translation of foreign operations	(0.7)	(2.4)	(11.0)	–	(14.1)
Net carrying amount at the end of the year	133.9	311.0	2,216.7	10.6	2,672.2
At 30 June 2014					
Cost	135.8	481.1	3,759.3	14.1	4,390.3
Accumulated depreciation and impairment	(1.9)	(170.1)	(1,542.6)	(3.5)	(1,718.1)
Net carrying amount	133.9	311.0	2,216.7	10.6	2,672.2

	CONSOLIDATED				
	LAND $m	BUILDINGS $m	PLANT AND EQUIPMENT $m	LEASED ASSETS $m	TOTAL $m
Year ended 30 June 2013					
Net carrying amount at the beginning of the year	188.5	362.7	2,190.0	13.4	2,754.6
Additions	1.9	11.9	333.5	–	347.3
Disposals	(18.1)	(29.6)	(26.0)	–	(73.7)
Disposal groups and assets held for sale	(16.5)	(45.7)	(36.8)	–	(99.0)
Transfers and other movements	0.8	21.4	3.5	–	25.7
Impairment loss	(6.4)	(13.7)	(87.0)	–	(107.1)
Depreciation	–	(18.2)	(196.7)	(1.4)	(216.3)
Net foreign currency differences on translation of foreign operations	(0.4)	10.0	46.3	–	55.9
Net carrying amount at the end of the year	149.8	298.8	2,226.8	12.0	2,687.4
At 30 June 2013					
Cost	149.8	453.2	3,586.8	14.1	4,203.9
Accumulated depreciation and impairment	–	(154.4)	(1,360.0)	(2.1)	(1,516.5)
Net carrying amount	149.8	298.8	2,226.8	12.0	2,687.4

13. MINE DEVELOPMENT EXPENDITURE

	CONSOLIDATED		
	STRIPPING ACTIVITY ASSET $m	PRE-PRODUCTION EXPENDITURE $m	TOTAL $m
Year ended 30 June 2014			
Restated net carrying amount at the beginning of the year	114.0	291.3	405.3
Additions	120.4	105.9	226.3
Amortisation	(45.9)	(48.8)	(94.7)
Transfers and other movement	–	5.3	5.3
Net foreign currency differences on translation of foreign operations	(1.5)	(1.3)	(2.8)
Net carrying amount at the end of the year	187.0	352.4	539.4
At 30 June 2014			
Cost	297.9	456.9	754.8
Accumulated depreciation and impairment	(110.9)	(104.5)	(215.4)
Net carrying amount	187.0	352.4	539.4
Year ended 30 June 2013 (Restated[1])			
Net carrying amount at the beginning of the year, as previously reported	141.3	176.6	317.9
Impact of changes in accounting policy[1]	(90.8)	–	(90.8)
Restated balance at 1 July 2013	50.5	176.6	227.1
Additions[1]	106.1	74.2	180.3
Amortisation	(42.6)	(28.8)	(71.4)
Other movement	–	58.2	58.2
Net foreign currency differences on translation of foreign operations	–	11.1	11.1
Net carrying amount at the end of the year	114.0	291.3	405.3
At 30 June 2013			
Cost	179.0	348.9	527.9
Accumulated depreciation and impairment	(65.0)	(57.6)	(122.6)
Net carrying amount	114.0	291.3	405.3

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

14. OTHER INTANGIBLES AND GOODWILL

	CONSOLIDATED									
	GOODWILL $m	SYSTEM DEVELOPMENT COSTS $m	CUSTOMER RELATION-SHIPS $m	SUPPLIER CONTRACTS $m	KNOW-HOW $m	BRAND NAMES $m	PATENTS $m	MINING TENEMENT RIGHTS $m	EXPLORATION RIGHTS $m	TOTAL $m
Year ended 30 June 2014										
Net carrying amount at the beginning of the year	1,639.3	1.6	70.1	2.2	3.3	49.9	–	251.0	17.7	2,035.1
Additions	–	2.4	–	–	–	–	–	–	–	2.4
Amortisation	–	(0.7)	(5.6)	–	(3.1)	–	–	(38.5)	–	(47.9)
Transfers and other movement	–	–	(0.8)	0.8	–	–	–	–	–	–
Net foreign currency differences on translation of foreign operations	(20.1)	–	(1.2)	–	0.1	(1.0)	–	(3.0)	(0.3)	(25.5)
Net carrying amount at the end of the year	1,619.2	3.3	62.5	3.0	0.3	48.9	–	209.5	17.4	1,964.1
At 30 June 2014										
Cost	1,786.9	75.9	89.9	14.1	18.4	96.4	–	262.7	17.4	2,361.7
Accumulated amortisation and impairment	(167.7)	(72.6)	(27.4)	(11.1)	(18.1)	(47.5)	–	(53.2)	–	(397.6)
Net carrying amount	1,619.2	3.3	62.5	3.0	0.3	48.9	–	209.5	17.4	1,964.1
Year ended 30 June 2013										
Net carrying amount at the beginning of the year	2,351.3	5.0	69.5	10.6	8.6	114.0	0.1	246.6	16.3	2,822.0
Acquisitions through business combinations	0.2	–	–	–	–	–	–	–	–	0.2
Additions	–	0.6	–	–	0.1	0.2	–	–	–	0.9
Disposals	(31.6)	–	–	–	–	–	–	–	–	(31.6)
Amortisation	–	(2.9)	(5.0)	(1.1)	(5.6)	–	(0.1)	(14.2)	–	(28.9)
Impairment	(747.1)	(1.2)	–	(7.0)	–	(67.7)	–	–	–	(823.0)
Net foreign currency differences on translation of foreign operations	66.5	0.1	5.6	(0.3)	0.2	3.4	–	18.6	1.4	95.5
Net carrying amount at the end of the year	1,639.3	1.6	70.1	2.2	3.3	49.9	–	251.0	17.7	2,035.1
At 30 June 2013										
Cost	1,807.0	76.8	95.8	14.5	18.7	104.4	–	266.9	17.7	2,401.8
Accumulated amortisation and impairment	(167.7)	(75.2)	(25.7)	(12.3)	(15.4)	(54.5)	–	(15.9)	–	(366.7)
Net carrying amount	1,639.3	1.6	70.1	2.2	3.3	49.9	–	251.0	17.7	2,035.1

14. OTHER INTANGIBLES AND GOODWILL CONTINUED

DESCRIPTION OF THE GROUP'S INTANGIBLE ASSETS

Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis and whenever there is an indication of impairment.

In 2013, the carrying amounts of goodwill in the Steel and Recycling segments were impaired to their recoverable amounts by $579.1 million and $168.0 million respectively. This loss is included in "Operating Expenses" in the Income Statement. There were no further goodwill impairments during the financial year.

System development costs

System development costs are carried at cost less accumulated amortisation and impairment losses. These have been assessed as having a finite life and are amortised on a straight-line basis. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Customer relationships, supplier contracts, know-how, patents and finite life brand names

These intangibles have been acquired through business combinations and are carried at cost less accumulated amortisation and impairment losses. These intangible assets have been determined to have finite lives. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Indefinite life brand names

Included in Brand Names are indefinite life brand names with a carrying amount of $48.9 million as at 30 June 2014 (2013: $49.9 million). These brand names are core to the continuing operations of the Group and accordingly have been assessed as having an indefinite useful life as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. Indefinite life brand names are carried at cost less accumulated impairment losses. These assets are subject to impairment testing on an annual basis and whenever there is an indication of impairment.

In 2013, the carrying amount of all indefinite life brand names within the Steel segment were fully impaired by $43.5 million to their estimated recoverable amount of nil. This loss is included in "Operating Expenses" in the Income Statement.

Mining tenement rights

Mining tenement rights have been acquired through business combinations and are carried at cost less accumulated amortisation and impairment losses. These intangible assets have been determined to have finite useful lives. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Exploration rights

Exploration rights acquired through business combinations are carried at cost less any accumulated impairment losses. These intangible assets are not amortised but are subject to impairment testing on an annual basis or whenever there is an indicator of impairment.

IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE USEFUL LIVES

(a) Carrying amount of goodwill and intangibles with indefinite useful lives allocated to each of the cash generating units (CGUs)

For the purpose of impairment testing, goodwill and/or indefinite life intangibles have been allocated to the Group's CGUs/groups of CGUs which represent the lowest level within the Group at which they are monitored for internal management purposes.

The aggregate carrying value of goodwill and indefinite life intangibles according to the CGUs are as follows:

	CONSOLIDATED		
2014	GOODWILL $m	INDEFINITE LIFE INTANGIBLES $m	TOTAL $m
Mining	–	17.4	17.4
Mining Consumables	1,251.6	48.2	1,299.8
Steel	190.9	–	190.9
Recycling	176.7	–	176.7
Unallocated	–	0.7	0.7
	1,619.2	66.3	1,685.5

	CONSOLIDATED		
2013	GOODWILL $m	INDEFINITE LIFE INTANGIBLES $m	TOTAL $m
Mining	–	17.7	17.7
Mining Consumables	1,271.7	49.2	1,320.9
Steel	190.9	–	190.9
Recycling	176.7	–	176.7
Unallocated	–	0.7	0.7
	1,639.3	67.6	1,706.9

14. OTHER INTANGIBLES AND GOODWILL CONTINUED

(b) Key assumptions used in value in use calculations

The recoverable amount of the CGUs/groups of CGUs to which goodwill and/or indefinite life intangibles have been allocated has been determined based on a value in use calculation using the cash flow projections based on the five-year forecast approved by the Board. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

	DISCOUNT RATE		TERMINAL GROWTH RATE	
CGU/GROUP OF CGUS	2014 %	2013 %	2014 %	2013 %
Mining	15.8	15.7	N/A	N/A
Mining Consumables	12.6	11.9	3.0	3.0
Steel	11.6	11.4	2.5	2.5
Recycling	12.1	11.6	2.5	2.5

The calculation of value in use is most sensitive to the following assumptions:

- Discount rates
- Gross margins
- Raw materials price inflation
- Market conditions
- Growth rate used to extrapolate cash flows beyond the forecast period.

Discount rates – discount rates reflect management's estimate of the time value of money and the risks specific to each CGU/group of CGUs that are not already reflected in the cash flows. In determining appropriate discount rates for each CGU, regard has been given to a weighted average cost of capital of the entity as a whole and adjusted for country and business risk specific to the CGU. These discount rates have been subject to review by an independent third party. The Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

Gross margins – the basis used to determine the value assigned to the margins in the CGUs are the actual margins achieved, adjusted for efficiency improvement as well as movements in input costs and international steel prices in line with external sources of information.

Raw materials price inflation – values assigned to this key assumption are consistent with external sources of information except for Arrium owned mines, where the value assigned is in line with mining contracts and other cost escalators such as oil.

Market conditions – assumptions on key domestic market segment activity including construction, mining, agriculture and manufacturing are consistent with external sources of information. Assumptions including GDP, CPI and wages escalation are consistent with external sources of information. Long-term forecast AUD/USD, CAD and IDR exchange rates are used which are consistent with external sources of information.

Terminal growth rate estimates – are based on estimates having regard to factors impacting the relevant CGU/groups of CGUs including long term forecasts from published industry research. They do not exceed the growth rate of the markets or country to which the CGUs/group of CGUs are dedicated.

(c) Sensitivity to changes in assumptions

Steel

For the Long Products CGU which is part of the Steel segment, actual recoverable amount based on the value in use calculation exceeds its carrying amount. Management recognises that the cash flow projections, discount and growth rates used to calculate the value in use may vary to what they have estimated. Management notes the value in use estimate is particularly sensitive in the following areas:

- An increase by 1% in the discount rate used will result in an impairment loss of $114.0 million.
- A fall in the terminal growth rate to 1% will result in an impairment loss of $128.0 million.

Mining Consumables

For the Mining Consumables CGU, actual recoverable amount based on the value in use calculation exceeds its carrying amount. Management recognises that the cash flow projections, discount and growth rates used to calculate value in use may vary to what they have estimated. Management notes the value in use estimate is particularly sensitive in the following areas:

- An increase by 1% in the discount rate used will result in an impairment loss of $84.0 million.
- A fall in the terminal growth rate to 1% will result in an impairment loss of $203.0 million.

15. OTHER ASSETS

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $m
Current		
Other assets	10.1	7.2
	10.1	7.2
Non-current		
Defined benefit and other assets	22.6	13.7
	22.6	13.7

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

16. PAYABLES

	CONSOLIDATED 2014 $m	2013 $m
Current		
Trade and other payables	1,175.0	1,098.1
	1,175.0	1,098.1
Non-current		
Other payables	0.3	0.2
	0.3	0.2

Trade payables are non-interest bearing and are generally settled on 30 to 60 day terms. Other payables are non-interest bearing and include liabilities in respect of trade financing within the normal operating cycle of the business.

FOREIGN EXCHANGE RISK

The Group's exposure to foreign exchange risk related to trade and other payables is disclosed in Note 32.

17. INTEREST-BEARING LIABILITIES

	CONSOLIDATED 2014 $m	2013 $m
Current		
Finance lease (Note 25)	1.3	1.1
Unsecured		
US Private Placement – at fair value[2]	66.3	–
US Private Placement – at amortised cost[3]	53.0	–
	120.6	1.1
Non-current		
Finance lease (Note 25)	10.5	11.6
Unsecured		
Bank loans[1]	1,787.0	1,966.8
US Private Placement – at fair value[2]	–	69.1
US Private Placement – at amortised cost[4,5]	440.1	504.6
	2,237.6	2,552.1

1. Included in bank loans are USD1.0 billion and CAD187 million of debt designated as a hedge of the Group's net investments in its US and Canadian denominated operations. Gains/losses on the translation of the debt are recorded in equity offsetting losses/gains on the translation of the net investments in subsidiaries to the Group presentation currency AUD. During the year, net gains of $4.5 million (2013: net losses of $73.2 million) on the translation of the designated debt were recorded in equity. There was no ineffectiveness recognised in the Income Statement in the current or prior year.
2. Included in this balance is USD60 million of USPP notes at 5.55% maturing in April 2015. This has been hedged using a series of cross-currency interest rate swaps and accounted for as a fair value hedge – refer to Notes 8 and 32.
3. Included in this balance are USPP notes comprising USD30 million at 6.08% maturing July 2014 and USD20 million at 6.08% maturing in June 2015. Of the balance at 30 June, USD20 million (2013: USD20 million) has been hedged using a cross-currency interest rate swap accounted for as a cash flow hedge – refer to Notes 8 and 32. The remaining USD30 million has been designated as a hedge of the Group's net investments in its US denominated operations. Gains/losses on the translation of the debt are recorded in equity offsetting losses/gains on the translation of the net investments to the Group's presentation currency AUD. During the year, net unrealised gains of $0.4 million (2013: $1.7 million) on the translation of the designated debt were recorded in equity. There was no ineffectiveness recognised in the Income Statement in the current or prior year.

   The USD30 million USPP notes is designated in a fair value hedge for changes in LIBOR. The carrying amount has been adjusted for the change in fair value in relation to this hedged risk, which amounts to nil.
4. Included in this balance is USD200 million USPP notes issued in July 2008. This comprises USD50 million at 7.0% maturing in July 2015, USD97 million at 7.3% maturing July 2018 and USD53 million at 7.4% maturing July 2020. The 2008 USPP notes is designated in a fair value hedge for changes in LIBOR. The carrying amount has been adjusted for the change in fair value in relation to this hedged risk, which amounts to $16.6 million.
5. Included in this balance is USD200 million USPP notes debt issued in June 2011. This comprises USD50 million at 4.95% maturing in June 2018, USD125 million at 5.61% maturing June 2021 and USD25 million at 5.71% maturing in June 2023. This debt has been designated as a hedge of the Group's net investments in its US denominated operations. Gains/losses on the translation of the debt are recorded in equity offsetting losses/gains on the translation of the net investments to the Group's presentation currency AUD. During the year, net losses of $2.4 million (2013: $11.6 million) on the translation of the designated debt were recorded in equity. There was no ineffectiveness recognised in the Income Statement in the current or prior year.

RISK EXPOSURES

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 32.

18. PROVISIONS

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $m
Current		
Employee benefits (Note 29)	246.1	255.9
Restoration and rehabilitation	10.9	14.2
Legal and customer claims	5.6	8.6
Restructuring	44.3	32.1
Carbon unit liability	26.7	30.5
	333.6	341.3
Non-current		
Employee benefits (Note 29)	36.0	39.5
Defined benefit liability (Note 19)	37.9	41.7
Restoration and rehabilitation	122.7	151.2
Legal and customer claims	1.8	1.2
Restructuring	2.7	1.7
	201.1	235.3

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

	CONSOLIDATED				
2014	LEGAL AND CUSTOMER CLAIMS $m	RESTORATION AND REHABILITATION $m	RE-STRUCTURING $m	CARBON UNIT LIABILITY $m	TOTAL $m
Movements in carrying amounts					
Carrying amount at the beginning of the year	9.8	165.4	33.8	30.5	239.5
Additional amounts provided	10.9	7.6	50.7	62.7	131.9
Reversal of unutilised amounts	(2.2)	(18.1)	(6.3)	–	(26.6)
Utilised	(11.2)	(21.1)	(31.3)	(66.5)	(130.1)
Net foreign currency differences on translation of foreign operations	0.1	(1.3)	0.1	–	(1.1)
Unwinding of discount to present value	–	1.1	–	–	1.1
Carrying amount at the end of the year	7.4	133.6	47.0	26.7	214.7

PROVISION FOR RESTORATION AND REHABILITATION
Provision for restoration and rehabilitation comprise obligations relating to reclamation, site closure and other costs.

PROVISION FOR LEGAL AND CUSTOMER CLAIMS
Provision for legal and customer claims relates to estimates of settlement of legal claims with regulators, customers and others for alleged liability and/or legal costs associated with such claims.

PROVISION FOR RESTRUCTURING
Provision for restructuring is comprised of obligations relating to redundancies from organisational changes and other direct expenditure associated with business restructures.

PROVISION FOR CARBON UNIT LIABILITY
Provision for carbon unit liability relates to obligations to pay for carbon emissions based on actual emissions and consumption data.

19. RETIREMENT BENEFIT OBLIGATIONS

The Arrium Group participates in a number of defined benefit and accumulation plans in Australia and Canada. The funds provide benefits either on a defined benefit or cash accumulation basis, for employees on retirement, resignation, disablement, or to their dependants on death.

ACCUMULATION PLANS
The benefits provided by accumulation funds are based on contributions and income thereon held by the fund on behalf of the member. Contributions are made by the member and the Company based on a percentage of the member's salary, as specified by the fund rules. These contributions are expensed in the period in which they are incurred. Contributions by the Group of 9.25% of employees' wages and salaries are legally enforceable in Australia for year ended 30 June 2014.

19. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

DEFINED BENEFIT PENSION PLANS

Australia

The Group has two superannuation plans in Australia, one of which has defined benefit sections and defined contribution sections. The benefits provided by the defined benefit sections of the plan are based on the length of service of the member and the salary of the member at or near retirement. Member contributions, based on a percentage of salary, are specified by the fund rules. The defined benefit sections have been closed to new members since February 2011.

Employer contributions are made each month to the fund in accordance with the advice of the actuary to the fund, at levels deemed to be adequate to fund benefit payments in accordance with the fund's Trust Deed. These contributions are expensed in the period in which they are incurred.

Canada

The pension plans are defined benefit plans funded by employer contributions made in accordance with the most recent actuarial valuations for funding purposes.

The Group also operates a number of plans in Canada, which provide employees with post-employment benefits in respect of medical costs. Contributions are made on a pay-as-you-go basis as benefits are paid.

These defined benefit plans expose the Group to certain risks, such as interest rate risk, market (investment) risk, salary risk and some longevity risk.

BALANCE SHEET AMOUNTS

The amounts recognised in the balance sheet and the movements in the net defined benefit obligation over the year are as follows:

	CONSOLIDATED					
	PRESENT VALUE OF OBLIGATIONS	FAIR VALUE OF PLAN ASSETS	NET AMOUNT	PRESENT VALUE OF OBLIGATIONS	FAIR VALUE OF PLAN ASSETS	NET AMOUNT
	2014			2013 RESTATED[1]		
	$m	$m	$m	$m	$m	$m
Year ended 30 June 2014						
Balance at the beginning of the year	(506.2)	477.9	(28.3)	(525.5)	411.6	(113.9)
Included in income statement						
Current service cost	(15.8)	–	(15.8)	(19.7)	–	(19.7)
Interest (expense)/income	(20.4)	18.8	(1.6)	(17.4)	13.3	(4.1)
	(36.2)	**18.8**	**(17.4)**	**(37.1)**	**13.3**	**(23.8)**
Included in OCI						
Remeasurements (losses)/gains:						
Actuarial (losses)/gains arising from:						
– financial assumptions	(13.5)	–	(13.5)	33.3	–	33.3
– demographic assumptions	(7.2)	–	(7.2)	1.2	–	1.2
– experience adjustment	(7.6)	–	(7.6)	(4.5)	–	(4.5)
Return on plan assets excluding interest income	–	44.3	44.3	–	46.3	46.3
Changes in asset ceiling/onerous liability excluding interest income	–	(1.7)	(1.7)	–	–	–
	(28.3)	**42.6**	**14.3**	**30.0**	**46.3**	**76.3**
Other						
Contributions:						
– plan participants	(2.7)	0.4	(2.3)	(3.0)	0.6	(2.4)
– employer	–	18.0	18.0	–	37.6	37.6
Benefits paid	71.1	(71.1)	–	40.6	(40.6)	–
Administrative expenses paid from plan assets	–	(0.3)	(0.3)	–	–	–
Net foreign exchange differences	6.0	(5.4)	0.6	(11.2)	9.1	(2.1)
	74.4	**(58.4)**	**16.0**	**26.4**	**6.7**	**33.1**
Balance at the end of the year	**(496.3)**	**480.9**	**(15.4)**	**(506.2)**	**477.9**	**(28.3)**

REPRESENTED BY:	2014 $m	2013 RESTATED[1] $m
Net defined benefit asset/(liability):		
Defined benefit Australia	22.3	13.4
Defined benefit Canada	0.2	(7.2)
Post-employment medical benefits – Canada	(37.9)	(34.5)
	(15.4)	**(28.3)**

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

The Group has no legal obligation to settle any defined benefit liability with an immediate contribution or additional one-off contributions.

19. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

CATEGORIES OF PLAN ASSETS

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	DEFINED BENEFIT PENSION PLANS			
	AUSTRALIA	CANADA	AUSTRALIA	CANADA
	2014		2013	
	%	%	%	%
Equity instruments:				
– Australian	28	–	28	–
– Canadian	–	27	–	32
– International	27	31	28	32
– Emerging markets and absolute returns	2	–	2	–
Bonds:				
– Australia	7	–	11	–
– Canadian	–	41	–	34
– International	15	–	13	–
– Emerging markets and absolute returns	5	–	4	–
Cash	6	1	5	2
Other alternatives	10	–	9	–

Equity and bonds represent the majority of the Plan assets. Almost all of them are quoted in an active market.

The Australian Plan's asset manager currently does not employ any Asset-Liability Matching analysis on the Plan's investment strategy. The Canadian Plan's Asset-Liability strategy includes a 30% benchmark allocation to long-term bonds, which closely match the Plan's liabilities.

SIGNIFICANT ESTIMATES: ACTUARIAL ASSUMPTIONS AND SENSITIVITY

The principal actuarial assumptions used in determining defined benefit obligations for the Group's defined benefit plans are shown below:

	DEFINED BENEFIT PENSION PLANS		POST-EMPLOYMENT MEDICAL BENEFITS	DEFINED BENEFIT PENSION PLANS		POST-EMPLOYMENT MEDICAL BENEFITS
	2014			2013		
PRINCIPAL ACTUARIAL ASSUMPTIONS	AUSTRALIA %	CANADA %	CANADA %	AUSTRALIA %	CANADA %	CANADA %
Discount rate[1]	3.5	4.1	4.3	4.1	4.6	4.6
Future salary increases	3.0	3.3	3.1	3.5	3.3	3.1
Immediate healthcare cost trend rate	N/A	N/A	6.8	N/A	N/A	6.9
Ultimate healthcare cost trend rate	N/A	N/A	4.5	N/A	N/A	4.5

1. The discount rate for Australian defined benefit funds was determined based on a blend of Commonwealth and State government bonds.

SENSITIVITY TO TREND ASSUMPTIONS

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	DEFINED BENEFIT PENSION PLANS				POST-EMPLOYMENT MEDICAL BENEFITS	
	AUSTRALIA		CANADA		CANADA	
	INCREASE	(DECREASE)	INCREASE	(DECREASE)	INCREASE	(DECREASE)
2014	$m	$m	$m	$m	$m	$m
Discount rate (1% movement)	(11.3)	13.2	(17.5)	21.4	(5.3)	6.8
Future salary increases (1% movement)	10.0	(8.7)	N/A	N/A	N/A	N/A
Health care cost trend rate (1% movement)	N/A	N/A	N/A	N/A	6.0	(4.8)

EMPLOYER CONTRIBUTIONS – AUSTRALIA

Excluding salary sacrifice contributions, the Group intends to continue to contribute to the defined benefit sections of the plan at a rate of at least 13.5% (2013: 13.5%) of superannuation salaries, in line with the actuary's latest recommendations.

The Group also intends to contribute the additional "top-up" contributions to the Arrium Superannuation Fund to fund the current funding deficit as instructed by the Fund actuary from time to time.

Total employer contributions excluding any additional "top-up" contributions expected to be paid by the Group in respect of defined benefit sections for the year ending 30 June 2015 are $6.1 million (2014: $7.8 million).

The average duration of the defined benefit obligation is approximately 6 years (2013: 7 years).

EMPLOYER CONTRIBUTIONS – CANADA

Total employer contributions to pension and post-employment medical plans in Canada expected to be paid for the year ending 30 June 2015 are $4.4 million (2014: $6.8 million).

The average duration of the defined benefit obligation is between 12 to 17 years (2013: 12 years).

20. CONTRIBUTED EQUITY

	CONSOLIDATED	
	2014 $m	2013 $m
Contributed equity		
Issued capital (a)	2,985.6	3,803.6
Employee compensation shares (b)	(16.6)	(25.6)
Total contributed equity	2,969.0	3,778.0
(a) Issued capital		
Number of ordinary shares: 1,366,183,142 (2013: 1,355,433,903)		
Issued and paid-up	2,985.6	3,803.6
(b) Employee compensation shares		
Number of ordinary shares: 4,969,280 (2013: 6,283,917)		
Shares held in trust under equity-based compensation arrangements	(16.6)	(25.6)

	NUMBER OF ORDINARY SHARES		VALUE OF ORDINARY SHARES	
	2014	2013	2014 $m	2013 $m
Movement in issued capital for the period				
On issue at the beginning of the year	1,355,433,903	1,345,665,626	3,803.6	3,796.5
Shares issued under a dividend reinvestment plan[1]	10,749,239	9,768,277	13.8	7.1
Share capital reduction[2]	–	–	(831.8)	–
On issue at the end of the year	1,366,183,142	1,355,433,903	2,985.6	3,803.6
Movements in employee compensation shares for the period				
Held in trust at the beginning and end of the year	(6,283,917)	(6,283,917)	(25.6)	(25.6)
Purchase of shares for equity based compensation	(1,840,000)	–	(2.1)	–
Share vested and transferred to share-based payment reserve (Note 22)	3,154,637	–	11.1	–
Held in trust at the end of the period	(4,969,280)	(6,283,917)	(16.6)	(25.6)

1. The dividend reinvestment plan provides shareholders with an opportunity to acquire additional ordinary shares of Arrium Limited in lieu of cash dividends. Shares were issued at $1.26 (October 2013) and $1.33 (April 2014).
2. On 19 August 2013, the Company reduced its share capital by $831.8m for the amount that is not represented by available assets, reflecting the impairment charges incurred by the Company during the year ended 30 June 2013. The reduction was made in accordance with section 258F of the *Corporations Act 2001* (Cth) and had the effect of reducing the share capital account and eliminating accumulated losses at the Company and Consolidated Entity level. There was no impact on the number of issued shares or on the Statement of Comprehensive Income or Statement of Cash Flows.

TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

21. RETAINED EARNINGS

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $m
At the beginning of the year	(136.1)	630.6
Net profit/(loss)	205.4	(701.1)
Transfer from asset revaluation reserve	–	1.8
Share capital reduction (Note 20)	831.8	–
Dividends paid (Note 23)	(122.4)	(67.4)
At the end of the year	778.7	(136.1)

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

22. RESERVES

	CONSOLIDATED 2014 $m	CONSOLIDATED 2013 RESTATED[1] $m
Foreign currency translation reserve	(91.5)	(48.2)
Cash flow hedge reserve	5.0	0.3
Share-based payments reserve	27.8	26.2
Asset revaluation reserve	–	–
Retirement benefit obligation reserve	37.9	28.1
	(20.8)	6.4
(A) FOREIGN CURRENCY TRANSLATION RESERVE		
At the beginning of the year	(48.2)	(88.2)
Net investment hedges	(3.8)	(100.9)
Reclassified to profit and loss	–	(6.9)
Exchange fluctuations on overseas net assets	(39.5)	147.8
At the end of the year	(91.5)	(48.2)
(B) CASH FLOW HEDGE RESERVE		
At the beginning of the year	0.3	0.4
Gains/(losses) taken to equity	2.9	(1.4)
Transferred to profit and loss	1.1	6.7
Transferred to initial carrying amount of hedged items on Balance Sheet	0.7	(5.4)
At the end of the year	5.0	0.3
(C) SHARE BASED PAYMENT RESERVE		
At the beginning of the year	26.2	19.3
Expense recognised	12.7	6.9
Transferred from employee compensation shares (Note 20)	(11.1)	–
At the end of the year	27.8	26.2
(D) ASSET REVALUATION RESERVE		
At the beginning of the year	–	1.8
Transferred to retained earnings	–	(1.8)
At the end of the year	–	–
(E) RETIREMENT BENEFIT OBLIGATION RESERVE		
At the beginning of the year	28.1	(25.4)
Remeasurement gains on retirement benefit obligation	9.8	53.5
At the end of the year	37.9	28.1

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

NATURE AND PURPOSE OF RESERVES

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and the effective portion of the gain or loss on net investment hedges.

Cash flow hedge reserve

The cash flow hedge reserve is used to record the effective portion of the gain or loss on hedge instruments and the underlying hedged item in designated cash flow hedge relationships.

Share-based payments reserve

The share-based payments reserve is used to record the value of equity-based compensation provided to employees and senior executives as part of their remuneration. Refer to Note 29 for further details of these plans.

Retirement obligation reserve

The retirement obligation reserve is used to record actuarial gains and losses arising on the Group's defined benefit plans.

23. DIVIDENDS

The following dividends have been paid, declared or recommended since the end of the preceding financial year:

	ON ORDINARY SHARES $m	DIVIDEND PER ORDINARY SHARE CENTS
2014		
Interim dividend for 2014, paid on 17 April 2014	81.7	6.0
Final dividend for 2013, paid on 17 October 2013	40.7	3.0
	122.4	9.0
2013		
Interim dividend for 2013, paid on 18 April 2013	27.0	2.0
Final dividend for 2012, paid on 18 October 2012	40.4	3.0
	67.4	5.0

DIVIDENDS NOT RECOGNISED AT YEAR END

In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 3.0 cents per fully paid ordinary share (2013: 3.0 cents). The aggregate amount of the proposed dividend expected to be paid on 16 October 2014 but not recognised as a liability at year end is $41.0 million (2013: $40.7 million).

DIVIDEND FRANKING

There are no franking credits available for the subsequent financial year.

24. NOTES TO THE CASH FLOW STATEMENT

(A) RECONCILIATION TO CASH FLOW STATEMENT

Cash at balance date as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $m
Cash and cash equivalents	650.5	438.3

(B) RECONCILIATION OF PROFIT/(LOSS) AFTER TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES:

	2014 $m	2013 RESTATED[1] $m
Profit/(loss) after tax	206.6	(699.0)
Adjusted for non-cash items		
Depreciation and amortisation	367.5	316.7
Impairment of plant and equipment and intangible assets	13.1	930.1
Net gains on disposal of property, plant and equipment	(55.2)	(32.6)
Net gain on disposal of controlled entity	–	(2.4)
Share of net profit/(loss) of investments accounted for using the equity method	(0.7)	0.9
Net fair value change on derivative financial instruments	1.4	(2.7)
Unrealised foreign exchange gains	(7.4)	(10.8)
Share-based payment expense	12.7	6.9
Finance costs	8.1	8.1
Changes in assets and liabilities net of effects of purchase and sale of controlled entities and business		
Decrease in receivables	139.8	141.9
Decrease/(Increase) in inventories	60.0	(43.7)
Decrease/(Increase) in other assets	3.4	(27.4)
(Decrease)/Increase in payables	(42.3)	167.6
(Decrease)/Increase in provisions	(61.7)	43.5
(Decrease)/Increase in tax balances	33.4	(144.1)
Net cash flow from operating activities	678.7	653.0

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

(C) NON-CASH INVESTING AND FINANCING ACTIVITIES

During the year, dividends of $13.8 million (2013: $7.1 million) were satisfied via the issue of shares under a dividend reinvestment plan (refer Note 20).

25. COMMITMENTS

(A) CAPITAL COMMITMENTS

During the year ended 30 June 2014, the Group had entered into commitments to purchase property, plant and equipment for $48.2 million (2013: $58.7 million).

(B) OPERATING LEASE COMMITMENTS

The Group has entered into various non-cancellable operating leases on property, plant and equipment. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

The Group also leases various plant and machinery under cancellable operating leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are follows:

	CONSOLIDATED	
	2014 $m	2013 $m
Within one year	77.7	90.8
After one year but not more than five years	151.7	171.6
Longer than five years	59.2	29.7
Total operating lease commitments	288.6	292.1

(C) FINANCE LEASE COMMITMENTS

The Group has finance leases for plant and machinery.

Commitments in relation to finance leases are payable as follows:

	CONSOLIDATED			
	2014 $m		2013 $m	
	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS
Within one year	2.0	2.0	1.9	1.9
After one year but not more than five years	8.0	6.5	7.8	6.4
Longer than five years	5.2	3.3	7.2	4.4
Total operating lease commitments	15.2	11.8	16.9	12.7
Less: Amounts representing finance charges	(3.4)	–	(4.2)	–
Present value of minimum lease repayments	11.8	11.8	12.7	12.7

26. CONTINGENCIES

CONTINGENT LIABILITIES

Contingent liabilities at the balance date not otherwise provided for in the financial statements are categorised as follows:

	CONSOLIDATED	
	2014 $m	2013 $m
Guarantees and indemnities		
Bank guarantees covering:		
Workers' compensation self-insurance licences[1]	45.2	52.5
Performance of contracts	60.7	45.5

1. In Australia, Arrium Limited has given guarantees to various state workers' compensation authorities as a prerequisite for self-insurance. Of this amount, a total of $26.1 million (2013: $28.4 million) has been provided for in the consolidated financial statements as recommended by independent actuarial advice.

THIRD PARTY CLAIMS

The Group has been involved from time to time in various claims and lawsuits incidental to the ordinary course of business, including claims for damages and commercial disputes relating to its business, products or services. Based on the status of these claims and legal advice obtained, other than amounts already provided for in the accounts, the Directors do not expect any material liability to eventuate.

TAXATION

From time to time, the Company is subject to information requests, reviews, audits and investigations by tax authorities in the various jurisdictions in which the Group operates, including the Australian Taxation Office (ATO). These include a current audit by the ATO in relation to a sale and leaseback transaction entered into in 2004. Amended assessments have been received in respect of the sale and leaseback transaction for $26.0 million, comprising $16.5 million of primary tax, $5.4 million of interest and $4.1 million of penalty. The ATO has advised that the amended assessments are based on its determination to deny a part of the income tax deductions in respect of lease rental payments made under the sale and leaseback transaction.

The Company strongly disputes this view and believes its treatment of the lease payments is supported by both case law and the ATO's own published ruling on sale and leaseback transactions. The Company intends to vigorously defend its position and to pursue all avenues of objection as appropriate. Accordingly, no liability has been recognised in the Company's financial statements in relation to this transaction. As part of the objection process, the Company has paid $7.4 million of the assessed primary tax and interest whilst the matter is disputed. This amount has been offset against other agreed tax refunds with the ATO.

27. CONTROLLED ENTITIES

The consolidated financial statements at 30 June 2014 include the following controlled entities:

ENTITY	NOTES	COUNTRY OF INCORPORATION	% OF SHARES HELD 2014	% OF SHARES HELD 2013
Arrium Limited	(a)	Australia		
A.C.N. 006 769 035 Pty Ltd		Australia	100.0	100.0
Akkord Pty Limited		Australia	100.0	100.0
Alta Steel Chile S.A.	(c)	Chile	100.0	100.0
AltaSteel Ltd.		Canada	100.0	100.0
ANI Construction (W.A.) Pty Ltd		Australia	100.0	100.0
ANI Finance (UK) Ltd		United Kingdom	100.0	100.0
ANI Mineral Processing, LLC		USA	100.0	100.0
Arrium Finance Pty Limited	(b)	Australia	100.0	100.0
Arrium Iron Ore Holdings Pty Limited	(b)	Australia	100.0	100.0
Arrium Mining Sales Asia Limited	(e)	Hong Kong	100.0	–
Arrium Mining Services Asia Limited	(e)	Hong Kong	100.0	–
Atlas Group Employees Superannuation Fund Pty Ltd		Australia	100.0	100.0
Atlas Group Staff Superannuation Fund Pty Ltd		Australia	100.0	100.0
Atlas Group Superannuation Plan Pty Ltd		Australia	100.0	100.0
Australian National Industries Pty Ltd		Australia	100.0	100.0
Australian Wire Industries Pty Ltd		Australia	100.0	100.0
Austube Mills Holdings Pty Limited (formerly Australian Tube Mills Pty Limited)	(g)	Australia	100.0	100.0
Austube Mills Pty Ltd (formerly OneSteel Australian Tube Mills Pty Limited)	(g)	Australia	100.0	100.0
AWI Holdings Pty Limited		Australia	100.0	100.0
B.G.J. Holdings Proprietary Limited		Australia	100.0	100.0
Bradken Consolidated Pty Limited		Australia	100.0	100.0
Central Iron Pty Ltd		Australia	100.0	100.0
Cockatoo Dockyard Pty Limited		Australia	100.0	100.0
Commonwealth Steel Company Pty Limited	(g)	Australia	100.0	100.0
Comsteel Pty Limited	(g)	Australia	100.0	100.0
Coober Pedy Resources Pty Ltd		Australia	100.0	100.0
Eagle & Globe Pty Limited		Australia	100.0	100.0
Email Accumulation Superannuation Pty Ltd		Australia	100.0	100.0
Email Executive Superannuation Pty Ltd		Australia	100.0	100.0
Email Holdings Pty Limited		Australia	100.0	100.0
Email Management Superannuation Pty Ltd		Australia	100.0	100.0
Email Metals Pty Ltd		Australia	100.0	100.0
Email Pty Ltd	(d)	Australia	100.0	100.0
Email Superannuation Pty Limited		Australia	100.0	100.0
Emwest Holdings Pty Ltd		Australia	100.0	100.0
Emwest Properties Pty Limited		Australia	100.0	100.0
GCG (JB) Sdn Bhd	(h)	Malaysia	100.0	100.0
GSF Management Pty Limited		Australia	100.0	100.0
GST Philippines Inc.	(c)	Philippines	100.0	100.0
HP Metal Recycling (HK) Limited		Hong Kong	100.0	100.0
HP Metal Recycling Inc.		Philippines	100.0	100.0
HPR Industrial (JB) Sdn Bhd	(h)	Malaysia	100.0	100.0
Inversiones Moly-Cop S.A.	(c)	Chile	100.0	100.0
J Murray-More (Holdings) Pty Ltd		Australia	100.0	100.0
John McGrath Pty Ltd		Australia	100.0	100.0
Kelvinator Australia Pty Ltd		Australia	100.0	100.0
Linstar Holdings Sdn Bhd	(i)	Malaysia	100.0	100.0
Litesteel Products Pty Ltd		Australia	100.0	100.0
Litesteel Technologies America, LLC		USA	100.0	100.0
Litesteel Technologies Pty Ltd	(b)	Australia	100.0	100.0
Maple Leaf Metals (A Partnership)	(c)	Canada	100.0	100.0
M-Asia Enterprise (KL) Sdn Bhd	(h)	Malaysia	100.0	100.0

27. CONTROLLED ENTITIES CONTINUED

ENTITY	NOTES	COUNTRY OF INCORPORATION	% OF SHARES HELD 2014	2013
Metals Properties Pty Ltd		Australia	100.0	100.0
Metalstores Pty Limited		Australia	100.0	100.0
Metpol Pty Ltd		Australia	100.0	100.0
Moly-Cop Adesur S.A.	(c)	Peru	94.1	94.1
Moly-Cop Canada (A Partnership)	(c)	Canada	100.0	100.0
Moly-Cop Chile S.A.	(c)	Chile	100.0	100.0
Moly-Cop Finance UK Limited	(e)	UK	100.0	–
Moly-Cop Group SARL	(c)	Luxembourg	100.0	100.0
Moly-Cop Mexico S.A de C.V.	(c)	Mexico	100.0	100.0
Moly-Cop Peru S.A.C.	(c)	Peru	100.0	100.0
MolyCop Steel Inc.		Canada	100.0	100.0
Moly-Cop USA LLC	(c)	United States	100.0	100.0
N.K.S. (Holdings) Proprietary Limited		Australia	100.0	100.0
O Dee Gee Co. Pty Ltd		Australia	100.0	100.0
OneSteel Americas Holdings Pty Limited	(b)	Australia	100.0	100.0
OneSteel Asia Limited		Hong Kong	100.0	100.0
OneSteel Building Supplies Pty Limited		Australia	100.0	100.0
OneSteel Coil Coaters Pty Ltd	(b)	Australia	100.0	100.0
OneSteel Group (US Holdings) Inc.		USA	100.0	100.0
OneSteel Manufacturing Pty Limited	(b)	Australia	100.0	100.0
OneSteel MBS Pty Limited	(b)	Australia	100.0	100.0
OneSteel NSW Pty Limited	(b)	Australia	100.0	100.0
OneSteel NZ Holdings Limited		New Zealand	100.0	100.0
OneSteel NZ Limited		New Zealand	100.0	100.0
Onesteel Pte Limited (formerly OneSteel Insurance Pte Ltd)		Singapore	100.0	100.0
OneSteel Queensland Pty Limited		Australia	100.0	100.0
OneSteel Recycling (Fiji) Limited		Fiji	100.0	100.0
OneSteel Recycling Asia Limited		Hong Kong	100.0	100.0
OneSteel Recycling Holdings Pty Ltd	(b)	Australia	100.0	100.0
OneSteel Recycling Hong Kong Limited		Hong Kong	100.0	100.0
OneSteel Recycling NZ Limited		New Zealand	100.0	100.0
OneSteel Recycling Overseas Pty Limited	(b)	Australia	100.0	100.0
OneSteel Recycling Pty Limited	(b)	Australia	100.0	100.0
OneSteel Recycling, Inc.		USA	100.0	100.0
OneSteel Reinforcing Pty Limited	(b)	Australia	100.0	100.0
Onesteel Stainless Australia Pty Limited (formerly Fagersta Australia Pty Ltd)	(b)	Australia	100.0	100.0
Onesteel Stainless Pty Limited (formerly Fagersta Steels Pty Ltd)	(b)	Australia	100.0	100.0
OneSteel Technologies Pty Limited		Australia	100.0	100.0
OneSteel Trading Pty Limited	(b)	Australia	100.0	100.0
OneSteel UK Holdings Limited	(c)	United Kingdom	100.0	100.0
OneSteel US Investments		USA	100.0	100.0
OneSteel US Investments 1 Pty Ltd	(b)	Australia	100.0	100.0
OneSteel US Investments 2 Pty Ltd		Australia	100.0	100.0
OneSteel Wire Pty Limited	(b)	Australia	100.0	100.0
Overseas Corporation (Australia) Pty Ltd		Australia	100.0	100.0
P & T Tube Mills Pty Ltd		Australia	100.0	100.0
Palmer Tube Mills (NZ) Limited		New Zealand	100.0	100.0
Palmer Tube Mills Pty Limited		Australia	100.0	100.0
Pipeline Supplies of Australia Pty Limited		Australia	100.0	100.0
PT Commonwealth Steel Indonesia		Indonesia	100.0	100.0
QMR, Inc.		Philippines	100.0	100.0
Reosteel Pty Ltd		Australia	100.0	100.0
Roentgen Ray Pty Ltd		Australia	100.0	100.0
Servicios Moly-Cop S.A de C.V.	(c)	Mexico	100.0	100.0

27. CONTROLLED ENTITIES CONTINUED

ENTITY	NOTES	COUNTRY OF INCORPORATION	% OF SHARES HELD 2014	2013
Southern Iron Pty Ltd	(b)	Australia	100.0	100.0
SSG Investments Pty Ltd		Australia	100.0	100.0
SSG No.2 Pty Ltd	(g)	Australia	100.0	100.0
SSG No.3 Pty Ltd	(g)	Australia	100.0	100.0
SSGL Share Plan Nominees Pty Ltd		Australia	100.0	100.0
SSX Acquisitions Pty Limited	(b)	Australia	100.0	100.0
SSX Employees Superannuation Fund Pty Ltd		Australia	100.0	100.0
SSX Holdings Pty Limited	(g)	Australia	100.0	100.0
SSX International Pty Limited	(b)	Australia	100.0	100.0
SSX Pty Ltd	(b)	Australia	100.0	100.0
SSX Retirement Fund Pty Ltd		Australia	100.0	100.0
SSX Services Pty Limited	(b)	Australia	100.0	100.0
SSX Staff Superannuation Fund Pty Ltd		Australia	100.0	100.0
Tasco Superannuation Management Pty Ltd		Australia	100.0	100.0
Thai Metal Recycling Limited		Thailand	100.0	100.0
The ANI Corporation Pty Limited	(g)	Australia	100.0	100.0
The Australian Steel Company (Operations) Pty Ltd	(b)	Australia	100.0	100.0
TMR Loha Holdings Limited		Thailand	100.0	100.0
Tube Estates Pty Ltd		Australia	100.0	100.0
Tube Street Pty Ltd		Australia	100.0	100.0
Tube Technology Pty Ltd		Australia	100.0	100.0
Tubemakers of Australia Pty Limited		Australia	100.0	100.0
Tubemakers Somerton Pty Limited		Australia	100.0	100.0
Wembley Insurance Pte Ltd	(f)	Singapore	100.0	100.0
Western Consolidated Industries Pty Ltd		Australia	100.0	100.0
Whyalla Ports Pty Ltd	(b)	Australia	100.0	100.0
X.C.E. Pty Ltd		Australia	100.0	100.0
XEM (Aust) Pty Limited		Australia	100.0	100.0
XLA Pty Ltd		Australia	100.0	100.0
XLL Pty Ltd		Australia	100.0	100.0
XMS Holdings Pty Limited	(b)	Australia	100.0	100.0
Zinctek Pty Ltd		Australia	100.0	100.0

a) Arrium Limited is a public company limited by shares, incorporated and domiciled in Australia. The registered office is c/- Company Secretary, Arrium Limited, Level 40, 259 George Street, Sydney NSW 2000, Australia.
b) These entities are party to a Deed of Cross Guarantee or Assumption Deed (Deeds) with Arrium Limited pursuant to ASIC Class Order 98/1418 and are eligible for the benefit of the individual class order.
c) Balance date 31 December.
d) On 17 June 2014, a Revocation Deed was lodged with ASIC. The Revocation Deed becomes effective 18 December 2014.
e) Incorporated or acquired during the financial year ended 30 June 2014.
f) Balance date 31 March.
g) These entities are party to a Deed of Cross Guarantee with SSX Holdings Pty Limited pursuant to ASIC Class Order 98/1418 and are eligible for the benefit of the individual class order.
h) These companies are in liquidation.
i) This company was deregistered on 28 December 2012.

The financial years of all controlled entities above, with the exception of entities identified by (c) and (f), are the same as that of the parent entity, Arrium Limited.

27. CONTROLLED ENTITIES CONTINUED

DEED OF CROSS GUARANTEE

Financial information for the Arrium Limited class order closed group:

	CLOSED GROUP	
	2014 $m	2013 RESTATED[1] $m
CONSOLIDATED INCOME STATEMENT		
Sales revenue	4,943.1	4,481.2
Cost of sales	(3,979.3)	(3,549.9)
Gross profit	963.8	931.3
Other revenue	56.5	141.5
Other income	68.5	3.0
Operating expenses	(778.5)	(977.8)
Finance costs	(105.7)	(102.7)
Share of net loss of investments accounted for using the equity method	–	(0.5)
Profit/(Loss) before income tax	204.6	(5.2)
Income tax (expense)/benefit	(44.9)	121.1
Profit after tax from continuing operations	159.7	115.9
Net loss from discontinued operations, after tax	(1.4)	(56.6)
Profit after tax	**158.3**	**59.3**
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Profit after tax	158.3	59.3
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
– net losses taken to equity	2.9	(1.5)
– transferred to profit	1.1	6.7
– transferred to initial carrying amount of hedged items	0.7	(5.4)
Currency translation differences:		
– net investment hedges	(3.8)	(100.9)
– exchange fluctuations on overseas net assets	(20.7)	86.5
Items that may not be reclassified subsequently to profit or loss:		
Actuarial gains on retirement benefit obligation	10.0	20.0
Other comprehensive (loss)/income for the year, net of tax	**(9.8)**	**5.4**
Total comprehensive income for the year	**148.5**	**64.7**
SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS		
Retained earnings at the beginning of the financial year	143.9	152.0
Net profit	158.3	59.3
Share capital reduction (Note 20)	831.8	–
Dividends provided paid	(122.4)	(67.4)
Retained earnings at the end of the year	**1,011.6**	**143.9**

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

27. CONTROLLED ENTITIES CONTINUED

	CLOSED GROUP	
	2014 $m	2013 RESTATED[1] $m
CONSOLIDATED BALANCE SHEET		
Current assets		
Cash and cash equivalents	436.1	230.2
Receivables	545.3	1,148.4
Derivative financial instruments	5.7	6.4
Inventories	936.3	979.4
Tax assets	7.4	–
Other assets	9.6	6.7
Disposal groups and assets held for sale	34.4	195.7
Total current assets	**1,974.8**	**2,566.8**
Non-current assets		
Derivative financial instruments	16.6	20.3
Other financial assets	1,813.1	1,435.5
Property, plant and equipment	2,134.6	2,151.5
Mine development expenditure	530.6	404.9
Other intangibles and goodwill	1,551.8	1,601.8
Deferred tax assets	91.3	118.4
Other assets	22.5	26.7
Total non-current assets	**6,160.5**	**5,759.1**
TOTAL ASSETS	**8,135.3**	**8,325.9**
Current liabilities		
Payables	911.8	851.3
Derivative financial instruments	48.0	8.6
Interest-bearing liabilities	804.7	613.6
Provisions	292.3	309.6
Disposal groups and liabilities held for sale	21.0	112.5
Total current liabilities	**2,077.8**	**1,895.6**
Non-current liabilities		
Derivative financial instruments	3.6	45.2
Interest-bearing liabilities	1,919.2	2,279.3
Provisions	102.2	123.6
Total non-current liabilities	**2,025.0**	**2,448.1**
TOTAL LIABILITIES	**4,102.8**	**4,343.7**
NET ASSETS	**4,032.5**	**3,982.2**
Equity		
Contributed equity	2,969.0	3,778.0
Retained earnings	1,011.6	143.9
Reserves	51.9	60.3
TOTAL EQUITY	**4,032.5**	**3,982.2**

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

28. RELATED PARTY DISCLOSURES

(A) TRANSACTIONS WITH RELATED PARTIES IN THE WHOLLY-OWNED GROUP

Throughout the year, the parent entity, Arrium Limited, entered into the following transactions with members of the wholly-owned group:

- Loans were received
- Interest was paid
- Dividends were received
- Tax related transactions occurred within the tax consolidated group.

(B) TRANSACTIONS WITH JOINT VENTURES

	CONSOLIDATED	
TRANSACTION TYPE	2014 $m	2013 $m
Product sales to joint ventures	0.4	1.5
Product purchases from joint ventures	5.4	8.0
Expenses charged to joint ventures	2.6	2.0
Dividends received from joint ventures	–	0.6
Repayment of loan (to)/from to joint ventures	(0.2)	0.5
Amounts receivable from joint ventures	0.5	1.0
Amounts payable to joint ventures	0.5	–

These transactions were undertaken on commercial terms and conditions.

(C) ULTIMATE CONTROLLING ENTITY

The ultimate controlling entity of the Arrium Group is Arrium Limited.

29. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2014 NUMBER	2013 NUMBER
Employees as at 30 June	9,269	10,078

		CONSOLIDATED
	2014 $m	2013 RESTATED[1] $m
The aggregate employee benefit liability is comprised of:		
Provisions (current)	246.1	255.9
Provisions (excluding defined benefit liability) (non-current)	36.0	39.5
Total employee benefit liabilities	282.1	295.4

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

(A) SELF-INSURED WORKERS' COMPENSATION PROVISION

Obligations under self-insurance workers' compensation licences included in provision for employee benefits:

	CONSOLIDATED	
	2014 $m	2013 $m
New South Wales	16.8	19.0
Queensland	1.0	1.5
Victoria	4.9	4.4
South Australia	2.8	2.6
Western Australia	0.6	0.9
Total self-insurance workers' compensation provision	26.1	28.4

29. EMPLOYEE BENEFITS CONTINUED

Arrium provides the following share and rights plans for employees:

(B) EMPLOYEE SHARE PLANS

Arrium has two share plans under which eligible employees may acquire ordinary shares in the Company. The most recent offer under the employee share plan was made in May 2013 to eligible employees as at 1 April 2013. All Australian resident permanent employees (excluding Arrium Directors) are eligible to participate in either, or both, the Tax Exempt or Tax Deferred Share Plans. Both the Tax Exempt and Tax Deferred Plans enable participating employees to make salary sacrifice contributions to purchase shares on-market on a monthly basis. Under both plans, the Company also grants to contributing participants a parcel of fully paid ordinary shares to the value of $125 ($375 employee contribution) or $250 ($750 employee contribution) per year for employees participating in the Tax Exempt Plan and $333 per year for employees participating in the Tax Deferred Plan for a minimum $1,000 employee contribution. The shares must be held in the plan for a minimum of three years whilst the participant remains an employee of Arrium for both the Tax Exempt Plan and Tax Deferred Plan before they can be withdrawn.

The matching shares granted by the Company are purchased on-market or allocated from surplus shares forfeited under either the employee share plan or the executive share plan. The matching shares are allocated each month at the same time as the employee contributed shares, which are purchased on the 15th of each month. The number of shares allocated to the employee is the offer amount divided by the weighted average price at which the Company's shares are traded on the Australian Securities Exchange on the date of the purchase.

Offers under the scheme are at the discretion of the Company. All Arrium shares acquired under the Tax Exempt and Tax Deferred plans rank equally with all other Arrium shares and carry dividend and voting rights.

All plan management and administration costs relating to the plans are met by the Company.

	2014	2013
Total number of shares issued under the plan to participating employees during the year ('000s)	3,466	4,685
Weighted average fair value of shares granted during the period ($)	1.30	0.84

(C) LONG-TERM INCENTIVE (LTI) PERFORMANCE RIGHTS PLAN (PRP)

The PRP for senior management provides for Rights to fully paid Arrium Limited ordinary shares. In addition, a special Service Rights allocation in 2011 provides for Rights to fully paid Arrium Limited ordinary shares. Rights are held in trust until vested to the participant. There are no voting entitlements attached to the Rights held in trust, nor are any dividends paid until such time as the Rights vest and the shares are allotted.

Vesting of Performance Rights is subject to the Company achieving specific performance hurdles and a three-year qualifying period. Vesting of the Service Rights is subject to a two-year service condition. There are no retesting provisions if Performance Rights fail to vest at the conclusion of the Performance Period. In addition, all or some of these Rights may vest to an individual on termination when special circumstances apply. At the discretion of the Board these include redundancy, death and permanent disability. There are no cash settlement alternatives. No consideration is required in accepting the Performance Rights.

The Performance Rights have two hurdles including Arrium's EPS growth measured against EPS targets as determined by the Board and Arrium's Total Shareholder Return (TSR) measured against the Comparator Index, the S&P/ASX 200 Index (excluding the consumer discretionary, consumer staples, financial services, health, information technology and telecommunications services sectors). For each instalment, 50% of the Rights will vest subject to Arrium's TSR performance to the Base Comparator Index and the remaining 50% of Rights will vest subject to Arrium's EPS growth against set targets.

	2014	
	NUMBER '000S	WEIGHTED AVERAGE FAIR VALUE $
Outstanding at the beginning of the year	22,888	0.75
Rights issued during the year	8,866	0.99
Rights vested during the year	(2,107)	1.50
Rights forfeited during the year	(666)	1.05
Outstanding at the end of the year	28,981	0.76

	2013	
	NUMBER '000S	WEIGHTED AVERAGE FAIR VALUE $
Outstanding at the beginning of the year	9,570	1.09
Rights issued during the year	13,318	0.50
Rights vested during the year	–	–
Outstanding at the end of the year	22,888	0.75

The fair values of the Performance Rights granted is estimated at the grant date using either a Monte Carlo Simulation analysis or a binomial tree approach taking into account the terms and conditions upon which the Rights were granted. The fair value of the Service Rights is estimated at grant date using either a binomial tree approach or the Black Scholes model.

29. EMPLOYEE BENEFITS CONTINUED

The following table lists the inputs to the models used.

GRANT DATE	PERFORMANCE HURDLE	DIVIDEND YIELD	EXPECTED VOLATILITY	RISK-FREE RATE	EXPECTED LIFE	WEIGHTED AVERAGE SHARE PRICE AT GRANT DATE
01/07/2011	Service	3.59%	–	4.84%	2 years	$1.84
30/08/2011	TSR	4.66%	40%	3.78%	3 years	$1.41
30/08/2011	EPS	4.66%	40%	3.78%	3 years	$1.41
01/09/2011	Service	4.26%	–	3.85%	2 years	$1.55
24/02/2012	Service	6.24%	–	3.71%	2 years	$1.03
24/02/2012	TSR	6.24%	60%	3.71%	3 years	$1.03
24/02/2012	EPS	6.24%	60%	3.71%	3 years	$1.03
23/03/2012	Service	5.12%	60%	3.68%	3 years	$0.98
23/03/2012	TSR	5.12%	60%	3.68%	3 years	$0.98
23/03/2012	EPS	5.12%	60%	3.68%	3 years	$0.98
5/11/2012	TSR	7.00%	60%	2.60%	3 years	$0.39
5/11/2012	EPS	7.00%	60%	2.60%	3 years	$0.58
21/12/2012	Service	5.40%	60%	2.69%	3 years	$0.78
21/12/2012	TSR	5.40%	60%	2.69%	3 years	$0.58
21/12/2012	EPS	5.40%	60%	2.69%	3 years	$0.78
23/09/2013	TSR	7.00%	60%	2.88%	2.9 years	$0.96
23/09/2013	EPS	7.00%	60%	2.88%	2.9 years	$0.96
5/11/2013	TSR	7.00%	60%	2.88%	2.9 years	$0.96
5/11/2013	EPS	7.00%	60%	2.88%	2.9 years	$0.96
17/02/2014	TSR	7.00%	60%	2.88%	2.9 years	$0.96
17/02/2014	EPS	7.00%	60%	2.88%	2.9 years	$0.96
17/03/2014	TSR	7.00%	60%	2.88%	2.9 years	$0.96
17/03/2014	EPS	7.00%	60%	2.88%	2.9 years	$0.96

The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may also not necessarily be the actual outcome.

(D) LONG-TERM INCENTIVE (LTI) SHARE PLAN

During the year ended 30 June 2012, the Company replaced the existing LTI Share Plan with a new Performance Rights Plan (PRP) which continues to operate in the year ended 30 June 2014. The new PRP applied from 1 July 2012, with the previous LTI Share Plan remaining in operation until all unvested awards have either vested or the executive's entitlement lapses. No further awards have been granted under the previous LTI Share Plan since it was replaced by the PRP.

The LTI Share Plan for senior management provides for grants of Arrium Limited ordinary shares. The shares granted are held in trust until vested to the participant. The shares held in trust carry voting rights and the holder is entitled to any dividends paid during the vesting period.

Vesting is subject to the Company achieving specific performance hurdles and a three-year qualifying period. If the shares do not vest immediately at the end of the three-year qualifying period, provisions exist that enable retesting of the performance hurdles. In addition, all or some of these shares may vest to an individual on termination when special circumstances apply. At the discretion of the Board these include redundancy, death and permanent disability. There are no cash settlement alternatives.

The performance hurdles relate to two comparative groups, namely the Australian Consumer Price Index plus 5% (Base Index) and the

S&P/ASX 200 Index (excluding banks, media and telecommunications) (Comparator Index) that are measured against Arrium's performance in terms of TSR. For each instalment, 50% of the shares will vest subject to Arrium's TSR performance to the Base Index and the remaining 50% of shares will vest subject to Arrium's performance to the Comparator Index.

	2014		2013	
	NUMBER '000S	WEIGHTED AVERAGE FAIR VALUE $	NUMBER '000S	WEIGHTED AVERAGE FAIR VALUE $
Outstanding at the beginning of the year	4,171	3.73	5,621	4.53
Shares vested during the year	–	–	–	–
Shares forfeited during the year	(768)	4.83	(1,450)	5.89
Outstanding at the end of the year	3,403	2.52	4,171	3.73

There were no shares purchased or granted during the year.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) COMPENSATION OF KEY MANAGEMENT PERSONNEL

	CONSOLIDATED	
	2014 $	2013 RESTATED[1] $m
Short-term benefits	11,844,565	10,667,387
Long-term benefits	1,339,656	963,370
Post-employment benefits	368,123	331,316
Share-based payments	2,961,575	3,953,260
	16,513,919	15,915,333

1. In accordance with AASB 108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

The Company has applied the exemption under Corporations Regulation 2M.3.03 which relieves listed companies from providing detailed remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report which has been audited.

(B) LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans made to or outstanding from Key Management Personnel during the current or prior year.

(C) OTHER TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL

Key Management Personnel of Arrium Limited and its related parties or their related entities, conduct transactions with entities within the Arrium Group that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the Key Management Personnel or their related entity at an arm's length in similar circumstances. Details of these transactions can be found in the Remuneration Report.

31. AUDITORS' REMUNERATION

	CONSOLIDATED	
	2014 $	2013 $
Amounts paid or payable to the auditor of Arrium Limited, for:		
An audit or review of the financial report of the entity and any other entity in the consolidated group	1,799,001	1,799,669[3]
Other services in relation to the entity and any other entity in the consolidated group		
Other regulatory audits[1]	178,900	137,500
Other assurance related work[2]	138,071	78,879
Other services	218,900	91,880
	2,334,872	2,107,928

1. Includes assurance services for Natural Greenhouse and Energy Reporting (NGER), Jobs and Competitiveness Program (JCP) and Partial Exemption Certificate (PEC).
2. Includes agreed upon procedures for quarterly mining reports and ASX releases.
3. The 2013 audit fees have been restated to reflect $94,965 additional fees relating to the 2013 audit that were paid in 2014.

32. FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, US Private Placements (Senior Notes), finance leases, cash and short-term deposits and derivative financial instruments. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk.

The Group manages its exposure to key financial risks including interest rate and currency risk in accordance with the Group's financial risk management policy. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions, principally interest rate swaps, cross-currency interest rate swaps and forward foreign exchange contracts. Derivatives classified as held for trading are based on limits set by the Board. Although they provide an economic hedge, they do not qualify for hedge accounting under AASB 139.

The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and foreign currency risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the rolling cash flow forecasts comparing projected debt levels for the next 12 months against total committed facilities.

Primary responsibility for identification and control of financial risks rests with the Financial Risk Management Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

32. FINANCIAL RISK MANAGEMENT CONTINUED

(A) INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt borrowings. The objective of the Group's policy is to neutralise exposures within levels of tolerance acceptable to the Board, minimising interest expense whilst ensuring that an appropriate level of flexibility exists to accommodate potential changes in funding requirements.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk where the borrowings are carried at fair value. The Group's policy is to manage its interest expense using a mix of fixed and floating interest rate debt. The Group's policy is to keep 30%–70% or the lesser of, the expected usage of borrowings or the committed exposure to a minimum of five years at fixed rates of interest, using interest rate swaps to achieve this when necessary.

The Group analyses its interest rate exposure on a dynamic basis. Within this analysis, consideration is given to potential renewals of existing positions, alternative hedging positions and the mix of fixed and variable interest rates. Based on the various considerations, the Group manages its interest rate risk by using interest rate swaps. Such swaps have the economic effect of converting interest on borrowings from floating to fixed rates or fixed to floating rates. Under interest rate swaps, the Group agrees with other parties to exchange at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

At balance date, the Group had the following financial assets and liabilities exposed to interest rate risk:

	CONSOLIDATED	
	2014 $m	2013 $m
Financial assets		
Cash and cash equivalents	650.5	438.3
Trade receivables	5.1	7.1
Financial liabilities		
Bank loans	(1,787.0)	(1,966.8)
Net exposure before hedging	(1,131.4)	(1,521.4)
Cross-currency and interest rate swaps[1]	250.1	345.8
Net exposure to cash flow and fair value interest rate risk	(881.3)	(1,175.6)

1. Notional principal amounts of cross-currency and interest rate swaps.

Sensitivity

If interest rates had increased by 100 or decreased by 100 basis points as at 30 June and with all other variables held constant, post-tax profit for the year would have been $6.0 million lower/$0.2 million higher (2013: $4.5 million lower/$1.9 million higher) (excluding upside sensitivity of a 100 basis points decrease which causes a negative interest rate on USD borrowings in fair value hedge), mainly as a result of higher/lower interest expense resulting on variable rate debt. Other components of equity would have been $5.0 million higher/$2.1 million lower (2013: $8.2 million higher/$3.3 million lower) (excluding downside sensitivity of a 100 basis points decrease which causes a negative interest rate on USD borrowings in cash flow hedge) as a result of an increase/decrease in the fair value of the cash flow hedges of borrowings.

(B) FOREIGN CURRENCY RISK

The Group's primary sources of foreign currency risk are sales of product, including iron ore, and purchases of inventory in a currency other than the functional currency; purchases of commodity inputs; capital expenditure denominated in foreign currency and in its net investment in foreign currency denominated operations.

It is the Group's policy to use forward exchange contracts to eliminate the currency exposures on any individual transactions in excess of USD0.5 million or equivalent. Committed exposures will be 100% covered when the transaction is contracted, whilst projected exposures (contract underpinning) will be 50% covered where there are ongoing sales or purchases and the transaction is relatively certain. It is the Group's policy to negotiate the terms of the forward exchange contracts to match the terms of the underlying purchase to maximise hedge effectiveness.

Net investment hedges

The Group seeks to mitigate its exposure to foreign currency translation risk on the value of the net assets of its USD denominated operations by borrowing in USD and entering into forward exchange contract to sell USD. The first USD1,275.6 million (2013: USD1,295.4 million) of the Group's net investment in USD denominated operations are in this manner (refer to Note 17 and Note 8).

The options are being used to hedge the foreign currency translation risk associated with highly probable sales of iron ore and scrap denominated in USD against fluctuation in the AUD/USD exchange rate. In addition to its USD denominated operations, the Group has foreign currency translation risk arising on the value of the net assets of its Canadian based operations. This risk is mitigated through the designation of CAD186.6 million (2013: CAD230.0 million) denominated debt and a further CAD 43.4 million of forward exchange contract as a net investment hedge.

Arrium also has foreign currency exposure arising from its US Private Placements of Senior Notes (refer Note 17). Part of this exposure has been hedged using a series of cross-currency interest rate swaps designated either as fair value or cash flow hedges.

32. FINANCIAL RISK MANAGEMENT CONTINUED

The Group's exposure to foreign currency risk at balance date was as follows (in Australian dollars):

	CONSOLIDATED					
	2014			2013		
	USD $m	CAD $m	OTHER[1] $m	USD $m	CAD $m	OTHER[2] $m
Cash and cash equivalents	16.0	–	5.3	5.3	–	6.3
Net investment in foreign operations	1,419.2	286.3	61.9	1,439.3	279.3	62.8
Trade and other receivables	39.5	–	1.8	42.4	–	1.2
Trade and other payables	(15.3)	–	(6.5)	(42.0)	–	(5.2)
Bank loans and US Private Placement debt[3]	(1,419.4)	(185.5)	–	(1,487.4)	(236.7)	–
Net exposure	40.0	100.8	62.5	(42.4)	42.6	65.1
Forward exchange contracts – buy	152.5	1.9	60.3	183.2	–	25.2
Forward exchange contracts – sell	(242.5)	(63.1)	(12.4)	(168.5)	(40.1)	(7.8)
Cross–currency interest rate swaps	84.9	–	–	140.2	(50.9)	–

1. Japanese Yen, Pounds Sterling, Chilean Peso, New Zealand dollar and Euro.
2. Japanese Yen, Indonesian Rupiah, Pounds Sterling, New Zealand dollar and Euro.
3 Notional principal amounts.

Sensitivity

Had the Australian dollar weakened/strengthened against the major foreign currencies detailed in the above table by 10% as at 30 June and with all other variables held constant, the Group's post-tax profit for the year would have been $8.7 million lower/$6 million higher (2013: $7.9 million lower/$6.5 million higher), mainly as a result of foreign exchange gains/losses on translation of the above foreign currency denominated financial instruments. Other components of equity would have been $1.3 million lower/$8.2 million higher (2013: $1.3 million lower/$0.7 million higher) had the Australian dollar weakened /strengthened by 10% against the major foreign currencies detailed in the above table, arising from translation of net investment in foreign currency denominated, forward exchange and option contracts, interest rate and cross-currency interest rate swaps designated as cash flow hedges. The Group's exposure to other foreign exchange movements is not material.

(C) COMMODITY PRICE RISK

The primary sources of commodity price risk for the Group are iron ore sales made in US dollars; copper, nickel and zinc purchases in US dollars; aluminium purchases which are made in Australian dollars but with prices set in US dollars; energy purchases made in Australian dollars that can be subject to long-term contracts; scrap purchases made outside the Arrium Group and diesel purchases. Commodity price risk is measured by the effect of price movement sensitivities applied to annual usage estimated by the business units.

Commodity price risk is managed by either putting in place fixed price contracts, fixed price swaps or options. The Group's exposure to commodity price risk on financial instruments is not significant.

(D) CREDIT RISK

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, and derivative financial instruments. The Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group does not hold any credit derivatives to offset its credit exposure. The credit risk of any one counterparty with respect to receivables and derivative financial instruments is not significant.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Board and are regularly monitored. In addition, receivables are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

For financial instruments, limits for each counterparty are set primarily on credit rating, adjusted for country rating and the nominal level of shareholders' funds. The Group does not expect any counterparties to fail to meet their obligations given their high credit ratings. For financial assets and liabilities measured at fair value through profit and loss, the amount of change in fair value that is attributable to credit risk is not material.

(E) LIQUIDITY RISK

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, US Private Placement of Senior Notes and finance leases. In addition to committed facilities, Arrium has 11am money market lines and an overdraft facility that assists with the intra-month cash management. Debt maturities are spread out to limit risk on debt rollover.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities.

32. FINANCIAL RISK MANAGEMENT CONTINUED

Financing arrangements

The Group had access to the following undrawn borrowing facilities at balance date:

	CONSOLIDATED 2014 $m	CONSOLIDATED 2013 $m
Expiring within one year	5.0	5.0
Expiring beyond one year	1,304.6	936.9
	1,309.6	941.9

Maturity analysis of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table reflect all contractually fixed pay-offs for settlement, repayments and interest resulting from recognised financial liabilities. For interest rate swaps, the cash flows have been estimated using forward interest rates applicable at the balance date.

For all other obligations, the respective undiscounted cash flows are presented. Cash flows for financial liabilities without fixed maturity are based on the conditions existing at balance date.

CONSOLIDATED	LESS THAN 12 MONTHS $m	1 – 5 YEARS $m	GREATER THAN 5 YEARS $m	TOTAL CONTRACTUAL CASH FLOWS $m
2014				
Financial liabilities				
Trade and other payables	1,175.0	0.3	–	1,175.3
Forward contracts				
– (Inflow)	(284.0)	(4.4)	–	(288.4)
– Outflow	284.5	4.0	–	288.5
Option contracts	0.1	–	–	–
Interest rate swaps	11.3	8.4	–	19.7
Cross-currency interest rate swaps	136.0	–	–	136.0
Bank loans	14.1	1,578.0	226.6	1,818.7
US Private Placement – Senior Notes	149.5	310.8	229.4	689.7
	1,486.5	1,897.1	456.0	3,839.6
2013				
Financial liabilities				
Trade and other payables	1,098.1	0.2	–	1,098.3
Forward contracts				
– (Inflow)	(220.8)	–	–	(220.8)
– Outflow	220.8	–	–	220.8
Option contracts	2.5	–	–	2.5
Interest rate swaps	13.6	20.1	0.2	33.9
Cross-currency interest rate swaps	7.4	188.2	–	195.6
Bank loans	11.3	1,983.2	–	1,994.5
US Private Placement – Senior Notes	34.3	454.4	246.5	735.2
	1,167.2	2,646.1	246.7	4,060.0

(F) FAIR VALUE MEASUREMENTS

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Level 1: The fair value is calculated using quoted prices in active markets.

Level 2: The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The following table shows the carrying amounts and fair value of the financial instruments as well as the methods used to estimate the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

32. FINANCIAL RISK MANAGEMENT CONTINUED

	CONSOLIDATED			
	2014		2013	
	CARRYING AMOUNT $m	FAIR VALUE LEVEL 2 $m	CARRYING AMOUNT $m	FAIR VALUE LEVEL 2 $m
Current financial assets				
Cash and cash equivalents	650.5		438.3	
Receivables	627.4		720.9	
Derivative financial instruments				
Forward contracts – cash flow hedges	2.0	2.0	–	–
Forward contracts – held for trading	3.8	3.8	10.7	10.7
Forward contracts – net investment hedges	0.2	0.2	–	–
Option contracts – cash flow hedges	1.9	1.9	0.5	0.5
Option contracts – held for trading	–	–	0.1	0.1
Interest rate swap contracts – fair value hedges	0.1	0.1	–	–
Other financial assets	–		0.8	
	1,285.9	8.0	1,171.3	11.3
Non-current financial assets				
Receivables	26.5		13.2	
Derivative financial instruments				
Interest rate swap contracts – fair value hedges	2.9	2.9	20.3	20.3
Forward contracts – held for trading	16.6	16.6	2.9	2.9
Other financial assets	1.0		–	
	47.0	19.5	36.4	23.2
Current financial liabilities				
Payables	1,175.0		1,098.1	
Derivative financial instruments				
Forward contracts – cash flow hedges	0.5	0.5	0.5	0.5
Forward contracts – held for trading	5.8	5.8	9.2	9.2
Forward contracts – net investment hedges	0.7	0.7	–	
Option contracts – cash flow hedges	0.1	0.1	2.5	2.5
Interest rate swap contracts – cash flow hedges	1.3	1.3	0.8	0.8
Cross-currency interest rate swap contracts – fair value hedges	31.8	31.8	–	–
Cross-currency interest rate swap contracts – cash low hedges	11.0	11.0	–	–
Interest-bearing liabilities				
Finance lease	1.3		1.1	
Unsecured				
US Private Placement – at fair value	66.3	66.4	–	–
US Private Placement – at amortised cost	53.0	54.6	–	–
	1,346.8	172.2	1,112.2	13.0
Non-current financial liabilities				
Payables	0.3		0.2	
Derivative financial instruments				
Interest rate swap contracts – cash flow hedges	3.6	3.6	7.1	7.1
Cross-currency interest rate swap contracts – fair value hedges	–	–	27.7	27.7
Cross-currency interest rate swap contracts – cash low hedges	–	–	10.4	10.4
Interest-bearing liabilities				
Finance lease	10.5		11.6	
Unsecured				
Bank loans	1,787.0		1,966.8	
US Private Placement – at fair value	–	–	69.1	69.1
US Private Placement – at amortised cost	440.1	479.2	504.6	551.7
	2,241.5	482.8	2,597.5	666.0

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps, cross-currency interest rate swaps and forward exchange contracts not traded on a recognised exchange. These instruments are included in Level 2.

Transfer between categories
There were no transfers between categories during the year.

32. FINANCIAL RISK MANAGEMENT CONTINUED

(G) CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits to other stakeholders. The Board also aims to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of gearing ratio (net debt to net debt plus equity). The targeted range for debt considered appropriate in the normal circumstances is 30%-40%. The Board is comfortable with the current level of gearing given the external environment.

The Group is subject to externally imposed capital requirements and has complied with these requirements during the current and prior year.

The gearing ratios at the balance date were as follows:

	CONSOLIDATED	
	2014 $m	2013 RESTATED[1] $M
Total debt	2,358.2	2,553.2
Less: Cash and cash equivalents	(650.5)	(438.3)
Net debt	1,707.7	2,114.9
Total equity	3,730.9	3,651.2
Less: Non-controlling interests	(4.0)	(2.9)
Equity	3,726.9	3,648.3
Net debt plus equity	5,434.6	5,763.2
Gearing ratio	31.4%	36.7%

1. In accordance with AASB108 *Accounting Policies, Changes in Estimates and Errors* the comparatives have been restated for the application of new accounting standards and interpretations. Refer to Note 1.

Sensitivity

Had the Australian dollar strengthened/weakened against the USD by 5 cents as at 30 June 2014 and with all other variables held constant, gearing would have been 2% lower/2% higher mainly as a result of foreign exchange losses/gains on the translation of USD denominated debt.

33. PARENT ENTITY DISCLOSURES

The parent company of the Group, as at and throughout the financial year ended 30 June 2014, was Arrium Limited.

Presented below is supplementary information about the parent entity.

	PARENT	
	2014 $m	2013 $m
Result of the parent entity		
Profit/(loss) after tax	571.0	(631.2)
Other comprehensive income	–	–
Total comprehensive income/(loss) for the year	571.0	(631.2)

	PARENT	
	2014 $m	2013 $m
Financial position of the parent entity at year end		
Current assets	7.8	7.8
Non-current assets	3,936.2	3,789.9
Total assets	3,944.0	3,797.7
Current liabilities	175.4	501.5
Total liabilities	175.4	501.5
Total equity of the parent entity comprising:		
Share capital	2,969.0	3,778.0
Retained earnings	773.7	(506.8)
Reserves	25.9	25.0
Total Equity	3,768.6	3,296.2

Guarantees, contingent liabilities and capital commitments of the parent entity

Arrium Limited has given guarantees amounting to $45.2 million (2013: $52.5 million) to various state workers' compensation authorities in Australia as a prerequisite for self-insurance. Refer to Note 26.

Parent entity guarantees in respect of debts of its subsidiaries

As explained in Note 27, the Company has entered into a Deed of Cross Guarantee in accordance with a class order issued by the Australian Securities and Investments Commission. Arrium Limited, and all the controlled entities which are party to the deed, have guaranteed the repayment of all current and future creditors in the event that any of these companies are wound up.

The Company is also a guarantor in respect of certain financing arrangements including wholly-owned subsidiaries which are not party to the Deed of Cross Guarantee.

The parent entity does not have any capital commitments for acquisition of property, plant and equipment as at 30 June 2014 (2013: nil).

34. DISCONTINUED OPERATIONS

(A) DETAILS OF DISCONTINUED OPERATIONS

Australian Tube Mills (ATM)

The ATM business met the classification as held for sale at 30 June 2013. The ATM business manufactures structural pipe and tube from facilities at Acacia Ridge, QLD, Newcastle, NSW and Somerton, VIC. During the year to 30 June 2014, the company has progressed the sale process for the ATM business and expects the disposal to be effected within the next 12 months. Accordingly, at 30 June 2014 the ATM business has been classified as a discontinued operation.

Merchandising

At 30 June 2013, the non-integrated Merchandising business met the criteria for classification as held for sale. The Merchandising portfolio comprises a range of businesses that process and distribute steel and other metal products in Australia. The portfolio included Building Services, Aluminium, Fagersta, Sheet & Coil, Coil Coaters and Metpol. During the year to 30 June 2014, the Building Services, Aluminium and Sheet & Coil businesses have been sold and the Fagersta and Coil Coaters businesses exited and their assets sold. The remaining business in the Merchandising portfolio is Metpol. The company has announced the exit of this business and expects to sell its assets during the next 6 months. Accordingly, at 30 June 2014, the Merchandising business has been classified as a discontinued operation.

US Recycling

The US Recycling operations were classified as held for sale at 30 June 2013. During the year to 30 June 2014 the Maine and Florida businesses have been sold. The company expects to complete the sale process for the remaining Virginia business during the next 6 months. Accordingly, at 30 June 2014, the US Recycling operations have been classified as discontinued.

Steel & Tube Holdings Limited

On 9 October 2012, Arrium disposed of its 50.3% stake in Steel & Tube Holdings, a public listed company in New Zealand, for a fixed price of NZ$2.05 per share. Steel & Tube Holdings for the New Zealand Distribution segment, and upon disposal, New Zealand Distribution ceased to be a reporting segment. As at 30 June 2013, Steel & Tube Holdings was classified as a discontinued operation.

(B) RESULTS OF THE DISCONTINUED OPERATIONS

The results of the discontinued operations for the year until disposal are presented below:

	2014 $m	2013 $m
Revenue	444.6	756.1
Expenses	(515.9)	(774.4)
Gross loss	(71.3)	(18.3)
Other revenues/income	13.5	19.0
Operating expenses	(67.5)	(149.4)
Finance costs	–	(0.7)
Impairment of goodwill	–	(579.4)
Impairment of property, plant and equipment	(4.4)	(81.1)
Impairment of intangible assets	–	(24.2)
Gain on sale of the business or controlled entity before income tax	–	2.4
Loss before tax from discontinued operations	(129.7)	(831.7)
Tax benefit	48.5	68.6
Loss for the year from discontinued operations[1]	(81.2)	(763.1)
Loss per share for profit from discontinued operations attributable to the ordinary equity holders of the parent:		
Basic loss per share (cents per share)	(5.98)	(56.70)
Diluted loss per share (cents per share)	(5.98)	(56.70)

1. Loss for the year from discontinued operations relates to the parent.

(C) ASSETS AND LIABILITIES HELD FOR SALE

The major classes of assets and liabilities held for sale are as follows:

	2014 $m	2013 $m
Assets		
Receivables	16.2	86.2
Inventory	61.2	137.5
Property, plant and equipment	27.4	107.5
Current tax assets	–	1.0
Deferred tax assets	19.7	35.1
Other assets	0.4	1.3
Assets held for sale	124.9	368.6
Liabilities		
Payables	59.4	121.9
Provisions	27.6	50.8
Deferred tax liabilities	0.2	2.7
Liabilities held for sale	87.2	175.4
Net assets	37.7	193.2

34. DISCONTINUED OPERATIONS CONTINUED

(D) CASH FLOW INFORMATION OF THE DISCONTINUED OPERATIONS

The net cash flows of discontinued operations are as follows:

	2014 $m	2013 $m
Operating activities	(25.1)	(29.5)
Investing activities	110.5	97.1
Financing activities	–	–
Net cash inflow	85.4	67.6

(E) DETAILS OF THE SALE OF THE DISCONTINUED OPERATIONS

	2014 $m	2013 $m
Cash consideration received	97.1	71.6
Cash proceeds from sale of assets	25.9	–
Carrying amount of net assets sold	(114.1)	(135.9)
Non-controlling interests	–	59.8
Reclassified from reserves	–	6.9
Gain on sale before income tax	8.9	2.4
Income tax expense	–	–
Gain on sale after income tax	8.9	2.4

The carrying amounts of assets and liabilities of the discontinued operations as at the date of the sale were:

	2014 $m	2013 $m
Cash	–	2.8
Receivables and other assets	13.0	50.6
Inventory	58.8	69.5
Property, plant and equipment	49.6	38.4
Intangibles	–	31.6
Deferred tax assets	0.4	–
Payables	(1.9)	(22.2)
Borrowings	–	(27.7)
Provisions	(3.3)	(4.6)
Current tax liabilities	–	(1.1)
Deferred tax liabilities	(2.5)	(1.4)
Net assets	114.1	135.9

35. EVENTS AFTER BALANCE SHEET DATE

On 17 July 2014, the Federal Government passed the Clean Energy Legislation (Carbon Tax Repeal) Act 2014 repealing the Carbon Tax and Steel Transformation Plan ("STP") legislation effective 1 July 2014. As the effective repeal date was subsequent to 30 June 2014, there was no impact to the free carbon unit and emissions liability accruals recognised as at 30 June 2014.

From 1 July 2014, the Group ceased to incur liabilities for its carbon emissions and ceased to be entitled to further assistance in the form of free carbon units.

The consequence of the STP repeal is that no further grant assistance will be payable under the STP. The repeal of the STP has been treated as an adjusting subsequent event and the outstanding grant receivable of $26.5m has been written off as not recoverable in the financial statements for the year ended 30 June 2014.

On 19 August 2014, the directors have declared the payment of a final dividend of 3.0 cents per fully paid ordinary share. The aggregate amount of the final dividend expected to be paid on 16 October 2014 but not recognised as a liability in the financial statements for the year ended 30 June 2014 is $41.0 million.

Other than the above, there have been no circumstances arising since 30 June 2014 that have significantly affected or may significantly affect:

(a) The operations

(b) The results of those operations, or

(c) The state of affairs of Arrium Group in future financial years.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the consolidated financial statements and accompanying notes set out on pages 48 to 125 and the Remuneration Report in Sections B to F in the Directors' Report are in accordance with the *Corporations Act 2001* (Cth), including:

  (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*, and

  (ii) giving a true and fair view of the consolidated Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date, and

(b) the consolidated Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1, and

(c) that there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 27 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 27.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* (Cth).

This declaration is made in accordance with a resolution of the Directors.

Peter Smedley
Chairman

Andrew Roberts
Managing Director & Chief Executive Officer

Sydney, 19 August 2014

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ARRIUM LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Arrium Limited (the company), which comprises the consolidated balance sheet as at 30 June 2014, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

AUDITOR'S OPINION

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

REPORT ON THE REMUNERATION REPORT

We have audited Sections B to F of the Remuneration Report included in pages 53 to 64 of the Directors' Report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the Remuneration Report of Arrium Limited for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

A W Young
Partner

Sydney, 19 August 2014