

ASX RELEASE

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STRATEGIC REVIEW UPDATE AND BUSINESS TRANSFORMATION

Strategic Review

In August, Arrium (ASX:ARI) announced that a strategic review was underway to assess options for achieving an appropriate structure and level of debt in a low iron ore price environment. It also stated that following receipt of significant initial interest in the Mining Consumables business, the company was commencing a process to better understand the nature and level of this interest.

The first stage of the Mining Consumables process has now completed with strong interest received from interested parties. Given this strong interest, Arrium has decided to move to the next stage of the process which includes shortlisting a select group of parties to undertake detailed due diligence.

Arrium continues to assess a number of alternatives to provide more diverse and flexible debt funding to ensure its debt structure is appropriate irrespective of whether a Mining Consumables transaction proceeds. Arrium continues to be in compliance with its banking covenants, and the next significant maturity of debt facilities is in the 2018 financial year.

Business transformation – improving profitability and cash generation

Arrium is also progressing work to significantly improve Group profitability and cash generation through re-setting its cost base for the challenging external environment.

This includes transforming Steel, Recycling and Mining to ensure the businesses are resilient and competitive in the current environment. Broad-based cost reductions and efficiency improvements are targeted in areas such as labour and overheads, sourcing and procurement, production conversion costs, site rationalisations and corporate costs.

Arrium announced in August that it had identified at least \$60 million of annualised cost reductions to be delivered by the end of the 2016 financial year, and that these would be in addition to cost reductions to offset the impact of inflation. Work to achieve this target is progressing well and the company is looking to accelerate these savings.

In Mining, the recent restructuring work is on track to deliver a significantly lowered targeted average cash breakeven price for FY16 of US\$47/dmt¹. At both consensus and current iron ore prices, the Middleback Ranges export business is expected to contribute cash in the 2016 financial year.

¹ For MBR hematite export business. Based on FX at US\$0.72, total CFR China cash cost US\$38/dmt, adjusted for targeted average realised price as a percentage of Platts 62% index CFR China i.e. US\$38/0.89 plus capex ~US\$4/t = ~US\$47/dmt. Excludes working capital movements, restructuring and other one-off costs.

In Steel, global steel overcapacity means a step change in its cost base is required to maintain the competitiveness of the business. To improve the viability and sustainability of the Whyalla Steelworks, work has commenced to target approximately \$100 million of annualised cost reductions and efficiency improvements over the next 2 years, which is in addition to the \$60 million of Group-wide savings announced in August.

Arrium has been engaging with its key stakeholders regarding the challenging external environment, initiatives and desired outcomes for the Whyalla Steelworks. These include our employees, unions, contractors, suppliers, the local community and the South Australian and Federal Governments.

Arrium and its key stakeholders are aligned in the objective of improving the competitiveness and ongoing viability of the Whyalla business, including increasing the attractiveness of future investment and development in the region. The recently signed memorandum of understanding with the South Australian Government concerning third party access to the company's wholly-owned port at Whyalla and revision of the Whyalla indentures reflects this alignment. Arrium will be working closely with all stakeholders over the coming months to achieve the objectives for the Whyalla operations.

In addition, there is a strong focus in Steel on improving the efficiency and performance of the steel distribution and tube businesses.

The company is continuing to assess additional opportunities, including through a re-design of its organisational structure, to further lower its cost base and improve performance. This is in addition to the aggregate \$160 million of annualised cost savings outlined above. An update on cost reduction targets and progress will be provided in November, at the time of our Annual General Meeting.

Arrium's Managing Director and CEO, Mr Andrew Roberts said: "The Strategic Review is progressing well, and the transformation of our Steel, Recycling and Mining businesses will ensure we are much better positioned for the difficult external environment. In addition to greater resilience, the transformation will deliver increased benefits from improvements in the external drivers of our earnings."

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