

# Arrium Mining Quarterly Production Report

## For the quarter ended 30 September 2015

### Summary

- Sales and shipments 2.09Mt (dmt) and 2.20Mt (dmt) respectively.
- Average Platts market index price (62% Fe CFR) US\$55/dmt, down US\$3/dmt on prior quarter
- Average realised price ~US\$48/t CFR (dmt), a decrease of US\$4/t on prior quarter
- Average realised price ~A\$66/t CFR (dmt), a decrease of A\$1/t on prior quarter
- Average realised price equivalent to ~87% of average Platts market index price (62% Fe CFR)
- Average grade of shipments 58.4% Fe, in line with guidance
- Average cash cost loaded on ship A\$34.1/wmt<sup>1</sup>, below FY16 target of A\$35/wmt<sup>1</sup> and down A\$9.1/wmt on prior quarter
- Average total cash cost (CFR China) A\$57.4/dmt<sup>2</sup>, down A\$4.8/dmt on prior quarter
- Targeted FY16 average cash breakeven iron ore price of ~US\$47/dmt<sup>3</sup>

### Operations<sup>4</sup>

#### Arrium Mining Total

		Sep Qtr	Jun Qtr	Variance	Variance % previous Qtr	FY 16 YTD	FY 15 YTD	Variance on YTD pcp	Variance % YTD pcp
Ore mined <sup>4</sup>	(wmt)	2,648k	2,342k	306k	13%	2,648k	3,350k	-702k	-21%
Ore Processed – DSO	(wmt)	1,809k	2,043k	-234k	-11%	1,809k	2,751k	-942k	-34%
Ore Processed - Beneficiated	(wmt)	479k	429k	50k	12%	479k	490k	-11k	-2%
Ore shipped <sup>5</sup>									
• Fines	(dmt)	1,342k	1,793k	-451k	-25%	1,342k	2,368k	-1,026k	-43%
• Lump	(dmt)	852k	945k	-93k	-10%	852k	1,084k	-232k	-21%
Total	(dmt)	2,194k	2,738k	-544k	-20%	2,194k	3,452k	-1,258k	-36%
Average grade of ore shipped		58.4%	59.1%	-0.7%	-1%	58.4%	59.9%	-1.5%	-3%

#### Middleback Ranges

		Sep Qtr	Jun Qtr	Variance	Variance % previous Qtr	FY 16 YTD	FY 15 YTD	Variance on YTD pcp	Variance % YTD pcp
Ore mined <sup>4</sup>	(wmt)	2,648k	2,342k	306k	13%	2,648k	2,165k	483k	22%
Ore Processed – DSO	(wmt)	1,809k	1,840k	-31k	-2%	1,809k	1,762k	47k	3%
Ore Processed - Beneficiated	(wmt)	479k	429k	50k	12%	479k	490k	-11k	-2%
Ore shipped <sup>5</sup>									
• Fines	(dmt)	1,337k	1,096k	241k	22%	1,337k	1,393k	-56k	-4%
• Lump	(dmt)	852k	945k	-93k	-10%	852k	1,084k	-232k	-21%
Total	(dmt)	2,189k	2,041k	148k	7%	2,189k	2,477k	-288k	-12%

## Southern Iron

		Sep Qtr	Jun Qtr	Variance	Variance % previous Qtr	FY 16 YTD	FY 15 YTD	Variance on YTD pcp	Variance % YTD pcp
Ore mined <sup>4</sup>	(wmt)	0	0	0	0%	0	1,185k	-1,185k	-100%
Ore Processed – DSO	(wmt)	0	203k	-203k	-100%	0	989k	-989k	-100%
Ore Processed - Beneficiated	(wmt)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ore shipped <sup>5</sup>									
• PK Fines	(dmt)	5k	351k	-346k	-99%	5k	673k	-668k	-99%
• SMR for Blending	(dmt)	0	346k	-346k	-100%	0	302k	-302k	-100%
Total Ore Shipped	(dmt)	5k	697k	-692k	-99%	5k	975k	-970k	-99%

## Production and Shipping

Hematite ore mined for export in the Middleback Ranges was 2,648k (wmt) for the quarter, up 13% on the prior quarter, reflecting the business' focus on its lower cost Middleback Ranges operation.

Shipments for the quarter were 2,194k (dmt), down 20% on the prior quarter primarily due to the mothballing of the Southern Iron operation.

Total ore sales for the quarter were 2.09Mt, with sales planned to ramp up over the balance of the year to total 9Mt – 10Mt for FY16.

## Market

The Platts 62% fines index price averaged US\$55/dmt CFR for the quarter, a US\$3/dmt decrease compared to the prior quarter. Pricing was less volatile than in recent periods due to improvement in the supply / demand balance. This was supported by continued low port stocks in China which fell below 80Mt.

Arrium's average price was US\$48/dmt CFR, down US\$4/dmt on the prior quarter. This included the impact of a significantly lower premium for lump ores, which represented ~40% of sales in the quarter. Arrium's average price was equivalent to ~87% of the average Platts 62% Fe fines index price. In Australian dollars, Arrium's average price was \$66/dmt CFR. On an FOB basis, the average price was US\$36/dmt<sup>6</sup> or \$50/dmt in Australian dollars.

Revenue for shipments that were provisionally priced at the end of the quarter has been recognised using the 'forward curve' rather than prices as at 30 September 2015. This had the impact of reducing Arrium's average price for the quarter by ~US\$1/dmt, and its percentage of the Platts 62% Fe index price from ~89% to ~87%.

## Mining Restructure

Significant progress has been made on resetting the cost base to achieve Arrium's targeted average cash breakeven price for FY16 of ~US\$47/dmt. This includes targeting an average loaded on the ship cash cost of A\$35/wmt (US\$25/wmt), a total cash cost (CFR China) of A\$53/dmt (US\$38/dmt) and capital expenditure of A\$6/t (US\$4/t).

The loaded cash cost for the quarter was A\$34.1/wmt (~US\$25/wmt), below the target for the year, and down A\$9.1/wmt compared to the prior quarter. The decrease is primarily due to reduced sales of higher cost Southern Iron ores, lower waste to ore strip ratios at the Middleback Ranges and the commencement of cost benefits from the re-design of the Mining business.

The total cash cost (CFR China) was A\$57.4/dmt<sup>2</sup> (~US\$40/dmt), down A\$4.8/dmt compared to the prior quarter. This was above the target for the year due to the timing of allocation of term freight COAs (which

are at rates slightly higher than current market) and higher moisture levels from initial ores at IKMA. Freight costs over the balance of FY16 will continue to be optimised by scheduling of contracts of affreightment (COAs) in line with operational and market developments. Operations continue to focus on managing moisture levels back to more normal levels during Q2.

The significant reduction in the business' capital plan has been implemented and an average capital expenditure of ~A\$6/t (US\$4/t) continues to be targeted for FY16.

Arrium continues to focus on opportunities to reduce costs, improve efficiency levels and optimise cash generation.

## Exploration

The business is confident of adding further low cost hematite reserves. Exploration work is focussed on 60 – 80 Mt (~53-58% Fe) of low cost, low capital targets.<sup>8</sup> Priority areas include:

- Camel Hills – exploration target 10-15Mt, ~60% Fe (calcined) plus an additional 25km of sparsely tested strike length to the north
- Iron Warrior - >500m strike length 5-10Mt ~55-60% Fe plus an additional 9km of strike potential

Drilling activity in the September quarter totalled 11,380m. The program included Reverse Circulation (RC) drilling (167 holes) and sonic drilling (26 holes). Up to three rigs were allocated to hematite exploration on Middleback Ranges' projects, with a particular focus on low cost highly prospective targets close to surface and existing infrastructure in the Iron Baron and Iron Chieftain/Iron Knight areas.

At the Camel Hills prospect which occurs 5km west of Iron Baron, further RC drilling was completed within the area of near-surface mineralisation defined from previous drilling. Mineralisation consists of moderately west-dipping goethite/limonite material that occurs close to surface beneath shallow sand cover. To the north of the currently defined resource, further step-out drilling continued initially on 400m spaced sections, with infill sections down to 100m spacing in areas of higher priority. This drilling continued to confirm and extend the mineralisation for a further 2.8km to the north of the original (and more intensely drilled) discovery zone. Mineralisation at Camel Hills has now been identified over a total strike length of 3.8km. The mineralised zone remains open to the north with significant potential for the definition of further mineralisation along a strike length of 25 km.

To the south of the Iron Baron Area, RC drilling was conducted at the Iron Warrior prospect to further define the extent of outcropping hematite mineralisation previously tested by limited historic drilling. Iron Warrior occurs immediately adjacent to existing road and rail infrastructure. In addition to confirming and extending hematite mineralisation over a strike length in excess of 500m, the drilling was successful in defining near-surface hematite scree deposits to the east and south of the primary mineralisation.

At the Iron Baroness and Iron Empress Hematite Scree (IBMA Scree) deposits located immediately to the west of existing operations at Iron Baron, large diameter drilling using the bucket auger method was completed to provide bulk samples for further metallurgical testing from selected sites. On-site test work was completed to investigate the oversize, lump and fines characteristics of the ore, and further sonic drilling of selected areas commenced to provide detailed specific gravity and metallurgical data.

At the Cooks North prospect to the immediate north of the Iron Chieftain mine, RC drilling commenced to test potential extensions to the mineralised zone. Near-surface shallow westerly dipping goethite/limonite mineralisation was intersected over a strike length of approximately 1km, and the mineralised zone has now been defined for a strike length of 1.7km to the north of the Chieftain pit.

The Arrium Ore Reserve Statement was released with a declared Ore Reserve of 39.0 Mt @ 58% Fe, representing a reduction of 38.8Mt due to depletion and forward price forecasting. This included the removal of all Southern Iron hematite material. Timing impacted the reserve statement significantly with exploration repositioned mid-way through FY15 to meet new low price criteria. Despite this new, low cost

reserves of 13 Mt were added including Iron Warrior, Camel Hills, Baroness/Empress' Scree and Low Grade Beneficiated Reserves at Iron Queen and Iron Cavalier.

Development and drilling continued on these projects during the first quarter of FY2016 to further increase resource confidence and resource extensions with a focus on near infrastructure, low strip ratio ores. Arrium remains confident of replacing depletions with its current exploration program and budget, and dependent on prevailing market prices and FX, the business has flexibility to potentially increase tonnages from the 6-8Mt previously communicated by optimising development of new mining activity. This remains a focus of development activity.

<sup>1</sup> Includes mining, crushing, beneficiation, rail, road haulage and trans-shipping 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.

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

<sup>3</sup> 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.

<sup>4</sup> Hematite export ore operations only. Excludes magnetite operations. Data has been adjusted to exclude hematite ore that is transferred internally to OneSteel Manufacturing as feed for the Whyalla blast furnace, based on actual blast furnace consumption.

<sup>5</sup> Ore shipped reported on a dry metric tonne basis after adjusting for moisture.

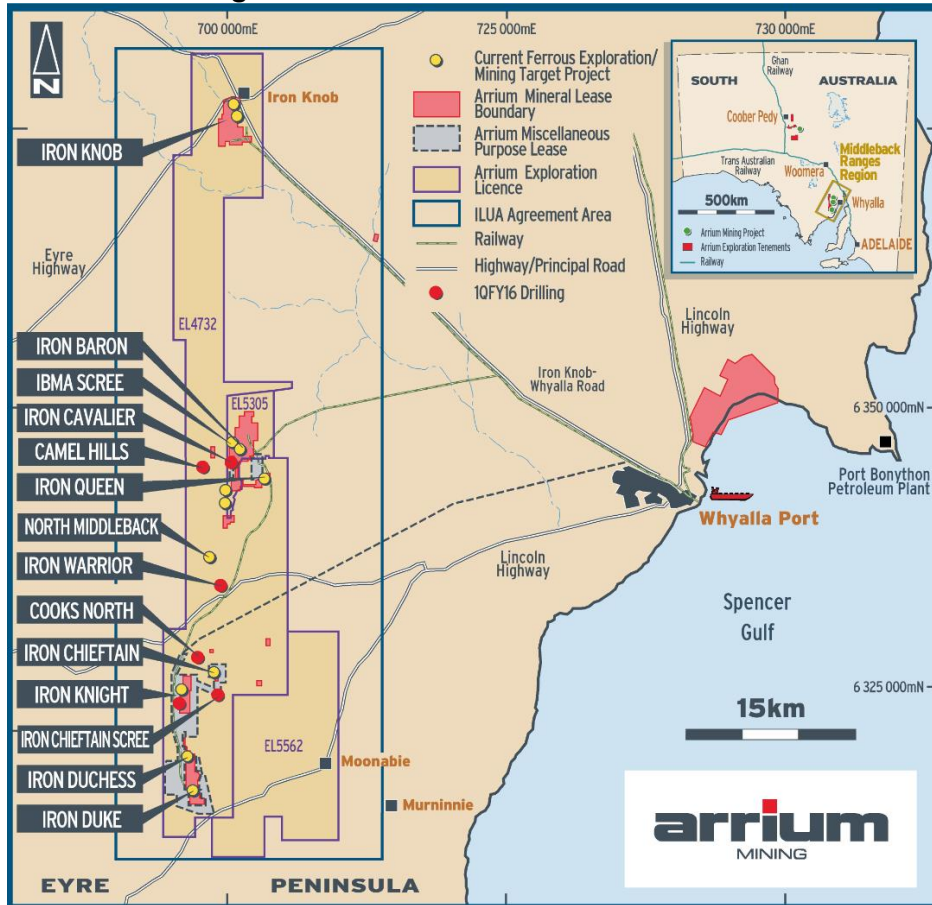
<sup>6</sup> Arrium generally invoices customers on a CFR basis. FOB price is arrived at by deducting Freight costs incurred by Arrium. Price difference compared to prior period can be due to price penalties, weighting of shipments in quarter and timing related to the determination of pricing for contract customers in addition to the change in the Platts Fe 62% Index price.

<sup>7</sup> Excluding capital costs.

<sup>8</sup> See Arrium's ASX announcement released on 15 June 2015 for details.

**Map of Operations**

**Middleback Ranges**



## Corporate profile

### Arrium Limited

ACN: 004 410 833

ABN: 63 004 410 833

ASX issuer code: ARI

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### Next Mining Quarterly Production Report

21 January 2016

## Important information

Arrium Mining is a division of Arrium Limited, a mining and materials group consisting of mining, mining consumables and steel and recycling businesses. This report has been prepared to provide additional information regarding Arrium Mining's activities related to the external sale of hematite iron ore. Due to its non-mining activities, Arrium Limited is not a 'mining entity' for the purpose of the ASX Listing Rules and therefore is not subject to the additional mandatory quarterly reporting requirements under Chapter 5 of the ASX Listing Rules. Arrium Limited is providing this report on a voluntary basis only and, accordingly, this report may not contain all of the information which would be required for an entity subject to such additional mandatory reporting requirements.

The information in this report that relates to Mineral Resources or Ore Reserves is based on information compiled by or under the supervision of Paul Leever BSc (Hons), MSc Min Eng. Mr Leever is a Member of The Australasian Institute of Mining and Metallurgy and is a full-time employee of OneSteel Manufacturing Pty Ltd. Mr Leever has sufficient experience which 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 Leever 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 or under the supervision of Geoff Johnson BSc (Hons), PhD, Grad Dip Env Sc. Dr Johnson 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 the Company. Dr Johnson has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity 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.

This report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Arrium Limited and its Arrium Mining division and certain plans and objectives of the management of Arrium Limited and its Arrium Mining division. 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 Limited, which may cause the actual results or performance of Arrium Limited 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, previously undiscovered geological features, the cyclical nature of the steel industry globally, the level of activity in the construction and manufacturing industries in China, the occurrence of adverse weather events, the capacity, demand for and performance of the global shipping market, commodity price fluctuations, fluctuations in foreign currency exchange and interest rates, competition, Arrium Mining'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 Mining's business, including environmental laws, a 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 report contains certain non-statutory financial measures including average loaded cost on ship per tonne, average realised price, measurements of royalties and depreciation in respect of specific operations and assets, development and exploration costs, cash expenses and unconsolidated expenditure, revenue and other measures. These measures are used to assist the reader understand the financial performance of the Arrium Mining division's activities covered by this report. Non-statutory financial information has not been audited or reviewed as part of the Arrium Limited audited accounts. However, a process has been agreed with Arrium Limited's auditor to agree the financial inputs utilised by Arrium Mining to derive the measures stated in the report.