

# Arrium Mining Quarterly Production Report

## For the quarter ended 31 December 2015

### Summary

- Sales 2.13Mt (dmt)
- Sales YTD 4.21Mt, FY16 target ~9Mt
- Average Platts index price (62% Fe CFR) US\$47/dmt, down US\$8/dmt on prior quarter
- Average realised price ~US\$37/t CFR (dmt), down US\$11/t on prior quarter
- Average realised price ~A\$51/t CFR (dmt), down A\$15/t on prior quarter
- Low price premium for lump ores, reduction in proportion of lump sales
- Average grade of shipments 58.4% Fe – in line with guidance
- Average cash cost loaded on ship A\$36.1/wmt<sup>1</sup>
- YTD average cash cost loaded on ship A\$35.1/wmt<sup>1</sup> – 23% reduction on prior half
- Average total cash cost (CFR China) A\$57.8/dmt<sup>2</sup>, up A\$0.4/dmt on prior quarter
- YTD average total cash cost (CFR China) A\$57.6/dmt<sup>2</sup> – 11% reduction on prior half

### Operations<sup>3</sup>

#### Arrium Mining Total

		Dec Qtr	Sep Qtr	Variance	Variance % previous Qtr	FY 16 YTD	FY 15 YTD	Variance on YTD pcp	Variance % YTD pcp
Ore mined <sup>3</sup>	(wmt)	1,745k	2,648k	-903k	-34%	4,393k	7,577k	-3,184k	-42%
Ore Processed – DSO	(wmt)	1,963k	1,809k	154k	9%	3,772k	6,017k	-2,245k	-37%
Ore Processed - Beneficiated	(wmt)	429k	479k	-50k	-10%	908k	1,033k	-125k	-12%
Ore shipped <sup>4</sup>									
• Fines	(dmt)	1,396k	1,342k	54k	4%	2,738k	4,675k	-1,937k	-41%
• Lump	(dmt)	730k	852k	-122k	-14%	1,582k	2,068k	-486k	-24%
Total	(dmt)	2,126k	2,194k	-68k	-3%	4,320k	6,743k	-2,423k	-36%
Average grade of ore shipped		58.4%	58.4%	0.0%	0%	58.4%	59.7%	-1.3%	-2%

#### Middleback Ranges

		Dec Qtr	Sep Qtr	Variance	Variance % previous Qtr	FY 16 YTD	FY 15 YTD	Variance on YTD pcp	Variance % YTD pcp
Ore mined <sup>3</sup>	(wmt)	1,745k	2,648k	-903k	-34%	4,393k	5,037k	-644k	-13%
Ore Processed – DSO	(wmt)	1,963k	1,809k	154k	9%	3,772k	4,066k	-294k	-7%
Ore Processed - Beneficiated	(wmt)	429k	479k	-50k	-10%	908k	1,033k	-125k	-12%
Ore shipped <sup>4</sup>									
• Fines	(dmt)	1,396k	1,337k	59k	4%	2,733k	2,776k	-43k	-2%
• Lump	(dmt)	730k	852k	-122k	-14%	1,582k	2,068k	-486k	-24%
Total	(dmt)	2,126k	2,189k	-63k	-3%	4,315k	4,844k	-529k	-11%

## Southern Iron

		Dec Qtr	Sep Qtr	Variance	Variance % previous Qtr	FY 16 YTD	FY 15 YTD	Variance on YTD pcp	Variance % YTD pcp
Ore mined <sup>3</sup>	(wmt)	0	0	0	0%	0	2,540k	-2,540k	-100%
Ore Processed – DSO	(wmt)	0	0	0	0%	0	1,951k	-1,951k	-100%
Ore Processed - Beneficiated	(wmt)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ore shipped <sup>4</sup>									
• PK Fines	(dmt)	0	5k	-5k	-100%	5k	1,257k	-1,252k	-100%
• SMR for Blending	(dmt)	0	0	0	0%	0	642k	-642k	-100%
Total Ore Shipped	(dmt)	0	5k	-5k	-100%	5k	1,899k	-1,894k	-100%

## Production and Shipping

Hematite ore mined in the Middleback Ranges for export was 1,745k (wmt) for the quarter, down 903k (wmt) on the prior quarter. Mining activity levels in the first quarter benefited from increased utilisation of the mining fleet at the Iron Knob Mining Area (IKMA). Shipments for the quarter were 2,126k (dmt), down from 2,194k (dmt) on the prior quarter due mainly to a decision to reduce the level of export lump sales.

Total export sales for the six months ended 31 December 2015 were 4.21Mt. The business expects total export sales for FY16 to be approximately 9Mt.

## Market

The Platts 62% Fe fines index price averaged US\$47/dmt CFR for the quarter, down US\$8/dmt on the average for the prior quarter. Prices for the four months to the end of October were less volatile than in recent periods, with the Platts 62% Fe index price generally in the ~US\$50 – 60/dmt range, with an average price of US\$54/dmt. Prices fell sharply in November and December to average US\$43/dmt for the two months, reaching a low of US\$38/dmt in mid December.

Arrium's average price was US\$37/dmt CFR, down US\$11/dmt on the prior quarter. In Australian dollars, Arrium's average price was \$51/dmt CFR. On an FOB basis, the average price was US\$26/dmt<sup>5</sup> or A\$35/dmt.

The significant fall in prices during the quarter led to Arrium's average price representing ~79% of the average Platts 62% Fe index price for the quarter, down from 87% for the prior quarter. This is largely due to the impact of M+1 customer pricing arrangements and a lower proportion of export lump sales and lower lump premiums. For customers with M+1 pricing, settlement is based on the average market price for the following month. This means the realised price will be below the average Platts index price for the quarter when prices have fallen during the period. Excluding this impact, Arrium's average price represents ~85% of the average Platts 62% Fe index price for the quarter. The impact of a lower proportion of export lump sales and lower lump premiums was ~5 percentage points.

For the six months ended 31 December 2015, Arrium's average price was A\$58/dmt CFR (US\$42/dmt). This represents ~83% of the average Platts index price for the half, and ~85% including the impact of M+1 pricing.

## Costs<sup>6</sup>

The loaded cash cost for the quarter was A\$36.1/wmt (~US\$26/wmt), slightly above the previously reported targeted average for the year of ~A\$35/wmt (~US\$25/wmt). The average loaded cash cost for the quarter incorporates the impact of lower sales volumes, increased transshipping costs and a higher proportion of blended magnetite concentrate.

The total cash cost (CFR China) was A\$57.8/dmt<sup>2</sup> (~US\$42/dmt), up A\$0.4/dmt compared to the prior quarter. The business achieved reductions in overheads, freight and moisture levels during the quarter, largely offsetting the impact of lower sales volumes, increased transshipping costs and a higher proportion of magnetite concentrate. The reduction in overheads reflects the continued implementation of restructuring initiatives announced last June.

For the six months ended 31 December 2015, loaded cash costs were A\$35.1/wmt, in line with the previously reported targeted average for FY16, and down from A\$45.7/wmt for the prior half, a decrease of 23%. Total cash costs (CFR China) for the half were A\$57.6/dmt, and include the first quarter impact of term freight COA allocations and higher moisture levels from initial ores at IKMA. This represents a decrease of 11% on the average total cash cost (CFR China) for the prior half of A\$64.6/dmt.

There has been a substantial reduction in the business' capital spend during the half consistent with the business' focus on delivering its previously reported target for FY16 of ~A\$6/t (US\$4/t).

In response to the recent significant decline in iron ore prices, Arrium is working on options to further reduce costs and cash expenditures, including reviewing the business' mine plan.

## Exploration

Drilling activity in the December quarter totalled 12,387m. The program included Reverse Circulation (RC) drilling (227 holes) and sonic drilling (107 holes). Three rigs were allocated to the Hematite stream on the Middleback Ranges projects, with a particular focus on low cost highly prospective targets close to surface and existing infrastructure along the Camel Hills-Cooyerdoo trend and in the Iron Baron area.

The Camel Hills-Cooyerdoo trend to the west of the Iron Baron Mining Area comprises a 25km long strike length of potential mineralisation that extends from Camel Hills in the south to Cooyerdoo in the north. Following the completion of a cultural heritage clearance survey, work commenced at the previously undrilled Sheoak Hills and Adder Hills prospects, where recent geological mapping and sampling identified outcropping ferruginous material.

At Sheoak Hills, which occurs 10km north west of Iron Baron, near-surface hematite mineralisation was intersected, with a second (limonite/goethite) zone at depth. Mineralisation varies in thickness from 10-20m and dips shallowly to the west. The main mineralised zone has been tested to date with 26 holes on eight drill sections over a strike length of 1km, and remains open in both directions and at depth.

At Adder Hills, which occurs 13km north west of Iron Baron and north along strike from Sheoak Hills, similar zones of hematite were intersected from surface with a second (limonite/goethite) zone at depth. Insufficient drilling has been completed to date to define the geometry of the mineralisation. The main mineralised zone has been tested to date with 10 holes on three drill sections over a strike length of ~900m, and remains open in both directions and at depth.

<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> 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.

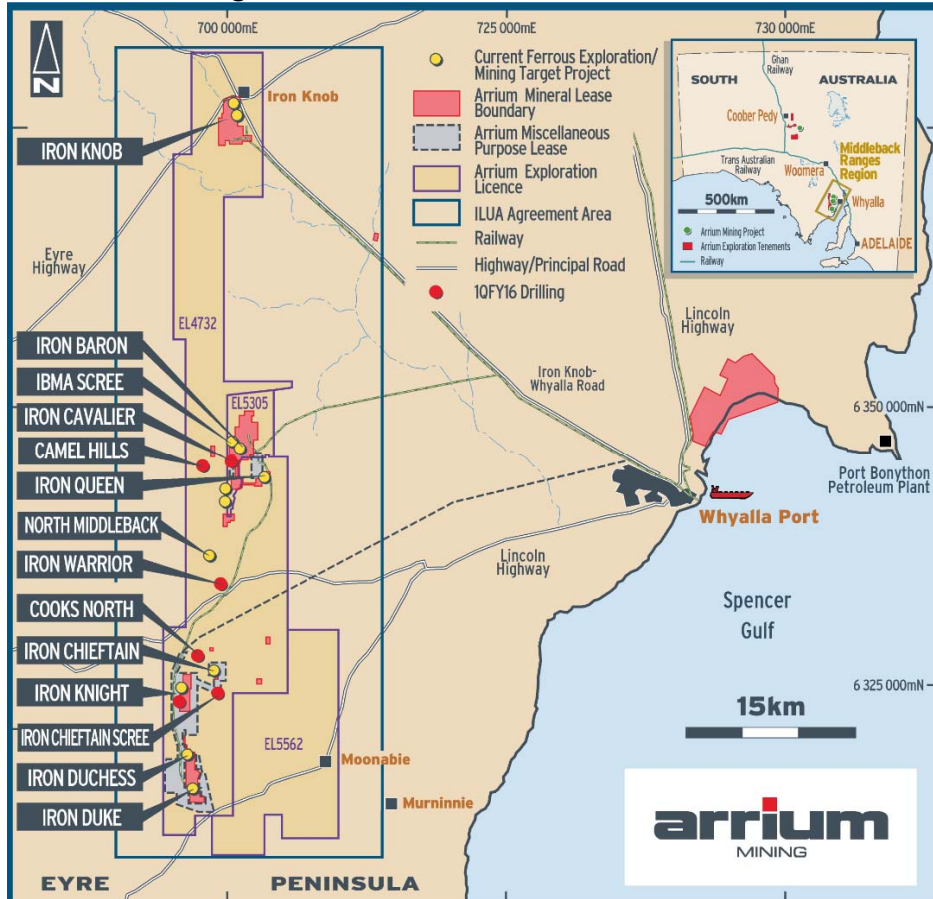
<sup>4</sup> Ore shipped reported on a dry metric tonne basis after adjusting for moisture.

<sup>5</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>6</sup> US\$ costs based on FX at US\$0.72.

**Map of Operations**

**Middleback Ranges**



## Corporate profile

### Arrium Limited

ACN: 004 410 833

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ASX issuer code: ARI

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### Next Mining Quarterly Production Report

14 April 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.