

# Arrium Mining Quarterly Production Report

## For the quarter ended 31 March 2015

### Summary

- Commenced transition of the Mining business to lower cost Middleback Ranges operation
- Mining at Southern Iron ceased towards end of quarter
- Sales and shipments 3.06Mt (dmt)
- Average Platts market index price (62% Fe CFR) US\$62/dmt, down US\$12/dmt on prior quarter
- Average realised price ~US\$46/t CFR (dmt), down US\$18/t on prior quarter
- Average realised price ~A\$58/t CFR (dmt), down A\$16/t on prior quarter
- Average grade of shipments 59.1% Fe
- Average cash cost loaded on ship A\$48.2/wmt<sup>1</sup>
- Total cash cost A\$66.9/dmt<sup>2</sup>
- First ores were crushed and railed from the re-development at Iron Knob Mining Area

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

#### Arrium Mining Total

		Mar Qtr	Dec Qtr	Variance	Variance % previous Qtr	FY 15 YTD	FY 14 YTD	Variance on YTD pcp	Variance % YTD pcp
Ore mined <sup>3</sup>	(wmt)	3,622k	4,227k	-605k	-14%	11,199k	8,844k	2,355k	27%
Ore Processed – DSO	(wmt)	2,753k	3,266k	-513k	-16%	8,770k	8,182k	588k	7%
Ore Processed - Beneficiated	(wmt)	473k	543k	-70k	-13%	1,506k	1,469k	37k	3%
Ore shipped <sup>4</sup>									
• Fines	(dmt)	2,201k	2,307k	-106k	-5%	6,876k	6,177k	699k	11%
• Lump	(dmt)	863k	984k	-121k	-12%	2,931k	3,138k	-207k	-7%
Total	(dmt)	3,064k	3,291k	-227k	-7%	9,807k	9,315k	492k	5%
Average grade of ore shipped		59.1%	59.6%	-0.5%	-1%	59.5%	59.9%	-0.4%	-1%

#### Middleback Ranges

		Mar Qtr	Dec Qtr	Variance	Variance % previous Qtr	FY 15 YTD	FY 14 YTD	Variance on YTD pcp	Variance % YTD pcp
Ore mined <sup>3</sup>	(wmt)	2,387k	2,872k	-485k	-17%	7,424k	6,011k	1,413k	24%
Ore Processed – DSO	(wmt)	1,791k	2,304k	-513k	-22%	5,857k	5,275k	582k	11%
Ore Processed - Beneficiated	(wmt)	473k	543k	-70k	-13%	1,506k	1,469k	37k	3%
Ore shipped <sup>4</sup>									
• Fines	(dmt)	1,342k	1,383k	-41k	-3%	4,118k	2,299k	1,819k	79%
• Lump	(dmt)	863k	984k	-121k	-12%	2,931k	3,138k	-207k	-7%
Total	(dmt)	2,205k	2,367k	-162k	-7%	7,049k	5,437k	1,612k	30%

## Southern Iron

		Mar Qtr	Dec Qtr	Variance	Variance % previous Qtr	FY 15 YTD	FY 14 YTD	Variance on YTD pcp	Variance % YTD pcp
Ore mined <sup>3</sup>	(wmt)	1,235k	1,355k	-120k	-9%	3,775k	2,833k	942k	33%
Ore Processed – DSO	(wmt)	962k	962k	0k	0%	2,913k	2,907k	6k	0%
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)	479k	584k	-105k	-18%	1,736k	2,696k	-960k	-36%
• SMR for Blending	(dmt)	380k	340k	40k	12%	1,022k	1,182k	-160k	-14%
Total Ore Shipped	(dmt)	859k	924k	-65k	-7%	2,758k	3,878k	-1,120k	-29%

## Market

Bearish sentiment to Chinese steel production and concerns regarding increased supply from the majors has weighed heavily on iron ore markets. Average prices again declined in the quarter, particularly in March, after having stabilised somewhat in February. The sustained decline in pricing has forced producers to rapidly reduce costs with many high cost producers being displaced from the market.

The Platts 62% Fe index averaged US\$62/t CFR (dmt), a US\$12/t decrease compared to the prior quarter. However, from the start of January to the end of March the price fell by 29% or US\$20.5/dmt from US\$71.75/dmt to US\$51.25/wmt.

Arrium's average price was US\$46/dmt (CFR), down from US\$64/dmt (CFR) due to lower market prices and a significant decline in lump premiums during March.

The substantial decline in price during the quarter adversely impacted Arrium's average price as a percentage of the average Platts 62% Fe index. This is due to customer pricing arrangements where sales are provisionally recognised by Arrium and then subsequently adjusted on settlement using prices at that time. In addition, shipments that have not settled within the quarter are provisionally recognised at end of month March prices. This has resulted in both prior period and current period adverse price adjustments and low provisionally recognised prices for shipments that will settle in future periods. When the impact of these timing issues are excluded from the average price, Arrium's price recovery of the Platts 62% Fe index increases from 74% to 82%.

The average Fe grade of ore shipped in the quarter was 59.1% due to grade variability in the Chieftain and Prince pits. Three shipments of lower grade material were sold during the quarter. Excluding the lower grade shipments as well as the timing issues referred to above, Arrium's price recovery for its Whyalla and Opal Blends averaged ~86% of the Platts 62% Fe Index.

On an FOB basis, Arrium's average price was down US\$13/t to US\$37/t (dmt)<sup>5</sup>. Sea freight (cape) rates declined by 60% over the past three months reflecting the oversupply of vessels and reduced coal imports into China.

In Australian dollars, Arrium's average price for the quarter was \$58/t CFR (dmt).

## Production and Shipping

Hematite ore mined for export in the Middleback Ranges was 2,387k (wmt) for the quarter, down 17% on the prior quarter. Ore mined at Peculiar Knob in our Southern Iron operation supported contractual commitments with customers. The volume mined of 1,235k (wmt) was down 9% compared to the prior quarter.

Total ore shipments for the quarter were at 3,064k (dmt), in line with guidance of ~5Mt for the half.

## Costs

Arrium Mining's average cash cost loaded on the ship was A\$48.2/wmt<sup>1</sup> for the quarter, up by A\$2.5/wmt compared to the prior quarter. The increase in cost was due to a short term increase in waste to ore strip ratios in some pits as the business commenced its transition work to focus on optimising its lower cost Middleback Ranges operation.

March quarter costs include the higher cost ores from Peculiar Knob. The final ores mined in March at Peculiar Knob will be sold in the June quarter. A range of cost reduction initiatives as previously announced are under way in order to reset the cost base of the remaining operations in line with the guidance given in January 2015.

Arrium's total cash cost for the quarter was A\$66.9/dmt<sup>2</sup>, down by A\$3.3/dmt compared to the prior quarter.

On 23 January 2015, the company announced that it was re-designing its Mining business to deliver ~9Mtpa from its Middleback Ranges operation with a targeted cash cost of A\$37/wmt (loaded on ship)<sup>6</sup> and A\$57/dmt (CFR delivered into China)<sup>7</sup>. Full implementation is scheduled for end of FY15.

Given the further decline in iron ore prices since the Mining business re-design changes were announced in January, further work is underway to identify volume/grade/cost options to optimise the Middleback Ranges operations in the current price environment.

## Development

### *Iron Knob Mining Area*

The crushing and screening infrastructure commenced commissioning late in the quarter, with first ores also railed in this period. Mining is underway in the Monarch Stage 1 and Princess West pits and continues to run to schedule.

### *Magnetite Optimisation Project*

Trials with customers on the use of magnetite concentrate in the business' export blend have been well received. The magnetite processing stream continued to ramp up in line with expectations, with another record concentrate production month achieved in March.

## Exploration

Exploration activity has reduced in relation to our original plans for FY15 and retains a focus on the replenishment of ore matched to the current environment.

Drilling activity in the March quarter totalled 19,241m. The program included resource definition and extension Reverse Circulation (RC) and diamond drilling (314 holes), sonic drilling (36 holes) and specialist hydrogeological drilling. Up to five rigs were allocated to the hematite stream on the Middleback Ranges projects.

In the Iron Knob area, RC and diamond drilling continued to test the geometry of the mineralised zones at Iron Princess, particularly in the zone between and beneath the eastern and western Princess pits. Mineralisation is interpreted to dip steeply east and plunge shallowly to the north and remains open at depth and to the north. In addition, hydrological drilling comprising pump testing and analysis to support mine planning continued at Iron Princess.

In the Iron Baron area, further RC, diamond and sonic drilling was carried out on the near-surface flat-lying Iron Baroness and Iron Empress hematite scree deposits located immediately to the west of existing operations. These prospects represent concentrations of physically eroded and transported hematite derived from the primary Iron Baron and Iron Prince deposits to the east. The scree deposits occur beneath shallow sand cover and offer the potential for low stripping ratios adjacent to current operations and processing facilities. Innovative metallurgical testwork of drill samples drawing on proven quarry/aggregate industry practice is underway to scope the potential yields and grades of this material. Final results are awaited.

To the immediate west of the Iron Baron area, RC and diamond drilling commenced on the Camel Hills prospect, to follow up near-surface mineralised intersections from limited historical drilling. Mineralisation consists of moderately west-dipping goethite/limonite material that does not possess a strong geophysical signature in the gravity and magnetics methods traditionally used in the region. RC and diamond drilling is underway to define the strike and depth extent of this mineralisation.

To the south of the Iron Baron area, RC drilling commenced at the Iron Warrior prospect to further define the extent of outcropping hematite mineralisation previously tested by limited historic drilling. In addition, drilling is designed to assess the potential for the presence of adjacent near-surface hematite scree deposits, particularly where subtle gravity anomalies may reflect the presence of heavier scree material.

<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 ~4% moisture.

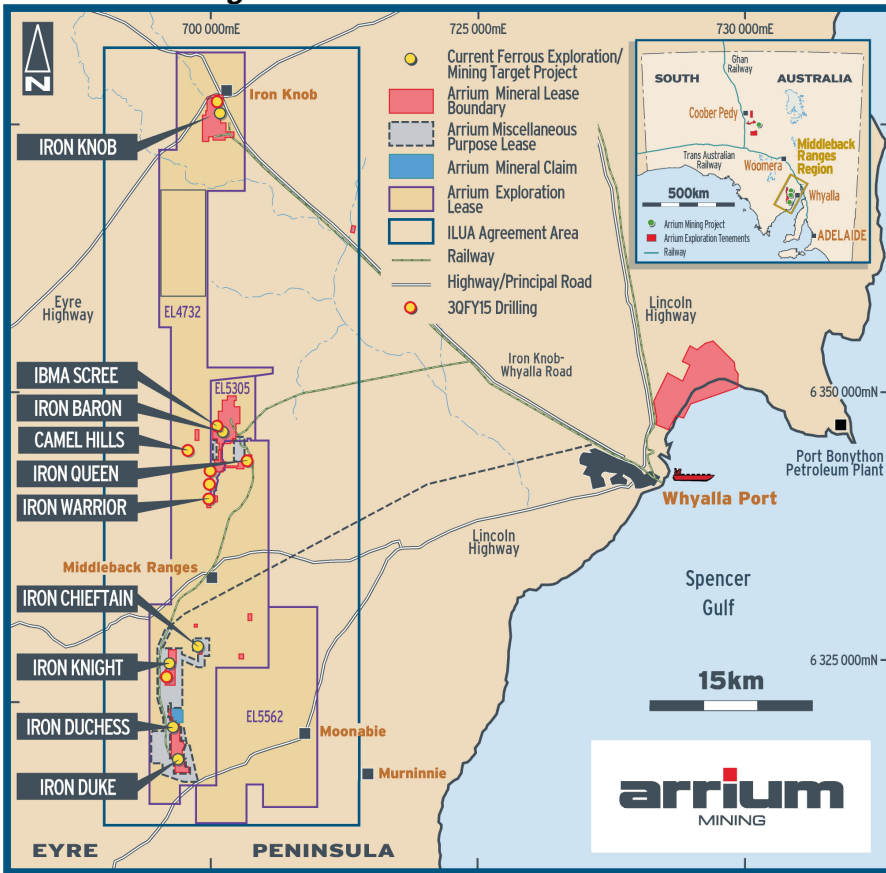
<sup>5</sup> Arrium generally invoices customers on a CFR basis. FOB price is arrived at by deducting Freight costs incurred by Arrium. Price difference compared to prior period can be due to price penalties, weighting of shipments in quarter and timing related to the determination of pricing for contract customers in addition to the change in the Platts Fe 62% Index price.

<sup>6</sup> Includes A\$2/t related to addition of ~600ktpa of magnetite concentrate.

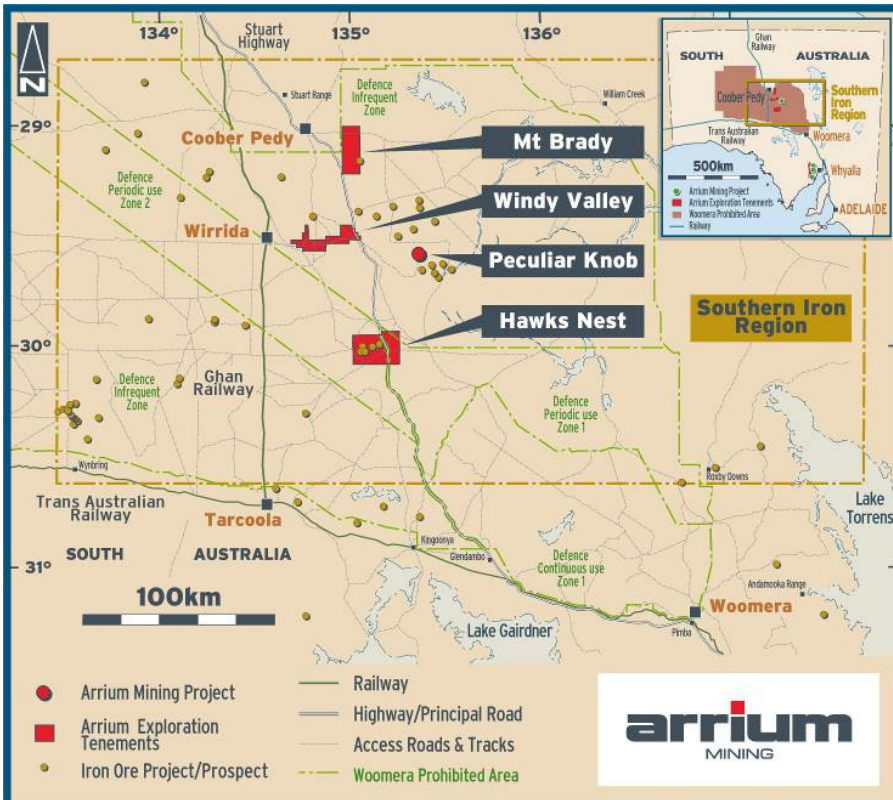
<sup>7</sup> Excludes capitalised costs (infrastructure, pre-stripping and mining licences) and depreciation and amortisation charges in respect of those costs, excludes working capital movement over the period.

## Map of Operations

### Middleback Ranges



### Southern Iron



## 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

20 July 2015

## 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.