ASX RELEASE
22 February 2016

RECAPITALISATION PLAN

Arrium Limited (ASX: ARI) today announced that it has entered into an agreement with GSO Capital Partners LP (on behalf of funds managed by it and its affiliates) (GSO) in relation to a recapitalisation plan for the company.

The recapitalisation plan is a result of the company’s Strategic Review which had the objective of achieving an appropriate structure and level of debt in a low iron ore price environment.

GSO and Arrium have also entered into a US$140 million senior secured stand-by loan facility agreement, to provide the company with additional liquidity if required while the recapitalisation plan is progressed.

GSO is one of the leading alternative asset managers in the world, currently managing over US$79 billion in assets. It is the global credit and alternative investment platform of Blackstone, a leading global investment firm with over US$330 billion in assets under management.

If the recapitalisation plan is implemented:

- GSO will provide up to US$927 million in funding to Arrium; ¹
- Arrium’s debt will be significantly reduced, allowing the company to retain its world-class Mining Consumables business which continues to perform well;
- Arrium will have funding to use towards turning around or restructuring its steel and mining businesses to make them more sustainable; and
- Arrium shareholders will have the opportunity to participate in a renounceable pro-rata rights issue.

The funding to be provided by GSO if the recapitalisation plan is implemented will comprise:

- A new 6 year senior secured term loan of approximately US$665 million; ²
- A renounceable pro-rata rights issue to Arrium’s shareholders to raise approximately US$262m which will be fully underwritten by GSO and/or a professional underwriter.

These funds would primarily be used to retire outstanding debt of the company at the time the recapitalisation is implemented.

As part of the recapitalisation, Arrium would also seek to obtain secured working capital facilities of A$500 million.

¹ A$1288 million at AUD:USD exchange rate of 0.72.
² A$924 million at AUD:USD exchange rate of 0.72.
³ A$364 million at AUD:USD exchange rate of 0.72.
Implementation of the recapitalisation is subject to a number of conditions, including:

- Arrium and GSO finalising and executing transaction documents;
- GSO completing its outstanding due diligence in relation to the company to GSO's satisfaction and GSO approvals;
- Approval from Arrium's banks and noteholders; and
- All necessary regulatory and other approvals, consents and waivers being obtained.

Under the recapitalisation, Arrium would issue warrants to GSO equivalent to 15% of the company's issued shares immediately following the rights issue. The warrants will have an exercise price equal to the offer price under the rights issue. GSO would also be permitted to nominate up to two representatives to the board of the company.

The renounceable pro-rata rights issue would occur following approval of the recapitalisation by Arrium's banks and noteholders. The issue price for the new Arrium shares to be issued under the rights issue would be determined around that time, having regard to the objective of maximising the participation of existing Arrium shareholders and distributing any shortfall as widely as possible. Depending on the level of participation by Arrium shareholders in the rights issue and the extent to which there is demand for any shortfall, GSO may obtain a significant shareholding in Arrium if GSO acts as the underwriter of the rights issue. Further disclosure will be made to Arrium shareholders about the terms of the rights issue and the implications for the company and existing Arrium shareholders prior to commencement of the rights issue.

The Board has now concluded that the recapitalisation with GSO would provide a strong platform for the future and is the proposal which has the greatest certainty of being able to be implemented. It is the best option currently available to the company, having regard to all alternatives and proposals considered as part of the company's Strategic Review.

Arrium's Chairman, Mr Jerry Maycock said: "The last eighteen months has been an extremely challenging time for the company, and the Board acknowledges the loss of shareholder value during this period."

"The fundamental priority now is to create a sustainable capital structure. The recapitalisation plan is designed to deliver increased equity and new long term debt facilities. It would allow the company to retain its world-class Mining Consumables business which is performing well. It would also provide funding to use towards the turnaround or restructuring of our steel and mining businesses to make them more sustainable."

"The recapitalisation plan is the best option currently available to the company. The recapitalisation would provide Arrium’s shareholders with the opportunity to participate through their existing shareholding or further invest alongside GSO under the rights issue."

Arrium’s Managing Director & CEO, Mr Andrew Roberts said: “Today’s announcement provides confidence that with the recapitalisation plan we will have the balance sheet strength and business portfolio to underpin the long term future of the company.”
A summary of the recapitalisation agreement (which includes various exclusivity and cost payment arrangements) is contained in Appendix 1.

A summary of the key terms of the recapitalisation plan is contained in Appendix 2.

A summary of the key terms of the US$140 million senior secured stand-by loan facility that GSO has provided to the company is contained in Appendix 3.

Further information on progress of the recapitalisation plan will be provided by Arrium as appropriate.

ENDS

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About GSO

GSO Capital Partners LP is the global credit investment platform of Blackstone. With approximately US$79 billion of assets under management, GSO is one of the leading alternative asset managers in the world focused on the leveraged-finance, or non-investment grade related, marketplace. GSO seeks to generate attractive risk-adjusted returns in its business by investing in a broad array of strategies including mezzanine debt, leveraged loans and other special-situation strategies. Its funds are major providers of credit for small and middle-market companies and they also advance rescue financing to help companies.
Appendix 1– Recapitalisation Agreement

Background: Arrium Limited (Arrium or the Company) and GSO Capital Partners LP (GSO) have entered into a deed (the Recapitalisation Agreement) under which they have agreed to work together to pursue a recapitalisation plan (Recapitalisation).

The conditions for the recapitalisation plan to proceed include:

- seeking agreement from Arrium’s banks and noteholders in respect of a redemption or repayment of their debt at less than par (Lender Agreement) using the funds received under the Senior Secured Term Loan and rights issue (net of expenses and restructuring costs);
- agreeing and finalising long form documentation to give effect to the Recapitalisation (including the Recapitalisation Implementation Agreement (RIA) referred to below); and
- GSO obtaining its approvals and completing due diligence to its satisfaction.

The parties have also entered into a senior secured stand-by loan facility, as described in Appendix 3.

The parties have agreed term sheets in respect of the following documents relating to the Recapitalisation: the Recapitalisation Implementation Agreement (this agreement will supersede the Recapitalisation Agreement when entered into), Senior Secured Term Loan, Warrant Deed and, if required by the Company, Rights Issue and Underwriting Agreement (Recapitalisation Documents). Each of these term sheets is summarised in Appendix 2.

If the Company forms the view, and notifies GSO, that it has determined in good faith that it is not reasonably likely that Lender Approval will be achieved before 11.59pm on the End Date (defined below), it will not be obliged to proceed with the Recapitalisation.

There is no assurance that the Company and GSO will enter into the Recapitalisation Documents.

Exclusivity: The Company is required to comply with certain exclusivity obligations under the Recapitalisation Agreement during the period from the date of the Recapitalisation Agreement to its termination (Exclusivity Period), including:

- **No solicitation:** Subject to certain exceptions, the Company must not, and must ensure that its representatives do not, solicit, encourage or invite any offer, proposal or expression of interest, transaction or arrangement from a third party that would:
  - be reasonably likely to prevent or materially impede or delay completion or otherwise be inconsistent with the Recapitalisation;
  - result in any person or group of persons directly or indirectly acquiring a relevant interest or economic interest in more than 10% of the Company’s shares or 10% or more by value of the Arrium group, acquiring control of the Company, or otherwise acquiring or merging with the Company by any means;
  - be reasonably likely to result in any person or group of persons acquiring or obtaining an interest (including an economic interest) in all or a substantial part or material part of the assets or property of, the Arrium group; or
  - be reasonably likely to lead to a transaction (whether structured by way of a debt instrument or an equity instrument intended to have like effect including any other financing in any other market) which would provide financing to the Company which is an alternative to or inconsistent with the Recapitalisation (it being acknowledged that the Company may seek a working capital facility from a third party as this is not an alternative to or inconsistent with the Recapitalisation),
(Competing Proposal), or initiate discussions with a third party with a view to obtaining any expression of interest, offer or proposal in relation to a Competing Proposal (noting, for the avoidance of doubt, that an ‘amend or extend’ proposal in respect of some or all of the compromise debt does not of itself constitute a Competing Proposal;

- **No talk and no due diligence**: Subject to certain exceptions and a fiduciary carve-out, the Company must not participate in any discussions or negotiations in relation to a Competing Proposal or which would reasonably be expected to lead to a Competing Proposal, enter into any agreement to consummate a Competing Proposal or provide information to a third party to enable it to make a Competing Proposal.

- **Fiduciary carve-out**: If:
  - the board of the Company considers in good faith and acting reasonably that the Competing Proposal is bona fide and (after having received advice from its financial adviser): (A) is made by or on behalf of a person or group of persons that is of sufficient commercial standing to implement the Competing Proposal; (B) is capable of being valued and consummated (having regard to all its terms) and would be reasonably likely to be more favourable to the Company and its relevant stakeholders than the Recapitalisation as a whole (taking into account the likelihood of the Recapitalisation being consummated) (Superior Proposal); or (C) may reasonably be expected to lead to a Superior Proposal; and
  - the board of the Company, acting in good faith and having received specific written legal advice from the Company’s external legal adviser, determines that failing to take such action in respect of the Competing Proposal would be reasonably likely to constitute a breach of the fiduciary or statutory duties of the directors of the Company,

then the ‘no talk and no due diligence’ restrictions will not apply.

**Notification:**

The Company is required to promptly notify GSO in writing of the fact of:

- any specific and bona fide approach, inquiry or proposal made, after the date of the Recapitalisation Agreement, by any person to the Company or any of its representatives, to initiate any discussions or negotiations that concern, or that would reasonably be expected to lead to, a Competing Proposal; and

- any request made, after the date of the Recapitalisation Agreement, by any person to the Company or any of its representatives, for any information relating to the Company, its related entities, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.

Such notice must be accompanied by all material details of the relevant event, including (as the case may be):

- the identity of the person who made the relevant approach, inquiry, proposal or request referred to above (Identifying Details), except if the board of the Company, acting in good faith and having received specific written legal advice from the Company’s external legal adviser, determines that providing the Identifying Details would be reasonably expected to constitute a breach of the fiduciary or statutory duties of the directors of the Company; and

- the material terms and conditions (including if applicable, quantum, maturity, fees, interest rate and other relevant pricing, security, amortisation requirements, mandatory prepayments, conditions precedent, timetable and break fee (if any)) of any Competing Proposal or any proposed Competing Proposal (to the extent known).

For the purpose of the notification right provision, each successive material modification or variation to the fundamental terms of any offer, proposal or expression of interest, transaction or arrangement in relation to a Competing Proposal will constitute a new Competing Proposal.
Matching right:

If, during the Exclusivity Period, the board of the Company determines that a Competing Proposal received from a third party is or would reasonably be likely to be a Superior Proposal, the Company must not enter into a legally binding agreement to give effect to, that Competing Proposal unless each of the following has occurred:

- the Company has given a written notice to GSO providing the identity of the party or parties involved in such proposal and setting out all material terms of such proposal (to the extent then known) (Matching Right Notice); and
- GSO’s rights as set out below have been exhausted.

Within five Business Days of receiving the notice above (Matching Right Period), GSO may (but will not be obliged to) present one or more alternative offers to the Company for its consideration (GSO Counterproposal). The board of the Company must review any GSO Counterproposal in good faith and, if it considers the GSO Counterproposal is or is reasonably likely to be more favourable or at least no less favourable to the Company and its relevant stakeholders than the relevant Competing Proposal, must:

- take all steps necessary, in accordance with the Recapitalisation Agreement, to give effect to the GSO Counterproposal (including amending the term sheets or recapitalisation documents as applicable and, if relevant, recommending such GSO Counterproposal to the Company’s shareholders); and
- terminate discussions in relation to the Competing Proposal.

Fees and cost reimbursement: Arrium has agreed to pay customary fees (of up to A$10M) and reimburse GSO’s third party costs and expenses until termination of the Recapitalisation Agreement or execution of the RIA.

Termination:
The Recapitalisation Agreement automatically terminates at 11.59pm on 5 April 2016 (the End Date) and can also be terminated by either party for material breach by the other. The Recapitalisation Agreement can also be terminated by either party if, among other things:

- the Company enters into an agreement to give effect to, or a majority of the board recommends to shareholders, a Competing Proposal (provided there has been no breach of the exclusivity, notification and matching right provisions) (Competing Proposal Termination Event);
- each of the following has occurred:
  - GSO has received a Matching Right Notice from the Company;
  - GSO has not presented a GSO Counterproposal to the Company by the end of the Matching Right Period; and
  - the Company has not notified GSO in writing that it has terminated discussions in relation to the Competing Proposal by 11.59pm on the date which is 7 days after the last day of the Matching Right Period, (Matching Right Termination Event);
- GSO does not confirm by 5.00pm on the day before the End Date that it has its approvals in place and has completed due diligence to its satisfaction.
Appendix 2 – Key terms of the Recapitalisation

Recapitalisation Implementation Agreement term sheet

Conditions precedent:
If the Recapitalisation Implementation Agreement (RIA) is entered into, completion of the Recapitalisation (Completion) will remain subject to certain conditions including Lender Agreement, regulatory and other approvals, consents and waivers being obtained and Arrium obtaining a working capital facility of A$500 million (or GSO making such facility available on terms and pricing acceptable to Arrium (acting reasonably)).

Pre-completion conduct of business:
Arrium will be subject to a number of conduct of business restrictions from the date of the RIA to Completion.

Board representation:
GSO may be able to nominate up to 2 directors to the Arrium board based on the thresholds below:
- for as long as GSO is a ‘Majority Lender’ under the Senior Secured Facility Agreement, it will be entitled to nominate one non-executive director to Arrium’s board; and
- in addition (whether or not GSO is a Majority Lender), if and for as long as GSO holds 30% or more of Arrium’s fully paid ordinary shares (not including any unexercised warrants), it will be entitled to nominate one non-executive director to Arrium’s board,

provided always that Arrium shall maintain a majority of independent non-executive directors.

Exclusivity, notification and matching right:
A broadly similar exclusivity, notification and matching right regime as applying in the Recapitalisation Agreement will also apply in the Recapitalisation Implementation Agreement. The fiduciary carve-out in relation to unsolicited Competing Proposals which are, or may reasonably be expected to lead to, a Superior Proposal will only apply until Lender Agreement is achieved.

Termination rights:
Either party can terminate the RIA upon the occurrence of certain termination events, including:
- a Competing Proposal Termination Event or a Matching Right Termination Event (up to the date that Lender Agreement is achieved); or
- a material breach by the other party.

In addition, GSO can terminate the RIA upon a material adverse change occurring in respect of Arrium.

Break fee:
A$15 million break fee will be payable by Arrium to GSO if there is a Competing Proposal Termination Event or a Matching Right Termination Event.

Costs reimbursement:
A similar costs reimbursement regime as applying under the Recapitalisation Agreement will apply under the Recapitalisation Implementation Agreement.
## Senior Debt Facility term sheet

<table>
<thead>
<tr>
<th>Facility:</th>
<th>Senior Secured Term Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowers</td>
<td>Arrium Finance Pty Limited and Arrium Iron Ore Holdings Pty Limited. Ability to add additional borrowers.</td>
</tr>
<tr>
<td>Guarantee:</td>
<td>Guarantors to include Arrium, the Borrowers and each Material Company (being each company that earns more than 5% of the consolidated EBITDA or owns more than 5% of gross assets of the group). Subject to a “Guarantor Threshold Test” of 85% of consolidated EBITDA and gross assets of the group.</td>
</tr>
<tr>
<td>Security:</td>
<td>First lien over assets of the Arrium group in accordance with agreed security principles and subject to allowances for Working Capital Facility.</td>
</tr>
<tr>
<td>Principal Amount:</td>
<td>US$665 million</td>
</tr>
<tr>
<td>Currency:</td>
<td>USD</td>
</tr>
<tr>
<td>Use of Proceeds:</td>
<td>Refinance existing debt, fund transaction expenses, fund costs of restructuring of mining and steel businesses and general corporate purposes</td>
</tr>
<tr>
<td>Fees:</td>
<td>3% of the Principal Amount, comprising a debt commitment fee (refundable in limited circumstances only) and a funding fee.</td>
</tr>
<tr>
<td>Coupon:</td>
<td>LIBOR + 11% (1% USD LIBOR floor)</td>
</tr>
<tr>
<td>PIK Toggle:</td>
<td>Ability, at Arrium’s option, to capitalise up to 5.00% of the coupon for the first 8 quarters of Facility.</td>
</tr>
<tr>
<td>Call Protection:</td>
<td>The first call date is the first day of the 4th year following financial close. The Facility may be prepaid after that date and certain prepayment premium may apply.</td>
</tr>
<tr>
<td>Maturity:</td>
<td>6 years</td>
</tr>
</tbody>
</table>
| Covenants: | • Financial covenants: Net debt / EBITDA and capex covenants  
• Maintenance covenants |
| Working Capital Facility: | Ability to incur up to A$500 million secured against inventory and accounts receivable or as off-balance sheet receivables financing facilities. |
| Governing Law: | New South Wales |
## Warrants term sheet

<table>
<thead>
<tr>
<th>Description</th>
<th>Warrants, for nil consideration, to subscribe for fully paid ordinary shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Warrants equal to 15% of the Company’s issued share capital immediately following renounceable rights issue</td>
</tr>
<tr>
<td>Exercise price</td>
<td>Equal to the offer price under the Rights Issue</td>
</tr>
<tr>
<td>Expiry date</td>
<td>6 years after warrants are issued (subject to extension in certain circumstances)</td>
</tr>
<tr>
<td>Exercise terms</td>
<td>Can be exercised from the date of issue to expiry</td>
</tr>
<tr>
<td>Transferability</td>
<td>Generally freely transferable</td>
</tr>
</tbody>
</table>

## Rights Issue and Underwriting term sheet

<table>
<thead>
<tr>
<th>Type</th>
<th>Renounceable underwritten pro-rata rights issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount to be raised under rights issue</td>
<td>An Australian dollar amount equivalent, at the launch of the rights issue, to USD262 million</td>
</tr>
<tr>
<td>Underwriting commission</td>
<td>If GSO is the sole underwriter, 3.5% of the amount underwritten by GSO</td>
</tr>
<tr>
<td>Offer price</td>
<td>To be determined by the Company, after consultation with GSO, taking into account the Company's desire to disperse any shortfall and the advice of the lead manager in this regard; provided always that the Offer Price shall not be a premium to TERP (unless the Company and GSO otherwise agree)</td>
</tr>
<tr>
<td>Shortfall facility</td>
<td>Company has sole discretion to allocate shares not taken up by shareholders under the offer (i.e. shortfall shares) to existing shareholders who have applied to take up shortfall shares and any other investors</td>
</tr>
</tbody>
</table>
**Appendix 3 – Senior Secured Loan Facility**

<table>
<thead>
<tr>
<th>Facility:</th>
<th>Senior Secured Term Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security:</td>
<td>First ranking security over all the assets of the US and Canadian Moly Cop and AltaSteel entities.</td>
</tr>
<tr>
<td>Commitment</td>
<td>USD 140 million</td>
</tr>
<tr>
<td>Currency</td>
<td>USD</td>
</tr>
<tr>
<td>Use of Proceeds:</td>
<td>General corporate purposes</td>
</tr>
<tr>
<td>Establishment Fee:</td>
<td>4%</td>
</tr>
<tr>
<td>Coupon:</td>
<td>USD LIBOR + 7% (with a 1% USD LIBOR floor)</td>
</tr>
<tr>
<td>Maturity:</td>
<td>31 October 2016 (could be later in certain circumstances)</td>
</tr>
<tr>
<td>Covenants:</td>
<td>Substantially the same as Arrium’s existing syndicated facility agreements, except with no financial covenants and covenants specific to secured assets</td>
</tr>
<tr>
<td>Governing Law:</td>
<td>New South Wales</td>
</tr>
</tbody>
</table>