

4 September 2012

The Companies Officer  
ASX Limited  
2 The Esplanade  
Perth WA 6000



Dear Sir

**Fortescue takes decisive action on iron ore market volatility**

Fortescue Metals Group (ASX: FMG, Fortescue) announced today that it has taken decisive action to secure the profitability and liquidity of the company in response to volatile market conditions and uncertainty over future iron ore prices.

The company has confirmed its commitment to complete the expansion of its Christmas Creek mine, commission the low-cost Firetail deposit at Solomon mine and deliver port and rail projects to deliver a near term growth target of 115mtpa. The completion of Christmas Creek stage two ore processing facility will see first ore produced from the next expansion phase within four weeks.

Fortescue will defer the development of the Kings deposit within the Solomon mining hub and the full completion of its fourth berth at Herb Elliott Port until iron ore prices return to more sustainable levels.

These measures will result in a slight reduction to the previous FY13 production guidance of 86.5Mt equity tonnes to a new range of 82Mt – 84Mt including the near term ramp up of Christmas Creek and Solomon Firetail.

As a result of these actions, Fortescue's capital expenditure guidance for FY 2013 is revised to US\$4.6 billion from the company's previous estimate of US\$6.2 billion (*Refer to Table 1 below*).

Fortescue CEO Nev Power said staff numbers and operating costs would be reduced immediately to save approximately \$300 million. The focus in the short term will be on reducing operating expenditure at the Cloudbreak mine until the low-strip ratio Firetail operations, with costs in the lowest quartile of the global cost curve, come online in the March quarter 2013.

The flexibility this provides in terms of the marginal cost of production will deliver ongoing profitability during times of lower iron ore prices.

"The cost reductions from existing operations combined with the introduction of low-cost ore from Firetail will strengthen our position as a low-cost producer," he said.

"These measures reflect the company's ability to reduce and delay cash expenditures to meet market conditions and provide us with head room in the event of further deterioration of iron ore prices.

"We are also in advanced negotiations on the sale of our Solomon power station and in discussions with two preferred major investors over the partial sale of our North Star magnetite project.

“We are confident that the underlying fundamentals of the Chinese economy are strong and we believe iron ore prices will rebound in the medium term. However, we have moved quickly to strengthen the balance sheet.”

Mr Power said Fortescue intends to complete the development of its Solomon project when market conditions recover.

“We have deferred our development at Kings in such a way that we have the option to resume our expansion activities at Solomon without penalty to reach 155mtpa,” he said.

Table 1: Revised Capital Expenditure Guidance

## Capital expenditure

US\$bn	FY2013	Savings identified	FY2013
	Guidance		Revised
155mtpa expansion	4.2	(1.1)	3.1
Operational capital	0.6	(0.2)	0.4
Other capital projects	0.3	(0.1)	0.2
Exploration	0.1	-	0.1
Fleet	1.0	(0.2)	0.8
Total *	6.2	(1.6)	4.6

\*Excludes rehabilitation and share of joint venture assets



Yours sincerely  
**Fortescue Metals Group Ltd**

**Mark Thomas**  
 Company Secretary

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