20 June 2013

The Companies Officer
Australian Stock Exchange
Exchange Plaza
2 The Esplanade
Perth WA 6000

Dear Sir

**General Corporate Update**

Following the conclusion of the FY2014 annual business planning process, Fortescue Metals Group Limited (ASX: FMG, "Fortescue") is pleased to provide guidance on the following three areas:

- The prompt and permanent reduction in operating and total costs;
- The increasing financial strength of the company; and
- An update on the potential sale of a minority interest in its port and rail assets.

<u>Production - Moving down the Cost Curve</u>

The integrated supply chain is performing well despite unseasonal wet weather in recent weeks. Fortescue is anticipating full year tonnes shipped of between 80 to 82 million wet metric tonnes (wmt) dependant on final shipping schedules.

A continued focus on mining operations and permanent cost efficiencies, together with lower cost production from Solomon, will see C1 costs for the June quarter ranging between US$38 to US$40 per wmt, contributing to a full year C1 cost at the lower end of Fortescue's guidance of US$45 to US$50 per wmt.

Fortescue is now in a phase of significant cost reduction and continues to focus on operational efficiencies which will see it moving down the global cost curve.

Strong demand for iron ore and pricing within Fortescue's expected range (US$110 to US$130 per dry metric tonne 62% Fe index price) underpin solid quarterly revenues. The impact of a strong production performance and price consistency along with lower costs and declining capital expenditure, see Fortescue's expected cash balance at 30 June 2013 between US$1.7 billion and US$2.0 billion.

Mr Power said: "We continue to see strong demand for our products. China's economic growth and long term demand for iron ore is unchanged. Fortescue has now executed a number of transactions including the sale of the Solomon Power Station and a 25% interest in the Nullagine Joint Venture and customer prepayments. We will continue to evaluate opportunities for further third party investment in assets outside our core mining operations."



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Strengthening Financial Position

Fortescue's strength is underlined by its growing cash balance and absence of debt repayments until November 2015. Cash on hand as at 30 June 2013 is expected to be in the order of $1.7 billion to $2.0 billion There are no financial maintenance covenants in any of Fortescue's debt facilities, which combined with the strong cash balance limits any impact from iron ore price movements.

Fortescue's estimated net debt position at 30 June 2013 will be approximately US$10 billion, taking into consideration cash on hand and excluding lease liabilities.

Fortescue's debt capital structure also provides the company with the ability to make voluntary repayments in advance of maturity dates. This allows the significant cash flow generation from the ramp up of iron ore production to be applied against debt reduction, at Fortescue's option.

Mr Power said: "As we complete our expansion program, our focus will turn to ensuring our significant free cash flow generation is put toward de-gearing our balance sheet and rewarding shareholders with a move over time to a dividend payout ratio policy."

FY2014 Outlook

With the expansion to 155 million tonnes per annum (mtpa) nearing completion and finalisation of the budget, Fortescue is pleased to provide guidance on the following key performance indicators for FY2014.

| | |
|---|---|
| Total ore shipped [1] | 127 to 133 million wmt |
| C1 cost per wmt | US$38 to US$40 |

[1] Inclusive of 3rd party tonnes

Capital expenditure for FY2014 is expected to be US$1.9 billion representing a significant decrease on FY2013 following the completion of the T155 expansion project. Estimated capital expenditure for 2013 is US$6.3 billion, in line with guidance. The reduced capital investment and increase in production provides further free cash generation.

Mr Power said: "Fortescue will enter the first of half of FY2014 poised to complete the fastest major expansion in the iron ore industry. We will triple our production capacity to 155mtpa, and consolidate our position as one of the world's most important iron ore producers critical in the Asian supply chain. Our low cost Solomon operations and increasing operational efficiencies across the Chichester operations will move Fortescue further toward the bottom quartile of the global cost curve."

The Pilbara Infrastructure Sale Process

Fortescue is not under pressure to conclude a sale of an interest in its rail and port assets. However the level of interest generated has necessitated a longer period of evaluation than previously contemplated.

This level of interest is reflective of the unique opportunity to invest in world class infrastructure assets. On the basis of significant shareholder value being released by de-gearing of the company's balance sheet, a sale will only occur for fair market value, and on the basis that the current efficiency of infrastructure and mining operations are not impacted.

The sale process is now substantially advanced. The process is progressing well and in accordance with expectations. Fortescue will continue to update the market as and when appropriate. Based on the current status, if sanctioned, any transaction is likely to be announced in the September 2013 quarter.

Fortescue's CEO, Nev Power, said: "We are very pleased with the progress to date, having shortlisted potential investors and advanced to the next phase of the commercial process. With our strengthening balance sheet, growing cash at bank and permanent restructure of operating costs, we will only execute a deal that delivers obvious value for our shareholders."

Yours sincerely
**Fortescue Metals Group**

Mark Thomas
**Company Secretary**

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