

# QUARTERLY REPORT

For the period ending  
30 September 2012

## Highlights

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- Quarterly shipments of 16.1 million tonnes (mt) slightly above guidance;
- Liquidity and maturity profile enhanced with a US\$5.0 billion (bn) Senior Secured Credit Facility distributed in the US capital markets to refinance all existing bank facilities and repay the Leucadia Loan Notes;
- Average realised CFR sales price of US\$98 per dry tonne (dt), reflecting the decrease in global iron ore prices;
- Average C1 cost of US\$49.44 per wet tonne (wt), up 7% from the prior quarter;
- Decisive action taken to defer the Kings Project at Solomon and completion of the fourth berth at Herb Elliott Port to manage cash outflows until market conditions improve;
- Commissioning of the second train unloader, increasing overall port capacity to 115mt;
- First ore processed through the second ore processing facility (OPF) at Christmas Creek, marking the ramp up to more than 50mtpa from Christmas Creek and the expansion of the Chichester operations to 95mtpa by the end of the December 2012 quarter;
- Approval received to develop the fifth berth at Anderson Point; and
- Total expansion expenditure as at end September 2012 of US\$6.1bn for infrastructure and US\$0.7bn for mine fleet with cash on hand as at end September 2012 of US\$2.4bn.

# Operations

Production and shipments for the quarter on a wet metric tonne basis are set out in the table below. Please note that Fortescue ships with approximately 9% of free moisture which needs to be taken into account when converting a wet tonne to a dry tonne equivalent.

(million tonnes)	Sept Quarter 2012 Tonnes <sup>(2)</sup>	June Quarter 2012 Tonnes	Variance %	Sept Quarter 2011 Tonnes	Variance %
Ore Mined	18.3	19.2	-4%	15.8	16%
Overburden Removed	92.7	81.1	14%	68.5	35%
Ore Processed	15.8	15.7	1%	12.7	24%
Total Ore Shipped <sup>(1)</sup>	16.1	17.8	-10%	12.4	30%
Fortescue Ore Shipped	15.4	17.1	-10%	12.2	26%

(1) Total ore shipped includes 100% of the Nullagine Iron Ore joint venture

(2) Includes Solomon pre-production tonnes for ore mined and overburden removed

## Safety

Safety performance improved during the quarter with the Total Recordable Injury Frequency Rate (TRIFR) improving by 15%. Three month averages are currently leading 12 month averages across all indicators, indicating an ongoing improving trend.

## Aboriginal engagement

Fortescue is committed to providing training, employment and business development opportunities to Aboriginal people. At the end of the quarter, Aboriginal people comprised 10.4% (420 employees) of Fortescue's workforce and almost 10% (517 employees) of its contracting partners. Fortescue is also committed to developing sustainable businesses for Aboriginal people. Fortescue is targeting the award of \$1bn in contracts to Aboriginal businesses. Contracts and subcontracts totalling \$546m had been awarded by the end of the quarter.

## Mining, processing and shipping

Fortescue achieved an annualised shipping rate of more than 64mt during the quarter, ahead of guidance, despite disruption from maintenance and expansion activities. Total tonnes shipped for the quarter were 16.1mt, up 30% on the previous corresponding period (pcp), comprising Fortescue equity tonnes of 15.4mt and third party tonnes of 0.7mt.

The integrated supply chain continues to perform strongly delivering 16.2mt of ore to the port during the quarter. The commissioning of the second train unloader in September 2012 increased Fortescue's port infrastructure capacity to 115mtpa in readiness for increased production following the commissioning of the second OPF at Christmas Creek and the ramping up of Firetail by the end of the March 2013 quarter.

Mining and processing activities continued to perform in line with expectations at both Cloudbreak and Christmas Creek. Emphasis during the period was placed on the preparation of pits in readiness for increased tonnes from the Chichester expansion which resulted in higher strip ratios and increased total material handled compared to the prior quarter.

During the quarter, pre-production and in-pit crushing activity commenced at the low cost, low strip ratio Solomon Firetail deposit generating 2.6mt of early ore. This is direct ship ore which will be transported to the Solomon stockyard in preparation for the first train at Solomon in early December 2012.

Fortescue's decisive response to market volatility and uncertainty over iron ore prices included the identification of improvement opportunities and cost savings exceeding US\$300 million for the remainder of FY13. Approximately US\$200 million of these savings are expected to be sustained into the future.

## Forecast Production

Following commissioning of the second train unloader and the second Christmas Creek OPF a substantial ramp up of production is expected through the December 2012 quarter. Fortescue's medium term schedule is to exit the December 2012 quarter at an annualised Chichester Hub rate of 95mtpa, resulting in total production in the first half of FY13 of approximately 36mt.

Solomon's Firetail mine is scheduled to achieve a 20mtpa run rate by the end of the March 2013 quarter, which will increase Fortescue's production capacity to 115mtpa. With deferral of completion of the Kings deposit, Fortescue's full year production target is maintained between 82mt and 84mt.

Fortescue remains committed to completing Kings and expanding to 155mtpa. The completion of the distribution process for the US\$5.0bn Senior Secured Credit Facility, upsized from US\$4.5bn, provides additional cash reserves and liquidity which will enable detailed consideration of the staged recommencement of the Kings expansion, with completion likely before the end of calendar 2013.

## Production costs

Quarterly production costs on a wet tonne basis are split between operating costs inclusive of mine, rail and port charges and operating lease charges for equipment employed in the production and handling of iron ore.

Cash costs per wet tonne (C1)	Sept quarter 2012 US\$	June quarter 2012 US\$
Operating cost of sales	47.27	43.42
Operating leases	2.17	2.62
<b>Total direct costs</b>	<b>49.44</b>	<b>46.04</b>

C1 costs for the quarter increased to US\$49.44 per wet tonne (up from US\$46.04) as a result of the significant increase in the Australian dollar to \$1.04 (US\$1.01:A\$1.00 in the June 2012 quarter) and a higher strip ratio of 5.1x compared to the June 2012 quarter of 4.2x.

C1 cost guidance for FY13 remains at US\$45 to US\$50 per wt. The Solomon mine will be ramped up at the end of the March 2013 quarter, with C1 costs at Firetail approximately US\$25 per wt due to low strip ratios. This puts Firetail production in the bottom quartile on the global cost curve. When Solomon reaches full production of 60mtpa, including 40mtpa from Kings (C1 costs approximately US\$30 per wt), the scale benefits are expected to significantly reduce Fortescue's overall C1 costs at 155mtpa.

## Marketing

Fortescue's average realised CFR (cost and freight) sales price was impacted in line with the global market decline in iron ore prices. The average realised CFR price for the quarter was approximately US\$98/dt which compares to an average 62% Fe Index price of US\$113/dt (June 2012 quarter comparative US\$141/dt).

It is Fortescue's expectation that the 62% Fe Index price will stabilise in the short term at approximately US\$120/t as the Chinese Government prepares for its leadership transition in November and stimulus packages generate increased demand for steel and re-stocking at Chinese steel mills.

While the market remains volatile due to the oversupply of steel and low steel prices, most industry analysts expect the iron ore price to stabilise at approximately US\$120 per tonne based on the global cost curve and the supply demand balance.

## Corporate

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Fortescue announced on 18 September 2012 that it had secured commitment for a Senior Secured Credit Facility ("the Facility") of up to US\$4.5bn fully underwritten by Credit Suisse and JP Morgan. Distribution of the Facility into the US institutional term loan market commenced in New York on October 3, 2012 and was completed on October 11, 2012. The support from the US capital markets for Fortescue was exceptionally strong. The order book was in excess of two times oversubscribed allowing the company to increase the facility size by US\$500m whilst also achieving extremely competitive pricing. The Facility will be closed and funded on or around 18 October 2012.

The proceeds of the facility will be used to repay the Leucadia Notes, refinance all existing bank facilities and provide Fortescue with additional liquidity. As announced on September 19, 2012 Fortescue agreed terms with Leucadia National Corporation to repay the unsecured loan notes for an amount of US\$715 million.

Key aspects of the facility are as follows:

- Facility size: US\$5.0bn.
- Maturity: 5 years
- Yield: L + 4.25%.
- LIBOR Floor: 1.00% (minimum LIBOR base used to calculate the coupon).
- The terms and conditions of the Facility are substantially consistent with the company's existing Senior Unsecured Notes.
- The facility has no maintenance covenants and is repayable at the company's option at par, without penalty, other than 1%, in the case of a refinancing in the first year of the facility.
- Fortescue's maturity profile has been significantly extended, with no material debt maturing prior to November 2015.
- The Facility is secured over the assets of Fortescue and each material subsidiary subject, in certain cases, to obtaining third party consents.

Ratings agencies Standard & Poors, Moody's and Fitch have rated the Facility at BB+, Ba1 and BBB- respectively. The facility rating of BBB- from Fitch represents Fortescue's first investment grade rating and a significant milestone achievement. The company's corporate credit rating remains unchanged at BB-, Ba3 and BB+ by Standard & Poors, Moody's and Fitch respectively.

Cash on hand as at 30 September 2012 was US\$2.4bn. The US\$5.0bn Senior Secured Credit Facility will increase cash balances by approximately US\$1.7bn net of fees, the repayment of the Leucadia Notes and refinancing of all existing bank facilities.

Capital guidance for FY13 is US\$4.6bn consisting of US\$3.2bn for expansion expenditure and US\$1.4bn for operational capital and mining fleet. Fortescue remains committed to the T155 expansion and expects the total spend to be US\$9.0bn, subject to the timing of the Kings Project.

## Development

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### Christmas Creek phase 2 expansion

- **US\$1 billion project budget**
- **Committed contracts US\$0.8bn**

First ore through the new OPF was achieved on 28 September 2012, just 14 months after the start of construction. This was preceded by the completion of construction and commissioning of the remote crushing hub, overland conveyor and coarse ore stockpile earlier in September.

The OPF will now go through an extensive testing and commissioning program as it ramps up to full production to meet a Christmas Creek total run rate of 50mtpa by the end of the December 2012 quarter.

The September 2012 quarter also saw the completion of much of the infrastructure associated with the expansion including the new Christmas Creek Airstrip, expanded Christmas Creek power station, key stockyard upgrades and power distribution.

Early mining works for the expansion have progressed well and stocks are ready to ramp up production in line with the OPF. Delivery of heavy mobile equipment to support the ramp up continues with additional Cloudbreak resources reallocated to support this activity.

### Solomon 60mtpa

- **US\$3.2 billion project budget**
- **Committed contracts US\$2.9bn**

#### Construction

First ore from Solomon's Firetail mine remains on target for December 2012 to tie-in with the commissioning of the new rail spur. The target for achieving a production rate of 20mtpa from the Firetail OPF is the end of the March 2013 quarter, while completion of the 40mtpa Kings OPF has been deferred until market conditions stabilise.

A key feature of the Solomon development is the extensive use of modules and all modules for the crushing hubs have been received and installed. In addition, half the modules for the Firetail OPF have arrived in Port Hedland, with 269 of them now delivered to site. Modules are being successfully installed, conveyors are being completed and the train loading system has been installed in the stockyard.

#### Operational readiness

In September, Fortescue awarded Leighton Contractors the mining and operations contract for the Firetail deposit. The US\$1.5 billion five-year contract will deliver whole-of-mine management at Firetail, including operating and maintaining the mining fleet, ore handling plants and associated infrastructure.

The contract includes a commitment by Leighton Contractors to engage graduates of Fortescue's Indigenous training and employment program VTEC, and to support Fortescue's commitment to provide opportunities for Aboriginal contractors and joint ventures to further expand Indigenous employment opportunities.

## Port expansion

- **US\$2.5 billion project budget**
- **Committed contracts US\$2.1bn**

The second train unloader was completed and successfully commissioned in September 2012 to double port inload capacity to 120mtpa. The third train unloader, third stacker and associated conveyor infrastructure are also substantially complete with handover to commissioning on schedule to take place early in the December 2012 quarter.

Work on the third port outload circuit has been delayed and the automated mooring system has been cancelled. Final construction and commissioning of the third outload circuit will take place once the business decides to progress with the 155mtpa expansion.

Excellent progress has been made on the fourth berth with piling now complete and the first wharf deck modules in transit from China. These modules will allow for the installation of the third ship loader which is fully fabricated and awaiting shipment to Port Hedland.

Other major milestones achieved during the period include the handover of the Tiger Substation which ensures adequate power to site for the full expansion, and the handover and occupation of the new Port administration facilities.

During the September 2012 quarter, the Port Hedland Port Authority granted approval for the construction of the fifth Berth at Anderson Point which will enable Fortescue to efficiently use available Port capacity.

## Rail expansion

- **US\$2.4 billion project budget**
- **Committed contracts US\$1.9bn**

The Rail project remains on schedule to deliver the two key components of the works, the duplication works along the existing mainline track and the rail spur to the new Solomon mine. The project has aligned the works to achieve a progressive tonnage throughput toward the target of 155mtpa with infrastructure and rolling stock capacity for a rate of 95mtpa by December 2012 quarter, then 115mtpa by March 2013 quarter.

Under the duplication program, 124km of formation have been completed with approximately 112km of rail laid to date. Of the 34 turnouts, 24 have been installed on the mainline with the outstanding turnouts scheduled within operational windows and due for completion by early 2013. All rail has been delivered while five of the scheduled seven shipments of sleepers are complete. Ballast production continues to remain well ahead of the track laying contractor requirements.

The Solomon spur earthworks are expected to be complete by the end of October. To date, 55km of completed formation and all bridges have been handed over for track-laying, which has commenced on two fronts by using separate contractors. This strategy of multiple work-fronts is the key to completing the Solomon line for operation by the end of November.

The extension of the existing rail yard has progressed well. Construction of the facility buildings is advanced and on schedule. These buildings include a new fully automated ore car maintenance workshop, locomotive provisioning building, new operations offices and significant expansion of the marshalling yards. A major new additional 6m litre fuel facility has commenced, with completion scheduled for mid-December 2012.

The optical fibre along the mainline is complete with the new train control system successfully trialled, implemented and now under operations control. Signalling works have progressed along the mainline duplications with several of the duplications now commissioned with the remaining expected to be commissioned through to the end of March 2013.

Fortescue has taken delivery and commissioned eight locomotives and 738 ore wagons. A further 11 locomotives and 738 ore wagons are scheduled for delivery through to the end of January 2013.

## Exploration and future studies (beyond 155mtpa)

Fortescue continues development studies to optimise the potential of the increased resources arising from exploration activities and discussions with other groups that leverage the current mine, rail and port infrastructure footprint. A number of smaller step-up expansions as well as larger developments such as Nyidinghu, greater Solomon and Western Hub are being prepared to complement the smaller port capacity increase opportunities considered for Port Hedland and at Anketell.



### Fortescue's presence in the Pilbara.

Nyidinghu development work has prepared new mining development plans based on the 2bn tonne plus resource base, further underlining the strength of a first stage operation of up to 30mtpa. Work continues on obtaining approvals and firming development plans.

Fortescue (88%) and Baosteel's (12%) Iron Bridge project advanced significantly during the quarter. Key geological and engineering definition work advanced towards completion during the quarter. Revised resource and maiden reserve estimates for both the hematite cap and the core magnetite deposit are expected to be completed in the December 2012 quarter together with the advanced feasibility study.

## Competent Persons Statement

The information in the report to which this statement is attached that relates to Mineral Resources is based on information compiled by Mr Stuart Robinson and Mr Lucas Tuckwell who are both Members of The Australasian Institute of Mining and Metallurgy. The information in the report to which this statement is attached that relates to Exploration Results is based on information compiled by Mr Stuart Robinson and Mr Nicholas Nitschke who are both Members of The Australasian Institute of Mining and Metallurgy. Mr Stuart Robinson, Mr Nicholas Nitschke and Mr Lucas Tuckwell are full time employees of Fortescue Metals Group Ltd and provided geological interpretations for Mineral Resource calculations and compiled the exploration results. Mr Robinson, who is a Fellow of The Australasian Institute of Mining and Metallurgy, and Mr Nitschke and Mr Tuckwell, who are Members of The Australasian Institute of Mining and Metallurgy have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Robinson, Mr Nitschke and Mr Tuckwell consent to the inclusion in this report of the matters based on this information in the form and context in which it appears.

## CORPORATE PROFILE

Fortescue Metals Group Ltd  
ACN 002 594 872

### Directors

**Andrew Forrest** Non-Executive Chairman  
**Herb Elliott** Non-Executive Deputy Chairman  
**Nev Power** Chief Executive Officer/Exec Director  
**Graeme Rowley** Non-Executive Director  
**Ken Ambrecht** Non-Executive Director  
**Geoff Brayshaw** Non-Executive Director  
**Owen Hegarty** Non-Executive Director  
**Cao Huiquan** Non-Executive Director  
**Mark Barnaba** Non-Executive Director  
**Geoff Raby** Non-Executive Director  
**Herbert Scruggs** Non-Executive Director

### Company Secretary

Mark Thomas

### Registered Office and Principal Place of Business

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WEB [www.fmg.com.au](http://www.fmg.com.au)

### Share Registry

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TEL 1300 733 136 / +61 2 8280 7603  
FAX +61 2 9287 0303  
WEB [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### Share Details

As at 30 September 2012, there were 3,113,798,151 ordinary shares on issue and 1,400 preference shares.

### Unlisted Employee Options

Option expiring Feb 2014 ex \$2.50 600,000  
Option expiring May 2015 ex \$5.00 7,500,000  
Option expiring Sept 2015 ex \$5.69 400,000  
Performance Rights 2,325,068

### Substantial Shareholders as at 30 September 2012:

The Metal Group Pty Ltd 32.62 per cent  
Hunan Valin Iron and Steel Group 14.72 per cent

### Reporting Calendar

Annual General Meeting: 14 November 2012  
December 2012 Quarterly Report: 23 January 2012.