



## NORTHERN IRON LIMITED (ASX: "NFE")

### Company Update: 17 September 2012

Northern Iron Limited (NFE) wishes to provide the following update on Company activities.

#### Operational Update

During August and September the Company has successfully implemented modifications to the concentrator at Kirkenes and based on recent daily and weekly production records achieved the plant is now capable of delivering a 2.7 million tonne per annum (mtpa) production rate. Work to complete the final step to achieve a 2.8 mtpa capable plant remains on track to be completed by the end of September.

Actual production performance in the first half of September has been impacted by a number of unplanned maintenance outages and operational events, (such as generator failures and a minor rail derailment) that have prevented the plant from reaching its designed operating rates, and actual performance in the first half of September has averaged a 2.2 mtpa rate. The Company is confident that its strategy to improve maintenance performance will result in improved production volumes, but is lowering its guidance for 2012 from 2.2 million tonnes dry concentrate produced to 2.1 million tonnes. The Company now expects to produce between 475 – 500 kt of dry concentrate for Q3, a similar amount to Q2.

The reduction in production volume will result in an increase in unit costs, with C1 direct operating costs for Q3 expected to average between US\$ 80-85 / dry metric tonnes (dmt). Assuming a production volume of 650 kt in Q4, the Company expects C1 costs to average between US\$60-65 / dmt.

#### Market Update

The recent decline in the seaborne iron ore spot price is expected to result in the Company realising an FOB Kirkenes price of approximately US\$ 85 / dmt in Q3, consisting of 5 shipments to Tata Steel and 2 shipments to the Chinese spot market. Tata Steel shipment pricing is linked to the average spot market price for the current quarter, while pricing for the two Chinese shipments was agreed in June and September. The Company continues to experience strong demand for its high quality concentrate.



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**Financial Overview**

As at 31<sup>st</sup> August the Company had unrestricted cash and available facilities totalling \$US 17.2m. The reduction in margin between the Company's actual Q3 C1 operating costs and the expected Q3 sales price, coupled with the current uncertainty regarding the future iron ore price, has resulted in the Company taking the following cost saving actions:

- The current exploration program has been suspended pending a recovery in the iron ore price;
- Non-essential capital expenditure has been deferred. The sub 4% silica project is now expected to be commissioned in the first quarter of 2013;
- A restructure of the Company's operations has been completed resulting in a number of permanent and contract employees departing the Company;
- Additional controls on operating expenditure have been introduced.

The Company is continuing to closely monitor its cash position and production performance against the background of these difficult market conditions and will take action as required to maintain an acceptable working capital position.

**Strategic Review**

Aditya Birla and Prominvest have continued to participate in the detailed stage two due diligence phase of the Strategic Review, and over the last two weeks have attended site visits to the operation in Norway. The Company maintains its expectation that the detailed stage two due diligence process will be completed within the next few weeks.

*For and on behalf of the board.*



John Sanderson  
Managing Director / CEO

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***This update contains some references to forward looking assumptions, estimates and outcomes. These are uncertain by nature and no assurance can be given by Northern Iron Limited that its expectations, estimates and forecast outcomes will be achieved.***



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