



Fortescue
The New Force in Iron Ore



QUARTERLY REPORT

For the period ending 31 December 2013

Record operational results and demand for Fortescue products has generated strong cashflows allowing Fortescue to accelerate its debt reduction programme. Commitment to debt repayments of US\$3.1 billion since November 2013 coupled with debt re-pricing initiatives and lower operating costs continue to generate shareholder value.

HIGHLIGHTS

	Q2 FY14	Q1 FY14	Variance %	Q2 FY13	Variance %
Ore Mined (mt)	32.0	34.9	-8%	16.7	+92%
Overburden Removed (mt)	106.2	99.5	+7%	78.3	+36%
Ore Processed (mt)	29.8	23.9	+25%	17.8	+67%
Total Ore Shipped ⁽¹⁾ (mt)	28.0	25.9	+8%	19.6	+43%
Fortescue Ore Shipped (mt)	26.7	24.7	+8%	19.1	+40%
C1 costs (US\$/wmt)	32.99	33.17	-1%	50.48	-35%

Tonnage references are based on wet metric tonnes (wmt). Fortescue ships with approximately 7 – 9 per cent free moisture.

⁽¹⁾ Inclusive of 3rd party tonnes

- Record shipments of 28 million tonnes (mt) achieved in the December 2013 quarter, despite the operational impacts of Tropical Cyclone Christine which caused a three day shutdown at the Port.
- Total shipments for the half year were 53.9mt, a 51 per cent increase over the prior comparable period.
- Fortescue's average realised CFR price increased to US\$125 per dry metric tonne (dmt) in the December 2013 quarter indicating the continued strength of iron ore markets.
- C1 costs of US\$32.99 per wet metric tonne (wmt) reflect the focus on operating efficiencies, lower cost Solomon production and a lower Australian dollar.
- First ore from Kings was delivered in November 2013 with operations scheduled to ramp-up to the targeted 155mtpa rate by the end of March 2014.
- Debt reduction programmes commenced during the December 2013 quarter with the early voluntary redemption of A\$140 million in preference shares and US\$1.0 billion of Senior Unsecured Notes.
- Cash balances were US\$2.9 billion at the end of December 2013 due to the continued strength of operational cash flows, reduced capital outflows and customer prepayments of US\$250 million.
- In January 2014, a further US\$1.6 billion repayment of Senior Unsecured Notes was announced and the Christmas Creek OPF finance leases were paid out.



OPERATIONS

Safety

Fortescue is working to understand the causes of two serious safety incidents during the quarter. In late December 2013 a contractor's employee was fatally injured in an accident in the heavy vehicle workshop at Christmas Creek and, in October, a contractor's employee was seriously injured in a dump truck accident at Christmas Creek.

Fortescue is facilitating official investigations and conducting its own inquiries in order to ensure continual improvement in safety management. In addition, an independent external whole of business review has been initiated to examine safety performance and management across every area of our operations.

Every effort will be made to ensure our systems are as effective as possible in keeping people safe and that all employees and contractors working for and with Fortescue understand that the health and safety of our people is the highest priority.

Total Recordable Injury Frequency Rate per million hours worked

	Q2 FY14	Q1 FY14	FY13	Q2 FY13	FY12
TRIFR	7.1	7.7	7.6	7.6	9.2

Aboriginal engagement

Fortescue continues to build on the success of the "Billion Opportunities" program with the award of a further US\$200 million worth of contracts and sub-contracts to Aboriginal businesses during the December 2013 quarter, taking the total value of contracts awarded to just over US\$1.5 billion.

The "Billion Opportunities" program provides sustainable business opportunities to Aboriginal businesses, providing an alternative to passive royalty income streams, access to training, employment and business development opportunities.

Fortescue continues to see sustained growth in the employment of Aboriginal people throughout the business. At the end of December 2013 approximately 12.5% of Fortescue's workforce (508 employees) were Aboriginal. Fortescue's contractors currently employ a further 450 Aboriginal people across Fortescue operational sites.

Mining, processing and shipping

A fifth consecutive shipping record was achieved during the December 2013 quarter, with 28.0mt shipped, an increase of eight per cent on the previous quarter and a 43 per cent increase from the prior comparable period. Shipments included 26.7mt Fortescue equity tonnes and 1.3mt third party tonnes.

During the December 2013 quarter Fortescue mined 32.0mt of ore, eight per cent lower than the previous quarter to align with current processing rates. Total tonnes mined for the quarter were 92 per cent higher than the prior comparable period.



A fifth consecutive shipping record was achieved during the December 2013 quarter, with 28.0mt shipped, an increase of eight per cent on the previous quarter and a 43 per cent increase from the prior comparable period.

Strip ratios across the Chichester hub averaged 3.8x for the December 2013 quarter, bringing the half year average to 3.5x, in line with previous guidance and five year mine plans. The commencement of mining at Kings saw proportionately higher waste removal and generated a strip ratio across Solomon hub of 2.2x during the December 2013 quarter. As steady state mining is achieved at Kings, strip ratios across the Solomon hub are expected to average 1.4x over the long term.

Combined OPF output for the December 2013 quarter increased to 29.8mt, a 25 per cent increase from the prior quarter and 67 per cent higher than the prior comparable period. Whilst achieving record production, OPF output was impacted by ramp-up delays, engineering modifications and the step-in at Christmas Creek. Significant focus continues to be placed on the safe and efficient operation of OPFs across all sites. Fortescue assumed full ownership and operational responsibility for the two Christmas Creek OPFs by purchasing Mineral Resources Limited's share of the OPFs effective from 13 January 2014. The Kings OPF commenced commissioning in November 2013 and is expected to operate at full production capacity at the end of the March 2014 quarter. Ancillary in-pit crushing will continue to be used to supplement OPF production and utilise existing infrastructure capacity.

Iron ore stocks increased slightly during the December 2013 quarter and will be drawn down by the end of FY14 as the OPFs reach full capacity and the integrated supply chain operates sustainably at 155mtpa run rate.

Port and Rail operations are fully ramped up with the Port operating at a 155mtpa outload run rate over a seven day period during December 2013. Quarterly performance at Rail and Port was impacted by Cyclone Christine, delivering a total output of 28.0mt during the December 2013 quarter.

Forecast production

Total FY14 shipments are estimated to be 127mt, towards the lower end of previous guidance, as a result of significant weather related production impacts in January 2014, material handling issues affecting the ramp up of OPFs and assumption of operational management at the Christmas Creek OPFs.

Production costs

C1 costs for the quarter of US\$32.99/wmt remained consistent with the previous quarter (US\$33.17/wmt), reflecting the lower cost Solomon operations, sustainable cost savings driven by operating efficiencies and favourable impact of the lower Australian dollar.

The US to Australian dollar exchange rate averaged A\$0.93 for the December 2013 quarter (A\$0.92 in September 2013 quarter). Fortescue remains sensitive to movements in exchange rates with C1 costs impacted by US\$0.25/t to US\$0.30/t for every one cent movement in the US to Australian dollar.

C1 cost guidance for FY14 has been revised down to US\$34/wmt to reflect a forecast reduction in the US to Australian dollar exchange rate of A\$0.90.



MARKETING

Fortescue's average realised CFR sales price for the December 2013 quarter was US\$125/dmt and US\$124/dmt for the half-year. These prices were based on an average benchmark 62% Platts CFR index of US\$135/dmt for the December 2013 quarter and US\$134/dmt for the half-year.

As Chinese and other North Asian steel production continued to grow, iron ore demand strengthened through the December 2013 quarter. Monthly Chinese imports reached a record of 77.8mt in November 2013 and closed out the year at 73.3mt in December 2013, bringing the total iron ore imported by China in calendar 2013 to 820mt, 10 per cent higher than 2012.

During the December 2013 quarter Fortescue has experienced an increased interest and market acceptance of its new product, Fortescue Blend. In June 2014 Fortescue will formally introduce its next product, Kings Fines, which maximises the potential of low-cost Kings production. Early trials have been strongly supported by Fortescue's customers.

CORPORATE

Cash Balances

Cash balances at the end of December 2013 were US\$2.9 billion reflecting the continued strength of operational cash flows and reduced capital outflows as the expansion programs near completion. Other significant impacts on the closing cash position include, the receipt of additional customer prepayments of US\$250 million, the release of US\$136 million of deposits and guarantees, interest and finance costs of US\$454 million, dividend payments of US\$293 million together with tax and royalty payments of US\$248 million.

Balance Sheet

Fortescue's net debt position at 31 December 2013 was US\$8.6 billion, including finance leases of US\$0.6 billion and after taking into account cash on hand of US\$2.9 billion. The net debt and cash position included the repayment of A\$140 million of Redeemable Preferences Shares and the redemption of US\$1.0 billion of the US\$2.04 billion Senior Unsecured Notes due in 2015, both completed prior to 31 December 2013.

In November 2013 Fortescue successfully repriced the Senior Secured Credit Facility, reducing the previous margin of 4.25% by 1.00% to 3.25%, and extended the maturity date by 21 months to 30 June 2019. The revised margin will decrease further as Fortescue reduces leverage. The total coupon payable on this facility is calculated as LIBOR, with a LIBOR floor of one per cent, plus the margin.

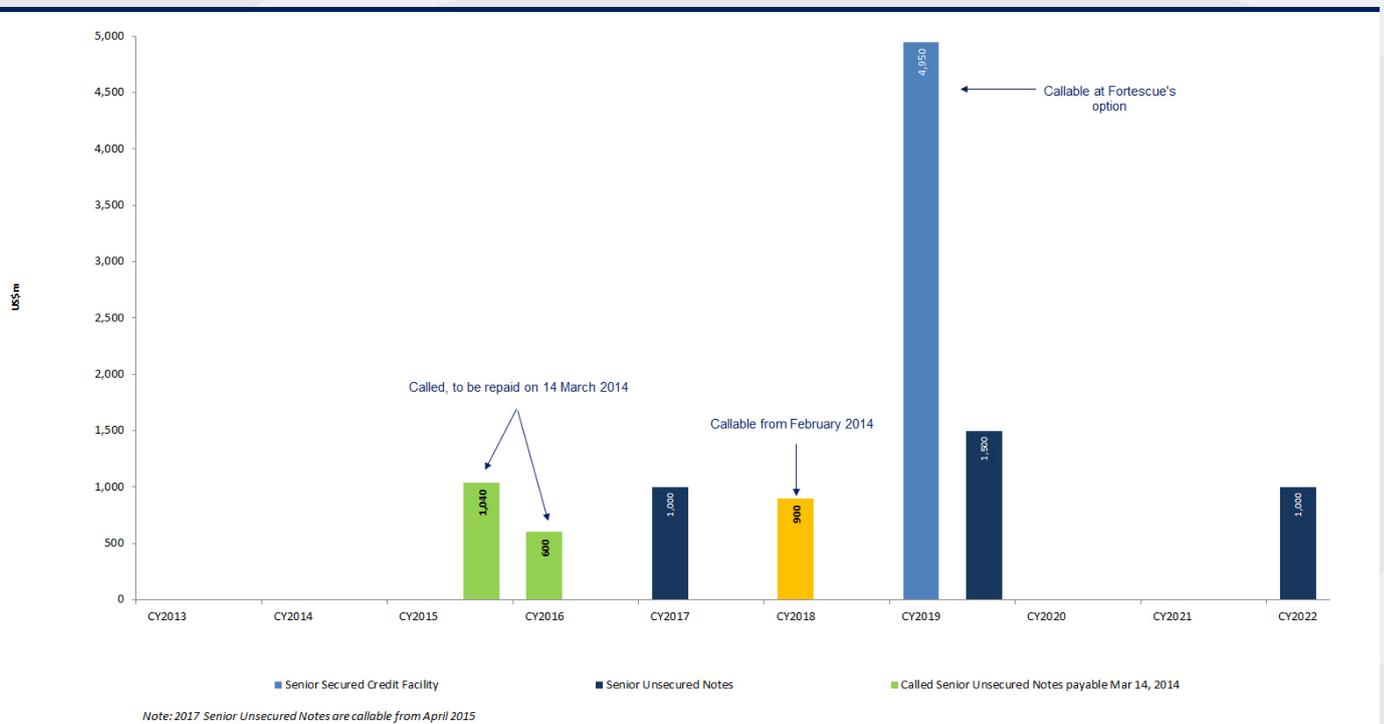
Subsequent to the quarter end, additional debt repayments were announced through the:

- pay-out of the OPF finance leases at Christmas Creek - completed in January 2014; and
- voluntary redemption of the remaining US\$1.0 billion of the US\$2.0 billion Senior Unsecured Notes due in 2015 and the US\$0.6 billion Senior Unsecured Notes due in 2016. Both notes are to be redeemed on 14 March 2014.

The total debt repayments committed since November 2013 of US\$3.1 billion and repricing of the Term Loan delivers an interest saving of approximately US\$300 million per annum.

During the December 2013 quarter Fortescue has experienced an increased interest and market acceptance of its new product, Fortescue Blend.

The company continues to have significant flexibility to make voluntary repayments of debt, or refinance prior to maturity. The below chart identifies a total US\$5.9 billion of debt available for repayment at the Company's option.



Capital expenditure

Total capital expenditure for the year to 31 December 2013 was US\$1.3 billion. FY14 capital guidance has been increased to US\$2.1 billion and is set out below:

Capital expenditure (US\$ billion)	Previous guidance	Current guidance
155mtpa expansion	0.5	0.7
Operational	0.8	0.8
Other capital projects	0.2	0.2
Exploration	0.1	0.1
Fleet	0.3	0.3
Total	1.9	2.1

The increase in FY14 capital spend relates to the Solomon project and is mainly as a result of additional engineering and material handling modifications, finalisation of contractor payments and commissioning costs for Kings. This increase brings total capital expenditure associated with the 155mtpa expansion to US\$9.2 billion.



DEVELOPMENT

155mtpa expansion

Port and Rail have demonstrated the capacity and efficiency of the new infrastructure with the fourth berth and the third ship-loader now fully integrated into Port operations resulting in the capability to ship 155mtpa. Rail construction is complete and a rail optimisation control system was successfully commissioned on the mainline in December 2013. The Hamersley line rail optimisation control system will be commissioned during March 2014 quarter.

The construction of the fifth berth has progressed with the award of the dredging contract and tendering of the wharf installation. This project is expected to be commissioned during the June 2015 quarter.

At Solomon, construction of the Kings OPF was completed in October 2013. First ore was processed through the plant in November 2013 and the ramp up continues. Sustainable production at 155mtpa remains on track for March 2014 with the ramp up of the Kings OPF and full production from the Chichester hub.

As a significant strategic first step to reduce the energy costs and carbon emissions of our operations, Fortescue entered into a long term gas transportation agreement for the delivery of gas to its Pilbara operations.

Iron Bridge Project

Construction activities have commenced and initial roads, accommodation, communications and water services are now in place. A total 13,000m of infill and geotechnical drilling and updated resource and reserve models will be completed in the June 2014 quarter. All orders have been placed for long lead items and mechanical completion is on schedule for the end of calendar 2014.

First production of 1.5mtpa of Fe mHematite product expected in calendar year 2015.

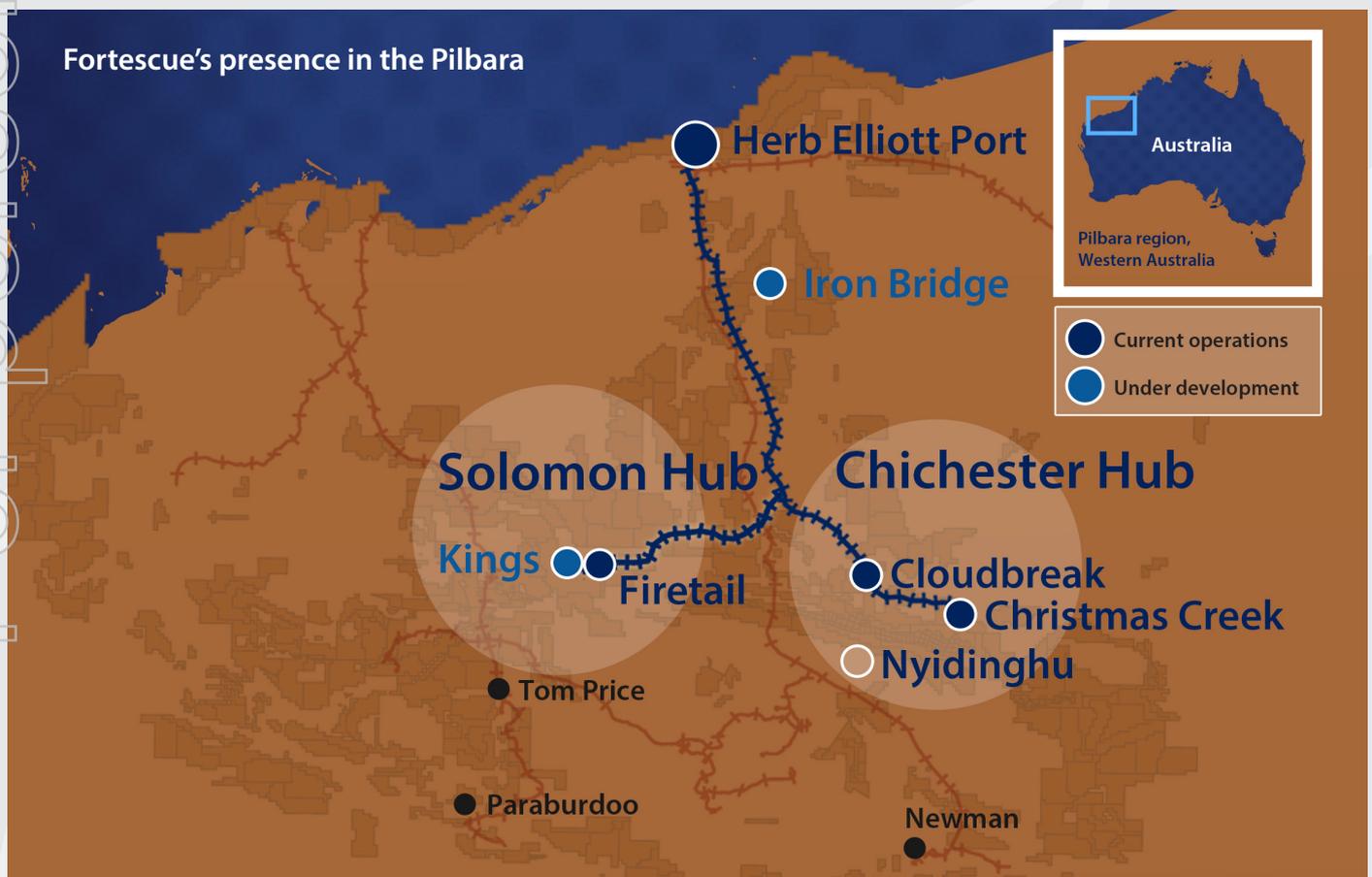


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EXPLORATION AND FUTURE STUDIES

The majority of exploration and drilling activities were focused in the Western Hub Iron Ore tenure throughout the December 2013 quarter with two rigs working on several target areas. Many intercepts of potentially economic grade and thickness have been recorded. These include bedded mineralisation hosted in both Marra Mamba and Brockman Iron Formations and Channel Iron Deposits within paleodrainages. On many of the targets the current drill spacing is too widely spaced to support an estimate of Mineral Resources and further drilling will be planned.

In addition drilling took place in the Eliwana/Flying Fish area of the Western hub, in the Chichester hub at Kutayi and brownfield targets up dip of the Christmas Creek and Cloudbreak mining operations. Drilling ceased in mid-December 2013 for the wet season and is anticipated to recommence in mid-February 2014.



COMPETENT PERSONS STATEMENT

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 full time employees of Fortescue Metals Group Ltd and provided geological interpretations and compiled the exploration results. Mr Robinson, who is a Fellow of The Australasian Institute of Mining and Metallurgy and Mr Nitschke, who is a Member 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 he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Robinson and Mr Nitschke 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/Executive Director
Graeme Rowley	Non-Executive Director
Herbert Scruggs	Non-Executive Director
Mark Barnaba	Non-Executive Director

Company Secretary

Mark Thomas

Registered Office and Principal Place of Business

Level 2, 87 Adelaide Terrace
EAST PERTH, WESTERN AUSTRALIA 6004

TEL: +61 8 6218 8888

FAX: +61 8 6218 8880

WEB: www.fmgl.com.au

Share Registry

Link Market Services Limited

Ground floor, 178 St Georges Terrace
PERTH, WESTERN AUSTRALIA 6000
Locked Bag A14
SYDNEY SOUTH NSW 1235

TEL: 1300 733 136 / +61 2 8280 7603

FAX: +61 2 9287 0303

WEB: www.linkmarketservices.com.au

Share Details

As at 31 December 2013, there were 3,113,798,151 ordinary shares on issue.

Owen Hegarty	Non-Executive Director
Geoff Raby	Non-Executive Director
Cao Huiquan	Non-Executive Director
Peter Meurs	Executive Director
Elizabeth Gaines	Non-Executive Director
Sharon Warburton	Non-Executive Director

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
FY2013 Performance Rights	3,170,657
FY2014 Performance Rights	9,496,450

Substantial Shareholders as at 31 December 2013:

Minderoo Group Pty Ltd	31.46 per cent
Hunan Valin Iron and Steel Group	14.72 per cent
Blackrock Group	5.00 per cent

Reporting Calendar

Half Year Results:	19 February 2014
March Quarterly Report:	17 April 2014
June Quarterly Report:	17 July 2014
Full Year Results:	21 August 2014
September Quarterly Report:	16 October 2014



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Online: www.fmgl.com.au

On Twitter: twitter.com/fortescuenews

On Youtube: www.youtube.com/user/FortescueMetalsGroup